EDGEWATER TECHNOLOGY INC/DE/

FORM 10-K
(Annual Report)

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CIK	0001017968
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SIC Code	7370 - Computer Programming, Data Processing, And
Industry	IT Services & Consulting
Sector	Technology
Fiscal Year	12/31

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

[X]ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGEACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2016

[ ]TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIESEXCHANGE ACT OF 1934

Commission file number: 000-20971

EDGEWATER TECHNOLOGY, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	71-0788538 (I.R.S. Employer Identification No.)
200 Harvard Mill Square, Suite 210 Wakefield, Massachusetts (Address of principal executive offices)	01880 (Zip Code)

Registrant’s telephone number, including area code: (781) 246-3343

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.01 par value	NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by a check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by a check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [X]

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 for the past 90 days. Yes [X] 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 [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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 the definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ] Smaller reporting company [ ]

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

As of June 30, 2016, there were 12,275,457 shares of Common Stock of the Registrant outstanding. The aggregate market value of the Common Stock of the Registrant held by non-affiliates (assuming for these purposes that all executive officers and directors are “affiliates” of the Registrant) as of June 30, 2016 was approximately $106.1 million, computed based upon the closing price of $8.64 per share on June 30, 2016.

As of March 13, 2017, there were 13,334,719 shares of Common Stock of the Registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Annual Report on Form 10-K incorporates by reference portions of the Registrant’s definitive proxy statement for the Registrant’s 2017 annual meeting of stockholders, to be filed with the Securities and Exchange Commission no later than 120 days after the close of its fiscal year, provided that if such proxy statement is not filed with the Commission in such 120-day period, an amendment to this Form 10-K shall be filed no later than the end of the 120-day period.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Some of the statements in this Annual Report on Form 10-K (this "Form 10-K") may constitute forward-looking statements under Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements involve known and unknown risks, uncertainties and other factors that may cause results, levels of activity, growth, performance, tax consequences or achievements to be materially different from any future results, levels of activity, growth, performance, tax consequences or achievements expressed or implied by such forward-looking statements.

In some cases, you can identify forward-looking statements by terminology such as "may," "should," "believe," "anticipate," "anticipated," "expectation," "continued," "future," "forward," "potential," "estimate," "estimated," "forecast," "project," "encourage," "opportunity," "goal," "objective," "could," "expect," "expected," "intend," "plan," "planned," or the negative of such terms or comparable terminology. These forward-looking statements inherently involve certain risks and uncertainties, although they are based on our current plans or assessments which are believed to be reasonable as of the date of this Form 10-K. Factors that may cause actual results, goals, targets or objectives to differ materially from those contemplated, projected, forecasted, estimated, anticipated, planned or budgeted in such forward-looking statements include, among others, the following possibilities: (1) failure to obtain new customers or retain significant existing customers; (2) the loss of one or more key executives and/or employees; (3) changes in industry trends, such as a decline in the demand for Enterprise Resource Planning and Enterprise Performance Management solutions, custom development and system integration services and/or declines in industry-wide information technology spending, whether on a temporary or permanent basis and/or delays by customers in initiating new projects or existing project milestones; (4) inability to execute upon growth objectives, including new services and growth in entities acquired by our Company; (5) adverse developments and volatility involving geopolitical or technology market conditions; (6) unanticipated events or the occurrence of fluctuations or variability in the matters identified under "Critical Accounting Policies"; (7) delays in, or the failure of, our sales pipeline being converted to billable work and recorded as revenue; (8) termination by clients of their contracts with us or inability or unwillingness of clients to pay for our services, which may impact our accounting assumptions; (9) inability to recruit and retain professionals with the high level of information technology skills and experience needed to provide our services; (10) failure to expand outsourcing services to generate additional revenue; (11) any changes in ownership of the Company or otherwise that would result in a limitation of the net operating loss carry forward under applicable tax laws; (12) the possibility that activist stockholders may wage proxy or consent contests or gain representation on or control of our Board of Directors, causing uncertainty about the direction of our business; (13) the increased emphasis on a cloud strategy that may give rise to risks that could harm our business; and/or (14) the failure of the marketplace to embrace advisory and product-based consulting services. In evaluating these statements, you should specifically consider various factors described above as well as the risks outlined under "Item 1A. — Risk Factors ." These factors may cause our actual results to differ materially from those contemplated, projected, anticipated, planned or budgeted in any such forward-looking statements.

Although we believe that the expectations in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, growth, earnings per share or achievements. Neither we nor any other person assumes responsibility for the accuracy and completeness of such statements. Except as required by law, we do not intend to update any of the forward-looking statements after the date of this Form 10-K to conform such statements to actual results.

EDGEWATER TECHNOLOGY, INC.

Form 10-K
Annual Report
For the Year Ended December 31, 2016

TABLE OF CONTENTS

PART I

In this Annual Report on Form 10-K, we use the terms "Edgewater Technology," "Edgewater," "our Company," "the Company," "we," "our," and "us" to refer to Edgewater Technology, Inc. and its wholly-owned subsidiaries. A listing of our wholly-owned subsidiaries is included as Exhibit 21.1 to this Annual Report on Form 10-K ("Form 10-K").

ITEM 1. BUSINESS

Available Information

Edgewater Technology, Inc. maintains executive offices located at 200 Harvard Mill Square, Suite 210, Wakefield, MA 01880-3209. Our telephone number is (781) 246-3343. Our stock is traded on the NASDAQ Global Market under the symbol "EDGW." Our Internet address is *www.edgewater.com* . We make available, free of charge, on the Investor Relations section of our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (the "SEC"). Copies are also available, without charge, from Edgewater Technology, Inc., Attn: Investor Relations, 200 Harvard Mill Square, Suite 210, Wakefield, MA 01880-3209 or by emailing *ir@edgewater.com* . Alternatively, reports filed with the SEC may be viewed or obtained at the SEC Public Reference Room at 100 F Street, NE, Washington, D.C. 20459, or the SEC's Internet site at *www.sec.gov* . You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. We do not intend for information contained in our website to be part of this Annual Report on Form 10-K.

Overview

Edgewater Technology, Inc. helps the C-suite drive transformational change through its unique selection of business and technology services and channel-based solutions.

Classic consulting disciplines (such as business advisory, process improvement, organizational change management, M&A due diligence, and domain expertise) are blended with technical services (such as digital transformation, technical roadmaps, data and analytics services, custom development and system integration) to help organizations leverage investments in legacy IT assets to create new digital business models.

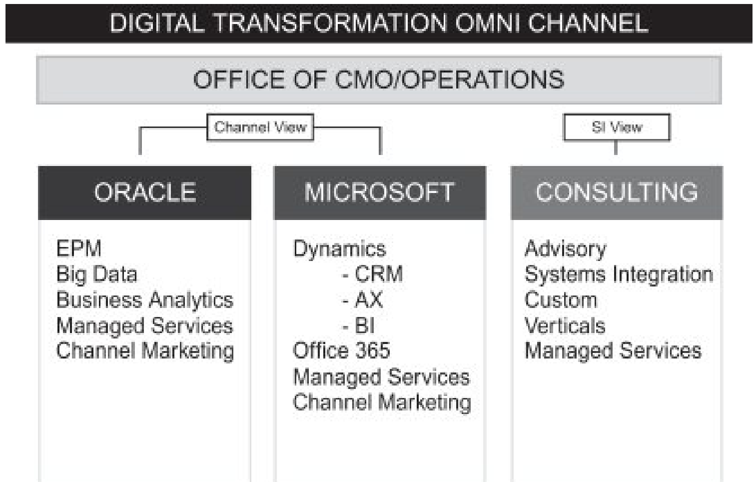
Delivering both on premise and in the cloud, Edgewater offers two major channel-based services. In the Oracle channel, Edgewater Ranzal provides Business Analytics solutions leveraging Oracle EPM, BI and Big Data technologies. In the Microsoft channel, Edgewater Fullscope delivers Dynamics AX ERP, Business Intelligence and CRM solutions primarily in the manufacturing space.

Our Services

Edgewater offers a full spectrum of services and expertise to ensure the success of our engagements. Our consulting services are categorized into two different components: (1) Channel View and (2) Systems Integration View.

Table of Contents

The following diagram illustrates these offerings:



Edgewater has the proven expertise to plan, deliver and manage integration services that improve performance and maximize business results. We focus on deploying new systems and unlocking the value of the existing corporate assets. This proven expertise enables us to bring complex technologies and systems together while minimizing risk, leveraging our clients' technology investments and delivering tailored solutions.

Below are Edgewater's service categories with sample services:

- *Classic consulting services*
  - Digital Transformation;
  - CFO/CIO advisory services;
  - Business improvement roadmaps;
  - Organizational change management;
  - Program/project management;
  - Business process rejuvenation and integrated social media best practices;
  - Specialized operational, due diligence and technology management expertise to mergers and acquisitions, private equity and venture capital;
  - Strategic advice, costing, estimates to complete, failing or failed programs or project initiatives;
  - Independent package selection and Request for Information or Proposal process design and implementation;
  - Domain Expertise;
  - Technical architecture, roadmaps and design;
  - Strategic technology selections;
  - Data Analytics and Reporting;
  - Custom component design and implementation;
  - Customer intelligence solutions using web/mobile analytics combined with social intelligence;
  - Cloud architecture, integration and phasing solutions;
  - On-going support services; and
  - Infrastructure optimization and redesign, disaster recovery and business continuity specialized design and assistance.

- *Product-based consulting services*
  - Business transformation through the use of packaged software solutions;
  - Enterprise Performance Management with Oracle budgeting, planning, consolidation and strategic finance both on premise and in the cloud;
  - Big Data;
  - Enterprise Resource Planning with Microsoft Dynamics AX targeted in process and discrete manufacturing verticals such as CPG, IEM, Chemical, Pharmaceuticals and Food and Beverage, both on premise and in the cloud;
  - Customer relationship management with Microsoft Dynamics CRM both on premise and in the cloud;
  - Industry specific platform and best practice solutions;
  - Blended solutions; Microsoft CRM/XRM and specialized custom solutions;
  - Business intelligence analytics;
  - Design, development and introduction of IP that helps “verticalize” channel product stacks; and
  - Support and training services.

In addition to the above services, the Company also provides synergistic services in the area of data management and analytics. Examples of such services include the following:

- *Enterprise information management services*
  - Provide for data related matters: master data management, data governance, logical and physical data base design, data warehouse strategies and design;
  - Provide practical data architectures and roadmaps to support transactional systems and enterprise performance management through advanced analytics; and
  - Provide forms of data manipulation, transformation and quality services.
- *Analytics services*
  - Advise on lead derivation of key financial and operational performance indicators and correlate their measurement, visualization and action for a given organization;
  - Advise on opportunities for the use of predictive techniques, external data and benchmarks to improve business performance measurement and forecasting;
  - Advise on the creation and adoption of analytics architectures, roadmaps and supporting organizations; and
  - Advise, design and roadmap analytics-based near real-time to real-time alerting strategies and implementations.

Our consultants are expected to travel and to be onsite with the customer to provide the highest level of service and support in all of these endeavors. We provide varying degrees of customer project assistance and will incorporate customer resources for technology transfer or cost optimization purposes. Independent teams and proper project process and delineation provide conflict-free transition points among all key service offerings as well as independent entry points. Leads for all offerings are internally driven with assistance from the respective vendors for software product solutions.

Customers

Our strategic acquisitions have helped enhance our service and product offerings, increase and diversify our customer base and reduce our reliance on individually significant customers. Service revenue from our five largest customers, as a percentage of total service revenue, was 15.2%, 11.8% and 17.8% for the years ended December 31, 2016, 2015 and 2014, respectively. No single customer represented 10% or more of total revenue during the years ended December 31, 2016, 2015 or 2014. See “Item 1A. — Risk Factors — Our results can be subject to variability as work is completed for a limited number of significant customers, and our results of operations and financial condition could be negatively affected by the loss of a major customer or significant project or the failure to collect a large account receivable." During 2016, we recorded service revenue from 670 customers, of which 140 were new customers, as compared to recording service revenue from 667 customers in 2015, of which 139 were new customers. We recorded service revenue from 403 customers in 2014, of which 83 were new customers. Total customers served and new customers added during 2015 benefited from the acquisitions of substantially all of the assets of Zero2Ten, Inc. ("Zero2Ten"), Branchbird LLC ("Branchbird") and M2 Dynamics Inc. ("M2 Dynamics"). Specifically, the higher volume and lower cost revenue model of Zero2Ten was a driving force behind the yearly increase in these metrics.

Industry Dynamics and Opportunity

Industry Dynamics . In today's rapidly shifting macro business environment, businesses are demanding that financial and operational strategies be implemented in the most efficient and complete manner possible. The classic providers, such as the large management consulting firms, large accounting firms and multinational integrators, tend to provide solution services exclusively on large complex platforms, encompassing many players of mixed experience levels and in a myriad of locations. Edgewater's services are focused and quickly deployed onsite in a specialized solution package, more appropriate to today's need for faster innovation rollout, pushed deeper into subsidiaries of multinational corporations as well as middle market growth companies.

Expenditures in the information technology market have become a critical success factor in every company's successful growth. As such, IT expenditures are receiving the scrutiny of the "C-level" officers, when specifically focused on transformational change. Our C-level buyers are looking to purchase rapidly deployable, risk-managed, product-based technology solutions. These solutions maintain the ability for a company to differentiate itself from its competitors with proprietary business process, combined with the leverage of product customization. Edgewater assists clients with these solutions primarily in the Oracle Corporation ("Oracle") and Microsoft Corporation ("Microsoft") product channels, while providing the opportunity for a customer to customize its solutions through the utilization of its custom technology consulting services.

In addition, there are three drivers of incremental change for early adopters: big data and analytics, digital transformation, and large scale cloud adoption. The first driver provides deeper data sources, as well as external reference data to expand and improve enterprise analytics. Digital transformation offers platform agnostic near real-time input for transactions and corporate command and control, breaking the paper-based paradigm which has driven automation to date. The third driver, large scale cloud adoption, increases the penetration of the cloud-based delivery model into larger companies and typically on premise classical systems. These incremental change drivers are catalysts for opportunity in our product channels as well as for our classical consulting resources. Edgewater plans to aggressively exploit these opportunities via organic initiatives as well as strategic alternatives.

Companies typically turn to consulting firms, like Edgewater, to fill these internal project gaps for a number of reasons:

- For deep industry, product, data and technical expertise;
- To obtain strategic consulting services in an accelerated timeframe;
- To mitigate their business risk with focused onsite project teams;
- To receive an outside objective perspective;
- To obtain EPM- and EIM-related services;
- To obtain product, services and IP related to ERP and CRM;
- To provide cloud architecture and on-ramping services; and/or
- To serve as an agent to plan, manage and implement change.

Industry Opportunity. Technology has become such an integral part of business that it requires skilled strategic management in its own right. Technology has become a key enabler to business change when the appropriate strategic steps, a meld of business process change and technology, are well laid out and thoughtfully executed. Strategic consulting firms deliver innovative thinking and in-depth vertical industry expertise, along with the ability to implement business process transformation through the judicious use of appropriate technologies. We have steadily enhanced our offerings to address the evolving need for strategic advisory and product-based consulting services and plan to continue to grow our competencies in these areas. Our goal is to provide a comprehensive continuum of focused business services, encompassing all facets of business, through the enablement of technology.

Competitive Strengths

Edgewater offers strategic consulting services designed to assist its clients in improving financial and operational performance across their enterprises. We develop business strategies and technology solutions that address their specific needs while providing them with increased competitive advantage. We believe that five core values differentiate us from our competition.

These values include the following:

(1) **Delivery Excellence** — Our history is built upon more than 20 years of proven methodology and well-defined process, in addition to continuous delivery of business and technology solutions that work. Our delivery excellence is a derivative of a well-defined business plan, highly-skilled consultants, strong technical expertise and established implementation and support methodologies. Most importantly, we use an iterative business and technology approach, with an emphasis on quality assurance and project management, to achieve rapid and successful deployment of our solutions. Our delivery history has contributed to our ability to build long-term customer relationships.

(2) **Vertical Expertise** — We combine vertical industry knowledge with a broad base of key strategic technologies to serve our customers' needs and deliver tailored and innovative strategies and solutions. We have developed core competencies in primary vertical markets such as: CPG/Manufacturing; Discrete and Process Manufacturing; Energy/Utilities; Healthcare; Hospitality; Insurance; Oil and Gas; Retail; Travel/Entertainment; and various Emerging Markets.

(3) **Technology Excellence** — We deliver our services by blending proven strategic technologies and business practices to build scalable solutions providing a solid return on investment. Our team of professionals has the business and technology expertise to offer comprehensive strategies and solutions. Our areas of expertise include:

- Classic consulting services;
- EPM solutions in planning;
- EPM budgeting;
- EPM consolidation and strategic finance;
- Microsoft Dynamics solutions in the area of CRM and ERP;
- Data analytics;
- Web analytics;
- Big data;
- Advanced data and infrastructure services; and
- Specialized custom IT services.

(4) **Client Focus** — Edgewater is positioned to provide its customers with onsite services. Edgewater's client-centric model is well positioned to serve the needs of the Global 2000 for tight, highly-trained, product specialist project teams, as well as the upper middle market whose needs tend to span the full spectrum of our business/IT service offerings.

(5) **Adherence to Operational Metrics** — Since our inception in 1992, Edgewater's original management team has built an organization that is defined by a record of operational excellence, tracking key performance indicators and well-defined operating metrics to manage our consulting resources, utilization and gross margin.

Business Strategy

Our business strategy is to position our Company as one of the leading providers of transformational classic and product-based consulting services. We believe we can attain this strategic objective by delivering a range of blended solutions through a combination of industry specific classic consulting, advanced product–based software consulting and custom technology consulting services. Clients desire the personal attention provided by onsite industry, financial and strategic expertise buttressed with the ability to speed idea implementation with cost-effective advanced software package solutions. Our ability to begin our services dialogue at the strategy level in business vernacular all the way through specific software product request for proposal response provides a spectrum of sales opportunities with varying degrees of channel control and cost. This spectrum of engagement entry opportunities allows us to serve the upper middle market through the Global 2000 with an appropriate set of services.

The spectrum begins with pure consulting and ends with pure information technology. Smaller organizations such as middle-market companies, subsidiaries of Global 2000, private equity firms and venture capital firms will tend to start at the advisory and classic consulting level, while the Global 2000 tend to initially engage with product-based consulting services.

Additionally, we are able to strengthen our service offerings by focusing upon the development of intellectual property, not only in the area of trademarks, as described below under "— Intellectual Property," but with respect to the internal development of software. We are able to quickly execute on the internal development of intellectual property given the significant knowledge and expertise we maintain in our product-based consulting channels. We can leverage this intellectual property as a means to accelerate delivery of a solution and as a means to solidify and/or expand our presence in a vertical market.

Marketing, Sales and Strategic Alliances

Marketing . The primary goal of our marketing efforts is to generate sales opportunities by increasing our brand awareness, value proposition and overall domain expertise. Our marketing efforts continue to be closely aligned with our go-to-market strategy, while introducing specific offerings that address business and IT problems faced by our clients. We leverage the core competencies we have developed in delivering our services in key industries and horizontal offerings to increase the efficiency of our marketing efforts. Our marketing function utilizes comprehensive internet marketing strategies that involve integrated activities including, but not limited to: webinars, highly-targeted email campaigns distributed to prospect and client lists developed with specific demographics and attributes and social media outlets to promote our capabilities and services (e.g., both company-driven and domain-specific blogs, social networking and video sharing websites). By leveraging closely coupled internet marketing strategies to promote our services, we are able to reach a wider audience and communicate in a medium that has become more widely accepted and brings in quicker results from a sales and marketing perspective. We also gather key statistics from our websites, blogs, email campaigns and other social media outlets to test, measure and trace our marketing initiatives. This enables us to ensure we are reaching the right target audience with concise and compelling offerings to promote our capabilities. We also author white papers and contribute to articles in trade publications, attend events and participate in targeted industry conferences and tradeshows.

Our marketing department has embarked on an enterprise-wide initiative to bring recent acquisitions under a single master brand concept. Since some of our new offerings are not purely technology oriented, we are in the process of establishing our master brand as "Edgewater," thus dropping the word "Technology" from our corporate identity.

Sales. Our sales approach is to combine traditional sales with our strength in industries and technology. Our traditional sales function is composed of direct sales professionals and inside sales professionals. Both work closely with our practice directors to identify potential opportunities within each account. Using a consultative selling methodology, we identify target prospects and develop a pursuit plan for each key account. When contact with a target is established, we utilize a blended sales model to demonstrate our expertise, combining consultative selling with traditional sales methods. Once the customer has engaged us, our sales professionals maintain their relationships with the customer by working collaboratively with the consulting professionals who are assigned to the customer.

Strategic Alliances. As part of our sales and marketing effort, we have established working relationships with a number of companies, including: Informatica Corporation, Keyteach, Microsoft, Oracle, FAST, Cloudera, Hortonworks, SiteCore, Accelatis, Amazon, and Webtrends. These alliances generally entail sharing sales leads, joint marketing efforts, making joint customer presentations, negotiating discounts on license fees or other charges and conducting similar activities. Our arrangements with many of these companies are informal and are not subject to definitive written agreements. For those companies with whom we do have definitive written agreements, those agreements are either terminable at will by either party or are for terms of one year or less. We believe we have been successful in establishing alliances with a strong group of companies who are either industry leaders or well-regarded new entrants.

Professional Recruitment, Retention and Development

Our success depends in part upon our ability to recruit and retain business and technology professionals with the high level of skills and experience needed to provide our specialty services. We believe that the combination of professional support, intellectual challenge, corporate culture and compensation we offer will continue to be attractive to these highly-skilled professionals. Our working environment also fosters collaboration, creativity and innovation. We believe that our employees are one of our most valuable assets.

Employees . As of December 31, 2016, Edgewater had 465 employees (excluding contractors). Of these employees, 359 were billable consultants and 106 were management and administrative personnel (composed of sales, marketing, human resources, finance, accounting, internal information systems and administrative support) and product development personnel. The average tenure of our employees is approximately 6 years and the average “years of experience” is approximately 23 years. Our employees are not represented by a collective bargaining agreement. We believe that our employee relations are strong.

Culture . We believe that our business culture is critically important in hiring and retaining qualified professionals. Our ability to provide effective multidisciplinary teams is dependent upon our ability to develop and sustain a business culture that is common across all disciplines and vertical practices throughout our Company. Our employees are talented and energetic professionals who come from a multitude of professional backgrounds. We believe that this creates an exciting, diverse and creative work environment for our employees.

Compensation . We have competitive compensation programs that have been structured to attract and retain highly-skilled professionals. Edgewater’s compensation programs include competitive base salaries, coupled with cash bonus and equity-based incentive opportunities. Compensation plans may be tied to the achievement of the Company’s financial performance or tied to individual and team performance goals.

Recruiting . We believe that our long-term success will depend upon our ability to attract, retain and motivate highly-skilled employees. Our recruitment department has traditionally conducted its own direct recruiting efforts and coordinated informal and search firm referrals. We believe that our business model, which results in an intellectually stimulating work environment, provides increased opportunities for professional development and a dynamic corporate culture, which enhances our ability to attract and retain top professionals.

Professional Development . We believe that providing our professionals with a wide variety of challenging projects, the opportunity to demonstrate ability and achieve professional advancement are keys to their retention. We work with our professionals to assist them with their professional development by offering internal and external learning opportunities. We encourage them to attain industry certifications which strengthen their expertise in both business and technology. We also believe that the working relationships they form on various project teams foster valuable formal and informal mentoring and knowledge sharing.

Competition

We operate in a competitive and rapidly changing market. We also compete with a variety of organizations that offer services similar to those we provide. Our clients often retain us on a non-exclusive, project-by-project basis. We compete with a number of different types of businesses, including:

Traditional management and strategy consulting firms that focus on advising "C"-level executives on organization and corporate strategy. Many of the traditional strategic consulting firms have added services in information technology.

Systems integration and IT consulting firms that design and implement technology solutions, including software installation, for departments and enterprises. These firms have grown in size and scope of services, including the provision of offshore software development services.

Information technology product and service vendors that offer technical consulting to support their own products. Many of these firms have also developed various alliances with systems integration and IT consulting firms to augment their own capabilities.

There is significant competition in the management and IT consulting services space. Mergers or consolidations in our market may create new, larger or better-capitalized competitors with enhanced abilities to attract and retain professionals. The following is a representative list of competitors in the IT and management consulting services space:

- Technical Consulting/Systems integrators: Accenture, Ciber, Inc., IBM Global Services, Business and Decision Group, Caritor, Inc., CGI, and Perficient;
- Offshore software development firms: Aztec Software, Cognizant Technology Solutions, Infosys, Ventyx, Tech Mahindra, Tata and Wipro;
- Management/Business Consulting firms: Bain & Company, Booz-Allen & Hamilton, Boston Consulting Group and McKinsey & Company;
- Enterprise Resource Planning firms: SAP, Oracle, Hitachi, Tribridge and Avanade;
- Enterprise Performance Management / Business Activity Monitoring / Business Intelligence providers: Deloitte & Touche, Huron, The Hackett Group, Hitachi Consulting Corporation, KPI Partners, KPMG, PricewaterhouseCoopers and Ernst & Young; and
- Computer hardware, software and service vendors: Hewlett-Packard, IBM, Oracle, Microsoft and SAP.

We believe that the principal criteria considered by prospective clients when selecting a consulting firm include skills and capabilities of consultants, scope of services, project methodology and approach, technical and industry expertise, reputation and quality of past work, perceived value and a commitment to delivering a solution that works as intended. Due to our ongoing dedication and attention to all of the above characteristics, we believe that we are well positioned against our competitors in our marketplace.

Intellectual Property

We consider our intellectual property to be a valuable asset in a highly competitive industry. We also consider our intellectual property to be an important factor in building brand recognition for quality service and performance. Therefore, we have secured certain service marks for "Edgewater," "Edgewater Consulting," "Edgewater Technology," "Edgewater Strategy Services," "Edgewater Technology-Ranzal," "Edgewater Ranzal" and "Edgewater Fullscope," among others. We believe we have secured all rights to trademarks and trade names related to our business.

Table of Contents

We rely on a combination of trade secret, copyright and trademark laws to protect our proprietary rights. In particular, we require each of our employees to sign an invention and non-disclosure agreement, which provides that they must maintain the confidentiality of our intellectual property and that any intellectual property that they develop while employed by us is the property of Edgewater. We have developed detailed tools, processes and methodologies which are used in developing software code, scripts, libraries, data models, applications, business processes, frameworks and other technology used within our Company and in customer engagements. See also “Item 1A. — Risk Factors” included elsewhere in this Form 10-K.

Potential Future Strategies, Transactions and Changes

Critical to our ability to create long-term stockholder value, the Company will continue to pursue internal growth initiatives and appropriate business combination transaction alternatives to achieve growth in revenues and profitability. From time to time, we have engaged and we may continue to engage in discussions with various persons regarding potential business combination transactions.

We believe that our current cash balances and our anticipated cash flow from our operations taken together will be adequate for our working capital needs for at least the next twelve months. However, our actual experience may differ significantly from our expectation, particularly if we pursue growth through business combination transactions. In addition, other future events may adversely or materially affect our business, expenses or prospects and could affect our available cash or the availability or cost of external financial resources.

We may, in the future, purchase common stock in the open market, in private transactions or otherwise, pursuant to board approved repurchase programs. See “Item 5. — Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities” included elsewhere in this Form 10-K. Any future purchases by us will depend on many factors, including, but not limited to, the market price of our common stock, our business strategy, our business and financial position and general economic and market conditions.

For additional information about our geographic areas, please see “Item 8. — Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 15 — Geographic Information.”

For additional information about our operating segments, please see “Item 8 — Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 16 — Operating Segments.”

Directors and Executive Officers of the Registrant

Name	Age	Position with the Company
Jeffrey L. Rutherford	56	Chairman of the Board, Interim President and Interim Chief Executive Officer
David Clancey	61	Executive Vice President, Chief Strategy Officer and Chief Technology Officer
Timothy R. Oakes	48	Chief Financial Officer, Chief Accounting Officer, Treasurer and Corporate Secretary
Robin Ranzal-Knowles	49	President, Edgewater Technology-Ranzal, Inc.
Kristin Zaepfel	53	Vice President, Human Resources
Stephen Bova	70	Director
Matthew Carpenter	45	Director
Frederick DiSanto	54	Director
Nancy Leaming	69	Director
Shirley Singleton	65	Director
Timothy Whelan	51	Director
Kurtis J. Wolf	44	Director

Mr. Rutherford currently serves as our Chairman, interim President, and interim Chief Executive Officer, positions he was appointed to in March 2017. Mr. Rutherford previously served as Vice President and Chief Financial Officer at Ferro Corporation, an international coatings and colors manufacturing business, from April 2012 to September 2016. From July 2008 to April 2012, Mr. Rutherford served as Vice President and Chief Financial Officer at Park-Ohio Holdings Corp, an international industrial supply and diversified manufacturing business. Mr. Rutherford served as the Vice President and Chief Financial Officer at UAP Holdings Corp. from October 2007 to June 2008. At the time UAP Holdings Corp. was a publicly traded company that distributed agricultural inputs throughout North America. In 2008, UAP Holdings Corp. was acquired by Agrium Inc. Previously, Mr. Rutherford served as the President, Chief Executive Officer and Chief Financial Officer at LESCO, Inc., which at the time was a publicly traded company that distributed inputs to the professional turf industry, from 2002 to 2007. Mr. Rutherford also served on the board of directors of LESCO, Inc., from 2006 to 2007. LESCO, Inc. was subsequently acquired by Deere & Co. in 2007. Mr. Rutherford served as Chief Financial Officer and Senior Executive Vice President of OfficeMax, Inc., a retailer of office products and supplies, from 1997 to 2002, after having previously served as its Senior Vice President and Treasurer, from February to July 1997. From 1983 to 1996, Mr. Rutherford worked at Arthur Andersen, a consulting and accounting firm. Mr. Rutherford earned his Bachelor’s degree in Business Administration and Accounting from Baldwin Wallace College. Mr. Rutherford has served as a Director of our Company since February 2017.

Mr. Clancey has served as Executive Vice President, Chief Strategy Officer and Chief Technology Officer of our Company since June 2006. Before assuming his current title, Mr. Clancey served as our Executive Vice President — Chief Technology Officer from 2001 to 2006 and as Senior Vice President — Chief Technology Officer of Edgewater Technology (Delaware), Inc. (“Edgewater Delaware”) from 1992 until 2001. Mr. Clancey co-founded Edgewater Delaware in 1992 with Ms. Singleton. Prior to co-founding Edgewater Delaware, Mr. Clancey was a Systems Architect and Chief Technology Officer at Logica North America.

Mr. Oakes has served as Chief Financial Officer, Treasurer and Corporate Secretary of our Company since September 2009 and Chief Accounting Officer of our Company since July 2008. Mr. Oakes joined our Company as a Director of Finance in August 2004. Prior to joining Edgewater, Mr. Oakes was a Senior Director of Finance at Symmetricom, Inc. from September 2001 to August 2004. Prior to Symmetricom, Mr. Oakes held various financial management and operational reporting positions with companies in the biotechnology, manufacturing and consulting services industries.

Ms. Ranzal-Knowles has served as President of Edgewater Technology-Ranzal, Inc., a subsidiary of the Company (“Ranzal”), since October 2004. Prior to joining Edgewater, Ms. Ranzal-Knowles was the founder, owner and President of Ranzal and Associates, Inc., from March 1996 to October 2004.

Ms. Zaepfel has served as Vice President of Human Resources of our Company since September 2003. Prior to joining our Company, Ms. Zaepfel served as Senior Vice President of Human Resources for Xchange, Inc. from 1998 to 2003. Ms. Zaepfel has also held various Human Resources positions at such organizations as HPR, Inc., Mellon Bank Corporation and The Boston Company.

Mr. Bova has served as an independent consultant, offering business strategy advice, organization analysis and CEO mentoring, since January 2014. Mr. Bova has also served as a director of each of OPTOMI, LLC, a nationwide IT staffing company, since October 2012; Lindsey Software Systems, Inc., a public housing software developer, since November 2010; and BlueInGreen, LLC, a technology-based water quality improvement company, since November 2010. From January 2010 to December 2013, Mr. Bova served as a Partner of the Clark Bova Group, LLC, a management consulting firm. He also previously served as a Member of the Investment Committee of the Fund for Arkansas’ Future (FAF), an angel investor fund focused on Arkansas-based start-up companies, from January 2008 to December 2013. Mr. Bova previously served as the Chairman and Chief Executive Officer of Technisource, Inc. (f/k/a IntelliMark IT Business Solutions), an IT staffing company, from 2000 until it was successfully sold to Spherion Corporation in 2007. Technisource, Inc. was formerly a wholly owned subsidiary of Edgewater (formerly StaffMark, Inc.) until it was spun out as an independent company in 2000. Mr. Bova served as the President and Chief Operating Officer of Edgewater from 1999 to 2000, and as a director from 1999 to 2001. Mr. Bova also served as a director of Vestcom International, Inc., a leading provider of shelf-edge communications and specialized marketing services, from 1997 to 2002. From 1998 to 1999, he served as the Director of International Operations of Intelligroup, Inc., a leading provider of IT and consulting services. Mr. Bova's professional experience also includes prior service as the President of the Global Banking Division of Systematics, Inc. and later Alltel Information Services following its acquisition of Systematics (now Fidelity National Information Services, Inc.). He also previously served as the President of the Global Banking Division of Electronic Data Systems Corporation. Mr. Bova's professional career began as a software technician in 1970 and progressed to executive management roles beginning in 1983. Mr. Bova has served as a Director of our Company since March 2016.

Mr. Carpenter has served as the Chairman and Chief Executive Officer of Vertical Knowledge, L.L.C., a leading provider of open source data, information services and analytics, since 2007. Mr. Carter previously founded and led EmployOn Inc., an online employment services company, until his departure in 2006. Mr. Carpenter earned his Bachelor's degree from Mississippi State University. Mr. Carpenter has served as a Director of our Company since February 2017.

Mr. DiSanto has served as the Chief Executive Officer of Ancora Advisors, LLC and Ancora Holdings Inc., a registered investment advisor, since January 2006, and as Chairman of the Board of Ancora Advisors, LLC, since December 2014. Previously, Mr. DiSanto worked at Fifth Third Bank, a regional banking corporation, serving as Executive Vice President and Manager of Fifth Third Bank's Investment Advisor Division from 2001 to 2005. In 2001, Fifth Third Bank acquired Maxus Investment Group, an asset management firm and Mr. DiSanto's previous employer. Prior to the acquisition, Mr. DiSanto was the President and Chief Operating Officer at Maxus Investment Group, from 1998 to 2000. From 1991 to 1997, Mr. DiSanto was Managing Partner at Gelfand Partners Asset Management, an investment management firm, which merged with Maxus Investment Group in 1997. Mr. DiSanto began his investment career in 1985 with McDonald Investments in Institutional Equity Sales. Currently, Mr. DiSanto is serving on the boards of Medical Mutual of Ohio, Case Western Reserve University, The Cleveland Film Commission, The Eastern Company, Regional Brands and WF Hann Sons. He is also on the Executive Committee for the Board of Trustees at Case Western Reserve University. Previously, Mr. DiSanto served as the Chairman of the Board of Regents of St. Ignatius High School. Mr. DiSanto is also the former Chairman and current Trustee of the Greater Cleveland Sports Commission. Mr. DiSanto earned a Bachelor's degree in Management Science and a Master's degree in Business Administration from Case Western Reserve University. Mr. DiSanto has served as a Director of our Company since February 2017.

Ms. Leaming has been an independent consultant since 2005. From June 2003 to June 2005, Ms. Leaming was the Chief Executive Officer and President of Tufts Health Plan, a provider of healthcare insurance. Prior to that, Ms. Leaming served as Tufts Health Plan's President and Chief Operating Officer from 1998 to 2003, the Chief Operating Officer from 1995 to 1998 and the Chief Operating Officer/Chief Financial Officer from 1986 to 1995. Prior to joining Tufts Health Plan, Ms. Leaming held a variety of management positions in managed care and banking, including Chief Financial Officer of Matthew Thornton Health Plan. Ms. Leaming currently serves as a director of Biogen Idec and Hologic, Inc. Ms. Leaming joined our Board in December 2005.

Ms. Singleton co-founded Edgewater Delaware with Mr. Clancey in 1992 and served as President of Edgewater Delaware from 1992 until January 2002. Ms. Singleton then served as President and Chief Executive Officer of our Company (the parent company of Edgewater Delaware) from January 2002 to March 2017. Prior to co-founding Edgewater Delaware, Ms. Singleton held various management positions from 1982 to 1992 at Logica North America and attained the position of Vice President and General Manager of the Northeast region. Ms. Singleton serves on the Technical Oversight Committee for Partners Healthcare and the Board of Trustees for the North Shore Medical Center. Ms. Singleton has served as a Director of our Company since June 2001 and served as chairman of the Board from July 2005 to March 2017.

Mr. Whelan has served as the Chief Executive Officer of Wireless Telecom Group, Inc., a global designer and manufacturer of radio frequency and microwave-based products, since June 2016. Prior to his appointment, Mr. Whelan was a Co-Founder and Managing Director of Echo Financial Business Consulting, a privately held financial and operational consulting firm that he co-founded in February 2014. Mr. Whelan also serves as a director of Wireless Telecom Group, Inc. From June 2009 to August 2013, Mr. Whelan served as the Chief Operating Officer of IPC Systems, Inc. ("IPC Systems"), a global leading provider of communications networks, systems and solutions to the financial services industry. Mr. Whelan previously served as the Chief Financial Officer of IPC Systems from December 2001 to June 2009. From July 2000 to December 2001, Mr. Whelan served as Divisional Chief Financial Officer of Global Crossing's Financial Markets division. From May 1999 to June 2000, he was Vice President of Finance at IPC Information Systems, Inc. and IXnet, Inc. Mr. Whelan is a certified public accountant and previously worked for Ernst & Young from 1992 to 1999. He also previously served four years as a U.S. Naval Officer. Mr. Whelan has served as a Director of our Company since March 2016.

Mr. Wolf is Managing Member and Chief Investment Officer of Hestia Capital Management LLC, a deep value hedge fund that he founded in January 2009. From March 2007 to November 2008, Mr. Wolf worked as a Senior Analyst at First Q Capital, LLC, a hedge fund which invested in public companies which had previously been backed by venture capital or private equity firms. From January 2006 to February 2007, Mr. Wolf served as co-Founding Partner at Lemhi Ventures LLC, a health care services focused venture capital incubator. Mr. Wolf previously was co-Founding Partner at Definity Health Corporation, a leading player in the consumer-driven health care space, which was purchased by UnitedHealth Group Inc. in December, 2004. After the acquisition, from April 2005 through January 2006, Mr. Wolf served as Director, Corporate Development for UnitedHealth Group Inc.'s Definity Health Corporation subsidiary. Prior to Definity Health Corporation being acquired, from September 1998 to January 2000, he served as co-Founding Partner, primarily serving in finance and strategy roles. Between his two periods at Definity Health Corporation, Mr. Wolf served as an Analyst at Relational Investors LLC, an activist hedge fund, from June 2002 to December 2004. Previously, he was a co-Founding Partner and Consultant at Lemhi Consulting, a related entity to Definity Health Corporation, from September 1998 to January 2000. Mr. Wolf also has experience working as a consultant both with Deloitte Consulting from September 1995 until September 1998 and The Boston Consulting Group during the summer of 2001. Mr. Wolf earned a Master of Business Administration degree from the Stanford Graduate School of Business and a Bachelor of Arts degree in Economics and Mathematics from Carleton College. Mr. Wolf has served as a Director of our Company since February 2017.

ITEM 1A. RISK FACTORS

In addition to other information contained in this Form 10-K, the following risk factors should be carefully considered in evaluating Edgewater and its business because such factors could have a significant impact on our business, operating results and financial condition. These risk factors could cause actual results to materially differ from those projected in any forward-looking statements.

The activities of activist shareholders could be disruptive and costly and these actions could result in the replacement of members of our Board of Directors and could cause uncertainty about the direction of our business. We have encountered activist shareholders from time-to-time, and the attention required to address activist shareholders can be costly and time-consuming, disrupt our operations and divert the attention of management and our employees from executing our strategic plan. Perceived uncertainties as to our future direction as a result of changes to composition of the Board of Directors may lead to the perception of a change in the direction of the business, instability or lack of continuity which may be exploited by our competitors, cause concern to our current or potential clients, and make it more difficult to attract and retain qualified personnel.

Because we rely on highly-trained and experienced personnel to design and build complex systems for our customers, an inability to retain existing employees and attract new qualified employees would impair our ability to provide our services to existing and new customers. Our future success depends in large part on our ability to attract new qualified employees and retain existing highly-trained and experienced technical consultants, project management consultants, business analysts and sales and marketing professionals of various experience levels. If we fail to attract new employees or retain our existing employees, we may be unable to complete existing projects or bid for new projects of similar size, which could adversely affect our revenues. While attracting and retaining experienced employees is critical to our business and growth strategy, maintaining our current employee base may also be particularly difficult. Even if we are able to grow and expand our employee base, the additional resources required to attract new employees and retain existing employees may adversely affect our operating margins.

The appointment of an interim CEO could adversely affect our business. The Board of Directors has appointed an interim CEO and this change may create risks and uncertainties around the Company's strategic direction. Perceived uncertainties as to our future direction may be exploited by our competitors, cause concern to our current or potential clients, and make it more difficult to attract and retain qualified personnel. In addition, it may take time for the interim CEO to gain a full understanding of the Company's business, operations, clients and employees, which, in turn, may adversely affect the Company's financial results, particularly in the short term.

Our business could be adversely affected by a significant or prolonged economic downturn. Our results of operations are affected by the level of business activity of our customers, which in turn is affected by the level of economic activity in the industries and markets that they serve. A decline in the level of business activity of our customers has had and could continue to have a material adverse effect on our revenue and profit margin. Future economic conditions could cause some customers to reduce or defer their expenditures for consulting services. We have implemented and will continue to implement cost-savings initiatives to manage our expenses as a percentage of revenue. However, current and future cost-management initiatives may not be sufficient to avoid reductions in our margins if the economic environment should weaken for a prolonged period.

The increased emphasis on a cloud strategy may give rise to risks that could harm our business. Our cloud strategy requires continued investment in product development and cloud operations and could alter the way in which we price and deliver our products and services. Further, the additional focus on the decisions of cloud versus "on premise" solutions by our customers could lead to project start delays.

Our lack of long-term customer contracts reduces the predictability of our revenues because our current contracts may be canceled on short notice and without penalty . Our customers generally retain us on a project-by-project basis, rather than under long-term contracts. As a result, a customer may not engage us for further services once a project is complete. If a significant customer or a number of customers terminate, significantly reduce, or modify their contracts with us, our results of operations would be materially and adversely affected. Consequently, future revenue should not be predicted or anticipated based on the number of customers we have or the number and size of our existing projects. If a customer were to postpone, modify or cancel a project, we would be required to shift our consultants to other projects to minimize the impact on our operating results. We cannot provide assurance that we will be successful in efficiently and effectively shifting our consultants to new projects in the event of project terminations, which could result in reduced service revenue and lower gross margins. If we experience unexpected changes or variability in our revenue, we could experience variations in our quarterly operating results and our actual results may differ materially from the amounts planned and our operating profitability may be reduced or eliminated.

We have significant fixed operating costs, which may be difficult to adjust in response to unanticipated fluctuations in revenue. A high percentage of our operating expenses, particularly salary expense, rent, depreciation expense and amortization of intangible assets, is fixed in advance of any particular quarter. As a result, an unanticipated decrease in the number or average size of, or unanticipated delay in the scheduling for, our projects may cause significant variations in operating results in any particular quarter and could have a material adverse effect on operations for that quarter. An unanticipated termination or decrease in size or scope of a significant project, a customer’s decision not to proceed with a project we anticipated or the completion during the quarter of several significant customer projects could require us to maintain underutilized employees and could have a material adverse effect on our business, financial condition and results of operations.

If we fail to satisfy our customers’ expectations, our existing and continuing business could be adversely affected. Our sales and marketing strategy emphasizes our belief that we have highly referenceable accounts. Therefore, if we fail to satisfy the expectations of our customers, we could damage our reputation and our ability to retain existing customers and attract new customers. In addition, if we fail to deliver and perform on our engagements, we could be liable to our customers for breach of contract. Although most of our contracts limit the amount of any damages to the fees we receive, we could still incur substantial cost, negative publicity and diversion of management resources to defend a claim, and as a result, our business results could suffer.

We may have lower margins, or lose money, on fixed-price contracts . In 2016, 2015 and 2014, fixed-price contracts represented approximately 10.5%, 13.0% and 5.7%, respectively, of our total service revenue. We assume greater financial risk on fixed-price contracts than on time-and-materials or retainer-based engagements, and we cannot assure you that we will be able to successfully price our larger fixed-price contracts. If we fail to accurately estimate the resources and time required for an engagement, fail to manage customer expectations effectively or fail to complete fixed-price engagements within planned budgets, on time and to our customers’ satisfaction, we could be exposed to cost overruns, potentially leading to lower gross profit margins or even losses on these engagements.

Competition in the IT and management consulting services market is intense and, therefore, we may lose projects to, or face pricing pressure from, our competitors or prospective customers’ internal IT departments or international outsourcing firms. The market for IT and management consulting providers is highly competitive. In many cases, we compete for specialty IT services work with in-house technical staff, software product companies with extended service organizations and other international IT and management consulting firms, including offshore outsourcing firms. In addition, there are many small, boutique technology management consulting firms who have developed services similar to those offered by us. We believe that competition will continue to be strong and may increase in the future, especially if our competitors continue to reduce their price for IT and management consulting services. Such pricing pressure could have a material impact on our revenues and margins and limit our ability to provide competitive services.

Our target market is rapidly evolving and is subject to continuous technological change. As a result, our competitors may be better positioned to address these developments or may react more favorably to these changes, which could have a material adverse effect on our business. We compete on the basis of a number of factors, many of which are beyond our control. Existing or future competitors may develop or offer IT and management consulting services that provide significant technological, creative, performance, price or other advantages over the services we offer.

Some of our competitors have longer operating histories and significantly greater financial, technical, marketing and managerial resources than we do. There are relatively low barriers of entry into our business. We currently have no patented or other proprietary technology that would preclude or inhibit competitors from entering the IT services market. Therefore, we must rely on the skill of our personnel and the quality of our customer service. The costs to start an IT and management consulting services firm are low. We expect that we will continue to face additional competition from new entrants into the market in the future, offshore providers and larger integrators and we are subject to the risk that our employees may leave us and may start competing businesses. Any one or more of these factors could have a material impact on our business.

Our results can be subject to variability as work is completed for a limited number of significant customers, and our results of operations and financial condition could be negatively affected by the loss of a major customer or significant project or the failure to collect a large account receivable . We have in the past derived, and may in the future derive, a significant portion of our service revenue from a limited number of customers. From year-to-year, revenue from one or more of our customers may exceed 10% of our total service revenue. The loss of a major customer or large project could materially and adversely affect our results of operations. In 2016 and 2015, our top five customers represented 15.2% and 11.8% of our 2016 and 2015 service revenues, respectively. The future receipt of significant commitments from new or existing customers could create future risks such as those described above concerning customer concentration.

We perform varying amounts of work for specific customers from year-to-year. A major customer in one year may not use our services in another year. In addition, we may derive revenue from a major customer that constitutes a large portion of a particular quarter’s total revenue. If we lose any major customers or any of our customers cancel or significantly reduce a large project’s scope, our results of operations and financial condition could be materially and adversely affected. Further, if we fail to collect a large accounts receivable balance, we could be subjected to a material adverse impact on financial results and a decrease in cash flow.

Our business could be adversely affected by local political, social, legal, tax, regulatory or environmental requirements. The local business risks in different cities, states and countries in which we or our current or potential customers operate could have a material impact on our financial condition, results of operations and growth prospects. We sell our classic consulting and product-based consulting services in different cities, states and countries and may increasingly become exposed to changing political, social, legal, tax, regulatory and environmental requirements at the local, national or international level. Also, new policies or measures by governments, whether fiscal, tax, regulatory, environmental or other competitive changes, may lead to an increase in additional or unplanned expenditures, discourage our customers or potential customers from purchasing our services and ultimately adversely affect our financial condition, results of operations and growth prospects.

If customers view offshore development as a viable alternative to our service offerings, our pricing, revenue, margins and profitability may be negatively affected. In recent years, international IT service firms have been founded in countries such as India and China, which have well-educated and technically-trained workforces available at wage rates that are substantially lower than U.S. wage rates. While traditionally we have not competed with offshore development, the offshore model has matured and offers an alternative choice when companies evaluate their IT consulting needs. To counteract the alternative of going offshore for IT consulting services, we are focusing on advisory and product-based service offerings, including design and strategy consulting engagements, which are more difficult for offshore development firms to replicate. If we are unable to continually evolve our service offerings or the rate of acceptance of offshore development advances beyond current levels, then our pricing and revenue could be adversely affected.

We depend on our key personnel, and the loss of their services may adversely affect our business. We believe that our success depends on the continued employment of the senior management team and other key personnel. This dependence is particularly important to our business because personal relationships are a critical element in obtaining and maintaining customer engagements. If one or more members of the senior management team or other key personnel were unable or unwilling to continue in their present positions, our business could be seriously harmed. Furthermore, other companies seeking to develop in-house business capabilities may hire away some of our key personnel.

Our business could be adversely affected by material changes to our strategic relationship with Oracle America, Inc. Our EPM-related service offering derives a substantial portion of its revenues from a channel relationship with Oracle. This relationship involves Oracle assisted lead generation support with respect to the business intelligence services provided in connection with our EPM-related service offerings. This relationship is governed by an Oracle Partner Network Agreement, which is subject to annual renewal. A failure to renew this relationship, or a material modification or change in Oracle's partner approach or its contract terms, for any reason, could have a material adverse impact on our results of operations.

Our business could be adversely affected by material changes to our strategic relationship with Microsoft Corporation. Our ERP- and CRM-related product and service offerings derive a substantial portion of revenues from a channel relationship with Microsoft. This relationship involves Microsoft-assisted lead generation support with respect to the services provided by Fullscope. This relationship is governed by a Microsoft Partner Agreement, which is subject to annual renewal. A failure to renew this relationship, or a material modification or change in Microsoft's partner approach or its contract terms, for any reason, could have a material adverse impact on our results of operations.

Past or future business combination transactions or other strategic alternatives could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our business . We have, in the past, realized growth, in part, through acquisitions, and we anticipate that a portion of our future growth may be accomplished through one or more business combination transactions or other strategic alternatives. The ultimate success of any such transactions will depend upon, among other things, our ability to integrate acquired personnel, operations, products and technologies into our organization effectively, to retain and motivate key personnel of acquired businesses and to retain customers of acquired businesses. We cannot assure you that we will be successful in this regard or that we will be able to identify suitable opportunities, successfully grow acquired businesses, integrate acquired personnel and operations successfully or utilize our cash or equity securities as acquisition currency on acceptable terms to complete any such business combination transactions. These difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and materially and adversely affect our results of operations. Any such transactions would involve certain other risks, including the reduction of cash and/or working capital, the assumption of additional liabilities, potentially dilutive issuances of equity securities and diversion of management's attention from operating activities.

We may not be able to protect our intellectual property rights or we may infringe upon the intellectual property rights of others, which could adversely affect our business. Our future success will depend, in part, upon our intellectual property rights and our ability to protect these rights. We do not have any patents or patent applications pending. Existing trade secret and copyright laws afford us only limited protection. Third parties may attempt to disclose, obtain or use our solutions or technologies. This is particularly true in foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States. Others may independently develop and obtain patents or copyrights for technologies that are similar or superior to our technologies. If that happens, we may need to license these technologies and we may not be able to obtain licenses on reasonable terms, if at all. If we are unsuccessful in any future intellectual property litigation, we may be forced to do one or more of the following:

- Cease selling or using technology or services that incorporate the challenged intellectual property;
- Obtain a license, which may not be available on reasonable terms or at all, to use the relevant technology;

- Configure services to avoid infringement; and
- Refund license fees or other payments that we have previously received.

Generally, we develop software applications for specific customer engagements. Issues relating to ownership of and rights to use software applications and frameworks can be complicated. Also, we may have to pay economic damages in these disputes, which could adversely affect our results of operations and financial condition.

Fluctuations in our quarterly revenues and operating results may lead to increased volatility of our stock . Our quarterly revenues and operating results can sometimes be volatile. We believe comparisons of prior period operating results cannot be relied upon as indicators of future performance. If our revenues or our operating results in any future period fall below the expectations of securities analysts and investors, the market price of our securities would likely decline.

Factors that may cause our quarterly results to fluctuate in the future include the following:

- Variability in market demand for IT and management consulting services;
- General economic or stock market conditions unrelated to our operating performance;
- Length of the sales cycle associated with our service offerings;
- Product launch delays;
- Unanticipated variations in the size, budget, number or progress toward completion of our engagements;
- Unanticipated termination of a major engagement, a customer’s decision not to proceed with an engagement we anticipated or the completion or delay during a quarter of several major customer engagements;
- Efficiency with which we utilize our employees, or utilization, including our ability to transition employees from completed engagements to new engagements;
- Our ability to manage our operating costs, a large portion of which are fixed in advance of any particular quarter;
- Changes in pricing policies by us or our competitors;
- Seasonality and cyclicality, including the effects of lower utilization rates during periods with disproportionately high holiday and vacation usage experience;
- The timing of customer year-end periods and the impact of spending relative to such year-end periods;
- Our ability to manage future growth; and
- Costs of attracting, retaining and training skilled personnel.

Some of these factors are within our control, while others are outside of our control.

Volatility of our stock price could result in expensive class action litigation . If our common stock suffers from volatility like the securities of other technology and consulting companies, we could be subject to securities class action litigation similar to that which has been brought against other companies following periods of volatility in the market price of their common stock. The process of defending against these types of claims, regardless of their merit, is costly and often creates a considerable distraction to senior management. Any future litigation could result in substantial additional costs and could divert our resources and senior management’s attention. This could harm our productivity and profitability and potentially adversely affect our stock price.

We may be required to record additional impairment charges against the carrying value of our goodwill and other intangible assets in future quarters. As of December 31, 2016, we had recorded goodwill and intangible assets with a net book value of $38.4 million. We test for impairment at least annually and whenever evidence of impairment exists. We have in the past recorded impairment charges against the carrying value of our goodwill and intangible assets. The carrying value of our goodwill and intangible asset values are measured using a variety of factors, including values of comparable companies, overall stock market and economic data and our own projections of future financial performance. We may be required in the future to record additional impairment charges that could have a material adverse effect on our reported results.

Our operating results could be adversely affected by fluctuations in the value of the U.S. dollar against foreign currencies. As a result of our acquisitions and the international expansion of our EPM-related business, a portion of our revenues and operating expenses are, and will be, denominated in currencies other than the U.S. dollar. As a result, these revenues and operating expenses are affected by fluctuating foreign currency exchange rates. An increase in the U.S. dollar relative to other currencies in which we have revenues will cause our revenues to be lower than with a stable exchange rate. Changes in exchange rates between other foreign currencies and the U.S. dollar can affect the recorded levels of our assets, liabilities and expenses relating to our operations. The primary foreign currencies in which we have exchange rate fluctuation exposure are the Canadian dollar, the euro, the British pound and the South African rand. Exchange rates between these currencies and U.S. dollars have fluctuated significantly in recent years, particularly as the current global financial crisis has unfolded, and may continue to do so in the future. We cannot predict the impact of future exchange rate fluctuations on our operating results.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We lease 19,214 square feet of office space for our corporate headquarters located at 200 Harvard Mill Square, Suite 210, Wakefield, Massachusetts 01880-3209. We also have office facilities in Alabama, Georgia, New York, Illinois, Montreal and London.

Our corporate and satellite offices are all leased properties. We do not own any real estate. Our existing properties satisfy our current operating needs; however, we will seek additional space in the event our existing properties are unable to meet our operating requirements in the future.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in legal proceedings, claims, and litigation arising in the ordinary course of business not specifically discussed herein. We have not formed an opinion that an unfavorable outcome in any of the actions is either “probable” or “remote” and are unable to estimate the magnitude or range of any potential loss. Also refer to “Item 8. — Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 13 — Commitments and Contingencies” included elsewhere in this Annual Report on Form 10-K, which is incorporated herein by reference.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Stock Price Information

Our common stock, which has a par value of $0.01 per share, trades on the NASDAQ Global Market under the symbol "EDGW." On March 3, 2017, there were approximately 1,444 holders of record of our common stock, and approximately 12.9 million shares of our common stock were outstanding. The number of record holders indicated above does not reflect persons or entities that hold their shares of stock in nominee or "street" name through various bankers or brokerage firms.

The following table sets forth the range of high and low trading prices for our common stock as reported by the NASDAQ Global Market for each quarter in 2015 and 2016 and the first quarter of 2017 (through March 3, 2017).

	High	Low
FISCAL 2015:		
First Quarter	$7.70	$6.56
Second Quarter	7.50	6.76
Third Quarter	7.50	6.21
Fourth Quarter	8.28	7.14
FISCAL 2016:		
First Quarter	$8.23	$6.66
Second Quarter	9.00	7.57
Third Quarter	9.40	6.97
Fourth Quarter	8.75	6.22
FISCAL 2017:		
First Quarter	$7.52	$6.26
(through March 3, 2017)		

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

In December 2007, our Board of Directors (the "Board") authorized a stock repurchase program for up to $5.0 million of common stock on the open market or through privately negotiated transactions from time-to-time through December 31, 2008 (the "Stock Repurchase Program"). The Board subsequently amended the Stock Repurchase Program, authorizing both an increase to and an extension of the Stock Repurchase Program. The Stock Repurchase Program, as amended, had a maximum purchase value of shares of $23.1 million (the "Purchase Authorization") and was set to expire on September 23, 2016 (the "Repurchase Period"). On September 23, 2016, we announced that the Board had approved an extension of the Repurchase Period to September 22, 2017.

The timing and amount of the purchases will be based upon market conditions, securities law considerations and other factors. The Stock Repurchase Program does not obligate the Company to acquire a specific number of shares in any period and may be modified, suspended, extended or discontinued at any time, without prior notice.

Table of Contents

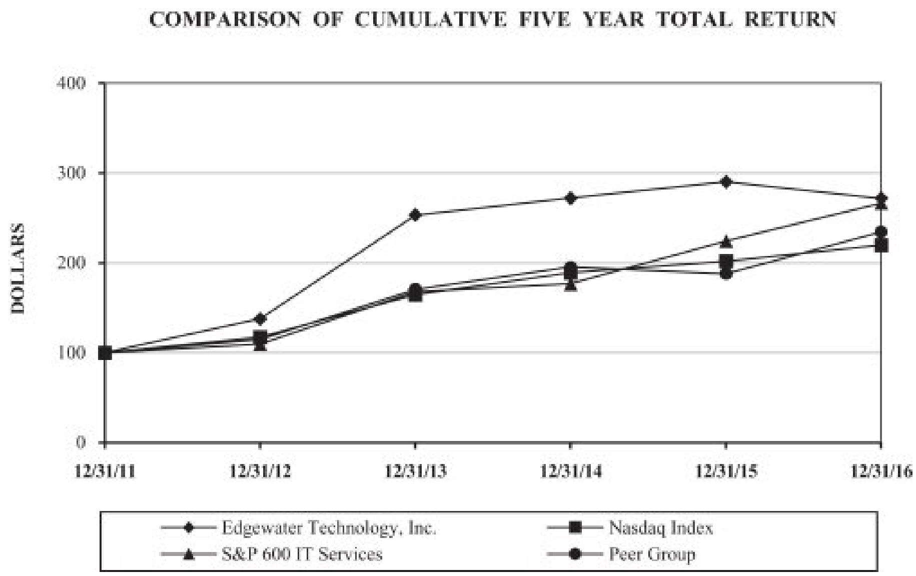
The following table provides information with respect to purchases of our common stock during the quarter ended December 31, 2016:

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
October 1 – 31, 2016	-	$ -	-	$ 8,733,963
November 1 – 30, 2016	-	-	-	8,733,963
December 1 – 31, 2016	-	-	-	8,733,963
Total	-	$ -	-	$ 8,733,963

Performance Graph

The following chart compares the cumulative total stockholder return and total return analysis, respectively, of our common stock with the cumulative total return on the NASDAQ Composite US Index, the S&P 600 IT Services Index and self-selected peer groups in the technology consulting industry for the five-year period beginning on December 31, 2011 (the closing sale price of our common stock on this date was $2.76) and ending on December 31, 2016, assuming a $100 investment in each and assuming the reinvestment of dividends. We did not pay any dividends during the period. Refer to the footnotes below the graph for a listing of the companies included in our peer groups.



Company Name / Index	Base Period 12/31/11	INDEXED RETURNS Years Ending 12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Edgewater Technology, Inc.	**100**	137.68	253.26	271.92	290.22	271.74
Nasdaq Index	**100**	117.45	164.57	188.84	201.98	219.89
S&P 600 IT Services	**100**	109.62	168.10	176.72	224.26	266.69
Peer Group	**100**	114.85	170.81	195.18	187.98	234.45

(1) Our self-selected peer group consists of the following companies: L-3 Communications Holdings Inc., Huron Consulting Group Inc., Navigant Consulting Inc., ICF International Inc., Resources Connection Inc., Perficient Inc., The Hackett Group, Inc., Ciber, Inc., CRA International Inc., Information Services Group, Inc. and Cartesian, Inc.

We believe that the companies included in our peer groups are comparable to our Company as they provide similar IT consulting services and expertise to their customers.

The above Performance Graph and related information shall not be deemed "soliciting material" or to be "filed" with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

Other Stockholder Matters

We have not paid dividends in the past and intend to retain any earnings to finance the expansion and operations of our business. We do not anticipate paying any cash dividends with regard to cash generated through our normal operations in the foreseeable future. The trading price of our common stock is subject to wide fluctuations in response to quarterly variations in operating results, announcements of acquisitions, performance by our competitors and other market events or factors. In addition, the stock market has, from time-to-time, experienced price and volume fluctuations, which have particularly affected the market price of many professional service companies and which often have been unrelated to the operating performance of these companies. These broad market fluctuations may adversely affect the market price of our common stock.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial data presented below have been derived from our audited consolidated financial statements and have been prepared in accordance with United States generally accepted accounting principles. We believe that this information should be read in conjunction with our audited consolidated financial statements and accompanying notes and "Item 7. — Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2016	2015	2014	2013	2012
	(In Thousands, Except per Share Data)				
Consolidated Statements of Operations Data:					
Total revenue	$ 126,522	$ 116,704	$ 112,989	$ 103,556	$ 100,881
Cost of revenue	80,340	77,114	71,623	65,984	65,602
Gross profit	46,182	39,590	41,366	37,572	35,279
Operating expenses:					
Selling, general and administrative	37,747	34,592	34,145	31,636	31,563
Change in fair value of contingent earnouts	(725)	-	-	-	-
Direct acquisition costs	430	1,754	-	-	-
Consent solicitation expenses	187	495	-	-	-
Lease abandonment expense (1) (2)	-	-	400	-	-
Fullscope embezzlement loss recovery	-	(250)	(1,529)	-	-
Depreciation and amortization	4,020	1,517	928	1,225	1,801
Total operating expenses	41,659	38,108	33,944	32,861	33,364
Operating income	4,523	1,482	7,422	4,711	1,915
Other expense, net	2,327	2,013	181	92	67
Income (Loss) before taxes	2,196	(531)	7,241	4,619	1,848
Tax provision (benefit) (3) (4) (5)	5,030	3,529	3,177	(30,089)	401
Net (loss) income	$ (2,834)	$ (4,060)	$ 4,064	$ 34,708	$ 1,447
Net (loss) income per share:					
Basic net (loss) income per share	$ (0.23)	$ (0.35)	$ 0.37	$ 3.21	$ 0.13
Weighted average shares, basic	12,150	11,505	11,131	10,813	11,180
Diluted net (loss) income per share	$ (0.23)	$ (0.35)	$ 0.31	$ 2.88	$ 0.13
Weighted average shares, diluted	12,150	11,505	13,090	12,031	11,589

(1) In December 2011, the Company abandoned certain excess office space within its corporate headquarters in Wakefield, Massachusetts. As a result of the abandonment of such space, the Company recorded a non-cash operating charge of approximately $2.2 million.

(2) In June 2014, as part of our recurring assessment of underlying assumptions, the Company recognized a $400 thousand non-cash expenditure related to the elimination of estimated future sublease income.

(3) During the year ended December 31, 2016, in connection with our routine, periodic assessment of the estimated future realizability of the carrying value of our net deferred tax assets, we recorded a $3.7 million non-cash charge related to an increase in the valuation allowance recorded against the carrying value of our deferred tax assets.

(4) During the year ended December 31, 2015, in connection with our routine, periodic assessment of the estimated future realizability of the carrying value of our net deferred tax assets, we recorded a $3.0 million non-cash charge related to an increase in the valuation allowance recorded against the carrying value of our deferred tax assets. Additionally, we recorded a $633 thousand non-cash charge associated with the impairment of a certain state net operating loss carryforward.

(5) During the year ended December 31, 2013, in connection with our routine, periodic assessment of the estimated future realizability of the carrying value of our net deferred tax assets, we reversed $36.2 million of the previously recorded valuation allowance recorded against the carrying value of our deferred tax assets.

	As of December 31,				
	2016	2015	2014	2013	2012
	(In Thousands)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 19,693	$ 11,981	$26,768	$ 20,321	$ 16,651
Accounts receivable, net	25,661	27,753	24,654	19,842	18,281
Goodwill and intangibles, net	38,361	41,900	12,529	13,005	13,243
Deferred tax assets, net	19,031	24,032	27,170	30,272	6
All other assets	2,059	1,758	2,292	2,627	3,608
Total assets	$ 104,805	$ 107,424	$93,413	$ 86,067	$ 51,789
Accrued contingent earnout obligations	$ 8,089	$ 10,540	$ -	$ -	$ -
Revolving credit facility	5,000	5,000	-	-	-
All other liabilities	15,942	18,500	18,384	17,481	19,114
Stockholders' equity	75,774	73,384	75,029	68,586	32,675
Total liabilities and stockholders' equity	$ 104,805	$ 107,424	$93,413	$ 86,067	$ 51,789
Outstanding shares of common stock	12,875	11,862	11,440	11,049	10,897

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following summary together with the more detailed business information and consolidated financial statements and related notes that appear elsewhere in this annual report and in the documents that we incorporate by reference into this annual report. This annual report may contain certain "forward-looking" information within the meaning of the Private Securities Litigation Reform Act of 1995. This information involves risks and uncertainties. Our actual results may differ materially from the results discussed in the forward-looking statements. Factors that might cause such a difference include, but are not limited to, those discussed in "Item 1A. — Risk Factors" and under "Special Note Regarding Forward-Looking Statements."

Overview

Edgewater Technology, Inc. helps the C-suite drive transformational change through its unique selection of business and technology services and channel-based solutions.

Classic consulting disciplines (such as business advisory, process improvement, organizational change management, M&A due diligence, and domain expertise) are blended with technical services (such as digital transformation, technical roadmaps, data and analytics services, custom development and system integration) to help organizations leverage investments in legacy IT assets to create new digital business models.

The Company delivers product based consulting in both the Enterprise Performance Management ("EPM") and Enterprise Resource Planning ("ERP") areas both on premise and in the cloud. Within the EPM offering, our Oracle channel, Edgewater Ranzal provides Business Analytics solutions leveraging Oracle EPM, BI and Big Data technologies. Within the ERP offering, our Microsoft channel, Edgewater Fullscope delivers Dynamics AX ERP, Business Intelligence and CRM solutions primarily in the manufacturing space.

Factors Influencing Our Results of Operations

Revenue.

The Company derives its service revenue from time and materials-based contracts, fixed-price contracts and retainer-based arrangements. Time and materials-based contracts represented 84.0% of service revenue for the year ended December 31, 2016. Revenue under time and materials contracts is recognized as services are rendered and performed at contractually agreed upon rates. Fixed-price contracts represented 10.5% of service revenue for the year ended December 31, 2016. Revenue pursuant to fixed-price contracts is recognized under the proportional performance method of accounting. Retainer-based contracts represented 5.5% of service revenue for the year ended December 31, 2016. Revenue under retainer-based contracts is recognized ratably over the contract period, as outlined within the respective contract.

Provisions for estimated profits or losses on incomplete projects are made on a contract-by-contract basis and are recognized in the period in which such profits or losses are determined. The Company did not recognize any significant losses on contracts during the years ended December 31, 2016, 2015 or 2014. On many projects, we are reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenue and cost of revenue. The aggregate amount of reimbursed expenses will fluctuate depending on the location of our customers, the total number of our projects that require travel and whether our arrangements with our customers provide for the reimbursement of travel and other project-related expenses.

With the offering of a product-based consulting model, software revenue will continue to be a meaningful portion of our revenues. Software revenue, driven by resales of Microsoft Dynamics AX product, represented 8.3%, 9.3% and 7.2% of revenue for the years ended December 31, 2016, 2015 and 2014, respectively. Software and maintenance revenue are recognized upon delivery, except in the infrequent situation where the Company provides maintenance services, in which case the related maintenance is recognized ratably over the maintenance period (while the software revenue is recognized upon delivery). Software revenue is expected to fluctuate between quarters, dependent on our customers' demand for such third-party off-the-shelf software. Fluctuations in software revenue may have an impact upon our periodic operating performance, including gross margin.

Operating Expenses.

The largest portion of our operating expenses consists of cash and non-cash compensation and benefits associated with our project consulting personnel and related expenses. Non-cash compensation includes share-based compensation expense arising from restricted stock and option grants to employees. Project personnel expenses also consist of payroll costs and related benefits associated with our professional staff. Other related expenses include travel, subcontracting costs, third-party vendor payments and non-billable expenses associated with the delivery of services to our customers. We consider the relationship between project personnel expenses and revenue to be an important measure of our operating performance. The relationship between project personnel expenses and revenue is driven largely by the chargeability of our consultant base, the prices we charge our customers and the non-billable costs associated with securing new customer engagements and developing new service offerings. The remainder of our recurring operating expenses consists of expenses associated with the development of our business and the support of our customer-serving professionals, such as professional development and recruiting, marketing and sales, and management and administrative support. Professional development and recruiting expenses consist primarily of recruiting and training, content development and delivery costs. Marketing and sales expenses consist primarily of the costs associated with the development and maintenance of our marketing materials and programs. Management and administrative support expenses consist primarily of the costs associated with operations, including finance, information systems, human resources, facilities (including the rent of office space) and other administrative support for project personnel.

The Company regularly reviews its fees for services, professional compensation and overhead costs to ensure that its services and compensation are competitive within the industry and that its overhead costs are balanced with its revenue levels. In addition, we monitor the progress of customer projects with customer senior management. The Company manages the activities of our professionals by closely monitoring engagement schedules and staffing requirements. However, a rapid decline in the demand for the professional services that we provide could result in lower utilization of our professionals than we planned. In addition, because most of our customer engagements are terminable by our customers without penalty, an unanticipated termination of a customer project could require us to maintain underutilized employees. While professional staff levels must be adjusted to reflect active engagements, the Company must also maintain a sufficient number of consulting professionals to oversee existing customer engagements and to participate in sales activities to secure new customer assignments.

Direct Acquisition Costs.

The Company incurred $430 thousand of direct acquisition costs during the year ended December 31, 2016, which were related to the acquisition of substantially all of the assets of M2 Dynamics in the year ended December 31, 2015. Incurred expenses included investment banking fees, legal fees, accounting and other professional fees directly associated with completion of the acquisitions.

The Company incurred $1.8 million of direct acquisition costs related to the acquisitions of substantially all of the assets of Zero2Ten, Branchbird and M2 Dynamics in the year ended December 31, 2015. During the first quarter of 2015, the Company incurred approximately $613 thousand of direct acquisition costs associated with the March 13, 2015 Zero2Ten Acquisition. During the third quarter of 2015, the Company incurred approximately $340 thousand of direct acquisition costs associated with the August 17, 2015 Branchbird Acquisition. During the fourth quarter of 2015, the Company incurred approximately $801 thousand of direct acquisition costs associated with the December 21, 2015 M2 Dynamics Acquisition. Incurred expenses included investment banking fees, legal fees, accounting and other professional fees directly associated with completion of the acquisitions.

Consent Solicitation Expense.

During the year ended December 31, 2016, the Company incurred $187 thousand of legal and advisory expenses in connection with its defense against a consent solicitation. During the year ended December 31, 2015, the Company incurred $495 thousand of legal and advisory expenses in connection with its defense against a consent solicitation. No such expenses were incurred in the year ended December 31, 2014.

Adjustments to Fair Value of Contingent Consideration.

The Company remeasures the estimated carrying value of contingent consideration each quarter, with any changes (income or expense) in the estimated fair value recorded as an operating expense (classified as change in fair value of contingent earnout consideration). Accretion of the contingent earnout liability is classified as other expense on the condensed consolidated statements of comprehensive (loss) income. As of December 31, 2016 and December 31, 2015, the Company had $8.1 million and $10.5 million, respectively, accrued in connection with the contingent earnout obligations associated with the Zero2Ten, Branchbird, and M2 Dynamics Acquisitions. The decrease in accrued contingent earnout consideration is driven by the payment of $3.9 million related to the completion of the first Zero2Ten earnout period and, to a lesser extent, adjustments to fair value of the remaining liabilities, partially offset by accretion of the contingent liabilities.

Growth Through Acquisitions.

The Company's goal is to position itself as one of the leading providers of transformational classic and product-based consulting services in North America by growing its customer base, leveraging its industry expertise to enhance its service offerings and continuing to make disciplined strategic acquisitions. Previous acquisitions, including, but not limited to its acquisitions of Zero2Ten, Branchbird and M2 Dynamics, have further expanded its geographical footprint, increased its vertical expertise and provided more scale to our organization. The Company will continue to evaluate the possibility of growth through acquisition in future years.

Company Performance Measurement Systems and Metrics.

The Company's management monitors and assesses its operating performance by evaluating key metrics and indicators on an ongoing basis. For example, we regularly review performance information related to annualized revenue per billable consultant, periodic consultant utilization rates, gross profit margins, average bill rates and billable employee headcount. Edgewater has also developed internal Enterprise Performance Management systems which aid us in measuring our operating performance and consultant utilization rates. The matching of sales opportunities to available skill sets in our consultant base is one of our greatest challenges, and therefore, we monitor consultant utilization closely. These metrics, along with other operating and financial performance metrics, are used in evaluating management's overall performance. These metrics and indicators are discussed in more detail under "Results for the Year Ended December 31, 2016, Compared to Results for the Year Ended December 31, 2015," included elsewhere in this Annual Report on Form 10-K.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). These accounting principles require us to make certain estimates, judgments and assumptions. We believe that the estimates, judgments and assumptions upon which we rely are reasonable based upon information available to us at the time that they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities as of the date of the financial statements, as well as the reported amounts of revenues and expenses during the periods presented. To the extent there are differences between these estimates, judgments or assumptions and actual results, our financial statements may be affected. The accounting policies that we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

- Income Taxes and Valuation of Deferred Tax Assets;
- Revenue Recognition;

- Allowance for Doubtful Accounts;
- Goodwill, Other Intangible Assets and Impairment of Long-Lived Assets;
- Purchase Price Allocation; and
- Valuation of Contingent Earnout Consideration.

Senior management has reviewed these critical accounting policies and related disclosures with our Audit Committee. See “Item 8. — Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements” included elsewhere herein, which contains additional information regarding our accounting policies and other disclosures required by GAAP. We have identified the policies listed below as critical to our business operations and the understanding of our results of operations.

Income Taxes and Valuation of Deferred Tax Assets.

In determining our current income tax provision, we assess temporary differences resulting from different treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in our consolidated balance sheets. We evaluate the realizability of our deferred tax assets and assess the need for a valuation allowance on an ongoing basis. In evaluating our deferred tax assets, we consider whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of our deferred tax assets depends upon generating sufficient future taxable income prior to the expiration of the tax attributes. In assessing the need for a valuation allowance, we must project future levels of taxable income. This assessment requires significant judgment. Recovery of the deferred tax assets is dependent on achieving such projections and failure to do so would result in an increase in the valuation allowance in a future period. We have net deferred tax assets that have arisen primarily as a result of timing differences, net operating loss carryforwards and tax credits. Our ability to realize a deferred tax asset is based on our ability to generate sufficient future taxable income. As is our practice, we assess, on a routine periodic basis, the estimated future realizability of the gross carrying value of our net deferred tax assets on a more likely than not basis. Our periodic assessments take into consideration both positive evidence (future profitability projections for example) and negative evidence (historical cumulative loss position for example) as it relates to evaluating the future recoverability of our deferred tax assets.

As of December 31, 2016, the gross carrying value of the Company’s net deferred tax assets was $27.2 million. This amount consisted of approximately $6.4 million in federal NOL carryforwards, $0.4 million in state NOL carryforwards, $1.1 million in available federal credits, $2.8 million in future tax benefits related to share-based compensation expense and $8.3 million in net deferred tax assets related to other temporary differences.

The Company maintained a $8.2 million and $4.5 million valuation allowance against the gross carrying value of its net deferred tax assets as of December 31, 2016 and 2015, respectively.

During the years ended December 31, 2016 and 2015, in connection with our periodic reviews of the estimated future realizability of our net deferred tax attributes, we recorded a non-cash tax charge of $3.7 million and $3.0 million, respectively, in connection with an increase to the previously established valuation allowance recorded against the gross carrying value of our net deferred tax assets.

The Company considers scheduled reversals of deferred tax liabilities, projected future taxable income, ongoing tax planning strategies and other matters, including the period over which our deferred tax assets will be recoverable, in assessing the need for and the amount of the valuation allowance. In the event that actual results differ from these estimates, or we adjust these estimates in the future periods, further adjustments to our valuation allowance may be recorded, which could materially impact our financial position and net (loss) income in the period of the adjustment.

Revenue Recognition.

Our Company recognizes revenue primarily through the provision of consulting services and the resale of third-party, off-the-shelf software and maintenance.

We recognize revenue by providing consulting services under written service contracts with our customers. The service contracts we enter into generally fall into three specific categories: time and materials, fixed-price and retainer. Time and materials-based contracts represented 84.0%, 82.3% and 90.2% of service revenue for the years ended December 31, 2016, 2015 and 2014, respectively. Revenue related to our service offerings is recognized as the services are performed and amounts are earned. When a customer enters into a time and materials, fixed-price or a periodic retainer-based contract, we recognize revenue in accordance with our evaluation of the deliverables in each contract. If the deliverables represent separate units of accounting, we then measure and allocate the consideration from the arrangement to the separate units, based on reliable evidence of fair value for each deliverable.

Revenue under time and materials contracts is recognized as services are rendered and performed at contractually agreed upon rates. Revenue pursuant to fixed-price contracts is recognized under the proportional performance method of accounting. Over the course of a fixed-price contract, we routinely evaluate whether revenue and profitability should be recognized in the current period. We estimate the proportional performance on our fixed-price contracts on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. This method is used because reasonably dependable estimates of costs and revenue earned can be made, based on historical experience and milestones identified in any particular contract. If we do not have a sufficient basis to measure progress toward completion, revenue is recognized upon completion of performance, subject to any warranty provisions or other project management assessments as to the status of work performed.

If our initial estimates of the resources required or the scope of work to be performed on a fixed-price contract are inaccurate, or we do not manage the project properly within the planned time period, a provision for estimated losses on incomplete projects is made. Any known or probable losses on projects are charged to operations in the period in which such losses are determined. A formal project review process takes place quarterly, although projects are evaluated on an ongoing basis. Management reviews the estimated total direct costs on each contract to determine if the estimated amounts are accurate, and estimates are adjusted as needed in the period revised estimates are made. No material losses were recognized on fixed-price contracts during the years ended December 31, 2016, 2015 or 2014.

We also perform services on a periodic retainer basis under infrastructure service contracts, which include monthly hosting and support services. Revenue under periodic retainer-based contracts is recognized ratably over the contract period, as outlined within the respective contract. In the event additional services are required, above the minimum retained or contracted amount, then such services are billed on a time and materials basis.

Typically, the Company provides warranty services on its fixed-price contracts related to providing customers with the ability to have any “design flaws” remedied and/or have our Company “fix” routine defects. The warranty services, as outlined in the respective contracts, are provided for a specific period of time after a project is complete. The Company values the warranty services based upon historical labor hours incurred for similar services at standard billing rates. Revenue related to the warranty provisions within our fixed-price contracts is recognized as the services are performed or the revenue is earned. The warranty period is typically for a 30-60 day period after the project is complete.

We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable and collectability is reasonably assured. We establish billing terms at the time at which the project deliverables and/or milestones are agreed. Our standard payment terms are 30 days from invoice date. Out-of-pocket reimbursable expenses charged to customers are reflected as revenue.

Customer prepayments, even if nonrefundable, are deferred (classified as deferred revenue) and recognized over future periods as services are performed. As of December 31, 2016 and 2015, the Company recorded a deferred liability of approximately $349 thousand and $406 thousand, respectively, which is included in the financial statement caption of “deferred revenue” related to customer prepayments.

Software revenue represents the resale of certain third-party off-the-shelf software and related maintenance and is recorded on a gross basis provided we act as a principal in the transaction, whereby we have credit risk and we set the price to the end user. In the event we do not meet the requirements to be considered a principal in the software sale transaction and act as an agent, software revenue will be recorded on a net basis. Revenue from software resale arrangements represented 8.3%, 9.3% and 7.2% of total revenue for the years ended December 31, 2016, 2015 and 2014, respectively.

The majority of the software sold by the Company is delivered electronically. For software that is delivered electronically, we consider delivery to have occurred when the customer either (a) takes possession of the software via a download (that is, when the customer takes possession of the electronic data on its hardware), or (b) has been provided with access codes that allow the customer to take immediate possession of the software on its hardware pursuant to an agreement or purchase order for the software.

The Company enters into multiple element arrangements which typically include software, post-contract support (or maintenance), and consulting services. Consistent with the software described above, maintenance that is in the form of a pass through transaction is recognized upon delivery of the software, as all related warranty and maintenance is performed by the primary software vendor and not the Company. Maintenance fee revenue for the Company’s software products, which is inconsequential in all years presented, is recognized ratably over the term of the arrangements, which are generally for a one-year period. The Company has established Vendor Specific Objective Evidence (“VSOE”) with respect to the services provided, for which revenue is recognized as the services are performed.

Allowance for Doubtful Accounts.

The Company maintains an allowance for doubtful accounts related to its accounts receivable that have been deemed to have a high risk of collectability. Management reviews its accounts receivable balances on a monthly basis to determine if any receivables are potentially uncollectible. Management further analyzes historical collection trends and changes in its customer payment patterns, customer concentration and credit worthiness when evaluating the adequacy of its allowance for doubtful accounts. The Company includes any accounts receivable balances that are deemed to be potentially uncollectible, along with a general reserve, in its overall allowance for doubtful accounts.

Billed and unbilled receivables that are specifically identified as being at risk are provided for with a charge to revenue or bad debts as appropriate in the period the risk is identified.

Based on the information available, management believes the allowance for doubtful accounts is adequate; however, future write-offs could exceed the recorded allowance.

Goodwill, Other Intangible Assets and Impairment of Long-Lived Assets.

Business acquisitions typically result in goodwill and other intangible assets, and the recorded values of those assets may become impaired in the future. The determination of the value of such intangible assets requires us to make estimates and assumptions that affect our consolidated financial statements. Goodwill has an indefinite useful life and is not amortized but is evaluated for impairment annually, on December 2, or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. We record intangible assets at fair value at the time of acquisition. Our intangible assets consist primarily of non-compete arrangements, customer relationships and trade names and trademarks. We amortize our intangible assets that have finite lives using either the straight-line method or based on estimated future cash flows to approximate the pattern in which the economic benefit of the asset will be utilized.

Goodwill is tested annually for impairment at the reporting unit level utilizing the "fair value" methodology. Factors the Company considers important that could trigger an interim review for impairment include, but are not limited to, the following:

- Significant underperformance relative to historical or projected future operating results;
- Significant changes in the manner of its use of acquired assets or the strategy for its overall business;
- Significant negative industry or economic trends;
- Significant decline in its stock price for a sustained period; and
- Significant decline in market capitalization relative to net book value.

Goodwill is evaluated for impairment using the two-step process. The first step is to compare the fair value of the reporting unit to the carrying amount of the reporting unit (the "First Step"). If the carrying amount exceeds the fair value, a second step must be followed to calculate impairment (the "Second Step"). Otherwise, if the fair value of the reporting unit exceeds the carrying amount, the goodwill is not considered to be impaired as of the measurement date. In its review of the carrying value of the goodwill, the Company determines fair values for the reporting units using the Income Approach, or more specifically the Discounted Cash Flow Method, and the Market Approach, utilizing both the Guideline Company Method and the Comparable Transactions Method. These valuation methods require management to project revenues, operating expenses, working capital investment, capital spending and cash flows for the reporting units over a multiyear period, as well as determine the weighted average cost of capital to be used as a discount rate.

Long-lived assets, specifically our tangible and intangible assets other than goodwill, 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, we compare 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. Any resulting impairment losses recorded by the Company could have an adverse impact on our results of operations by either decreasing net income or increasing net loss.

On December 2, 2016, the Company performed its annual review for impairment. Based upon the valuation approaches described above, the Company determined that the current carrying value of its goodwill had not been impaired. For purposes of its annual impairment test, the Company performed its review based upon three individual reporting units which also constitute our three operating segments. The excess of fair value over carrying value was substantial for all three reporting units.

Goodwill amounted to $30.0 million and $29.9 million as of December 31, 2016 and 2015, respectively. Other net intangible assets amounted to $8.4 million and $12.0 million as of December 31, 2016 and 2015, respectively.

Results of Operations

The following table sets forth, for the periods presented, selected statements of operations data as a percentage of total revenue:

	Year Ended December 31,		
	2016	2015	2014
Revenue:			
Service revenue	86.5%	84.7%	85.5%
Software revenue	8.3%	9.3%	7.2%
Reimbursable expenses	5.2%	6.0%	7.3%
Total revenue	100.0%	100.0%	100.0%
Cost of revenue:			
Project and personnel costs	53.4%	55.1%	52.2%
Software costs	4.9%	5.0%	3.9%
Reimbursable expenses	5.2%	6.0%	7.3%
Total cost of revenue	63.5%	66.1%	63.4%
Gross profit	36.5%	33.9%	36.6%
Operating expenses:			
Selling, general and administrative	29.8%	29.6%	30.2%
Change in fair value of contingent earnout consideration	(0.5)%	-%	-%
Direct acquisition costs	0.3%	1.5%	-%
Consent solicitation expenses	0.1%	0.4%	-%
Lease abandonment charge	-%	-%	0.3%
Fullscope embezzlement loss recovery	-%	(0.2)%	(1.3)%
Depreciation and amortization	3.2%	1.3%	0.8%
Total operating expenses	32.9%	32.6%	30.0%
Operating income	3.6%	1.3%	6.6%
Other expense, net	1.9%	1.8%	0.2%
Income (loss) before taxes	1.7%	(0.5)%	6.4%
Tax provision	3.9%	3.0%	2.8%
Net (loss) income	(2.2)%	(3.5)%	3.6%

Results for the Year Ended December 31, 2016 Compared to Results for the Year Ended December 31, 2015

Total Revenue. Total revenue increased by $9.8 million, or 8.4%, to $126.5 million for the year ended December 31, 2016 from $116.7 million for the year ended December 31, 2015. Service revenue increased by $10.6 million, or 10.8%, to $109.5 million for the year ended December 31, 2016 from $98.8 million for the year ended December 31, 2015.

Service revenue growth during 2016 was driven primarily by the contributions of the entities acquired during 2015 (M2 Dynamics, Zero2Ten and Branchbird Acquisitions). Most significant of these contributions was the full year contribution of M2 Dynamics as compared to the partial month recognized in 2015 after the December 2015 transaction was completed. These acquisitions continued to strengthen our cloud service offerings and expanded our presence in both the EPM and ERP markets. Service revenue during 2016 was affected by channel disruptions associated with a vendor push to the adoption of cloud-based technologies and our customers' decision processes around moving to cloud-based solutions. Further, service revenue was hindered by a curtailment of IT spending by customers across all of our service offerings as well as underperformance within the United Kingdom.

As we experience a transition within our EPM and ERP channels from on-premise to hybrid to cloud-based solutions we may experience a disruption in the timing of our customer purchasing habits. This transition may cause fluctuations in our service and software revenue and related margin contributions in the coming periods. Because of this, we believe that periodic fluctuations in the amount of revenue recognized by the Company may have a material impact upon our gross margins.

The increase in billable consultant utilization was driven by the performance of M2 Dynamics in 2016 combined with our proactive management of billable headcount and was further affected by the release of the temporary delays in project starts noted during the second half of 2015 (resulting in a lower utilization rate in 2015). Project start delays represented instances where signed contracts existed, however the initial project kick-offs were delayed. The effect of the project start delays essentially pushed out the timing of revenue recognition into 2016. Billable consultant utilization was 73.5% during the year ended December 31, 2016 compared to 69.5% during the year ended December 31, 2015. Total billable headcount, excluding contractors, was 359 as of December 31, 2016, compared to 394 as of December 31, 2015. Total billable headcount decreased, despite the acquisition of M2 Dynamics, primarily as a result of our reduced presence in the United Kingdom and our overall strategic headcount management activities.

Annualized service revenue per billable consultant, as adjusted for utilization, was $357 thousand during the year ended December 31, 2016, compared to $359 thousand during the year ended December 31, 2015. Periodic fluctuations in our annualized service revenue per billable consultant metric typically reflect changes in the mix of our service offering revenue generated by our current engagements.

During the year ended December 31, 2016, software revenue totaled $10.5 million, or 8.3% of total revenue, compared to software revenue of $10.9 million, or 9.3% of total revenue, in the year ended December 31, 2015. Our software revenue is primarily related to our resale of Microsoft Dynamics software, cloud-based licenses and maintenance. Software revenue is expected to fluctuate on an annual period-to-period basis dependent upon our customers’ demand for such third-party off-the-shelf software. We anticipate that software revenue will continue to represent a meaningful portion of annual revenues in future years. Because of this, we believe that periodic fluctuations in the amount of software revenue recognized by the Company may have a material impact upon our gross margins.

Generally, we are reimbursed for our out-of-pocket expenses incurred in connection with our customers’ consulting projects. Reimbursable expense revenue decreased to $6.6 million for the year ended December 31, 2016 compared to $7.0 million for the year ended December 31, 2015. The aggregate amount of reimbursable expenses will fluctuate from period-to-period depending on the number of billable consultants as well the location of our customers, the general fluctuation of travel costs, such as airfare, and the number of our projects that require travel.

During 2016, we recorded service revenue from 670 customers, of which 140 were new customers, as compared to recording service revenue from 667 customers in 2015, of which 139 were new customers. Total customers served and new customers added during 2015 and 2016 benefited from the acquisitions of substantially all of the assets of Zero2Ten, Branchbird and M2 Dynamics. Specifically, the higher volume and lower cost revenue model of Zero2Ten was a driving force behind the yearly increase in these metrics.

Cost of Revenue. Cost of revenue primarily consists of project personnel costs principally related to salaries, payroll taxes, employee benefits and travel expenses for personnel dedicated to customer projects. These costs represent the most significant expense we incur in providing our services. In total, cost of revenue increased by $3.2 million, or 4.2%, to $80.3 million in 2016, as compared to $77.1 million in 2015.

The primary drivers of the 2016 increase in total cost of revenue, on an absolute dollar basis, were related to an increase in salary- and fringe-related expenses. The increase was the result of an increased average annual billable headcount. The 2015 year-end billable headcount balance included the 39 billable heads that were part of the late December 2015 M2 Dynamics Acquisition. Billable headcount was reduced in the second half of 2016 primarily related to the closure of an office in the United Kingdom and routine proactive headcount management decisions. The increase in salary-related expense was partially offset by a reduction in reliance on external contractors. The Company had 27 active contractors at December 31, 2016 compared to 48 active contractors at December 31, 2015.

We have in the past (and will continue to do so in the future) utilized contractors as a means to support project delivery needs during periods of growth or for highly specialized skill sets. We continually analyze the skill sets of our workforce and the needs of our current and expected future projects. Staffing decisions, and the reliance on external contractors, are made with the focus of maintaining a flexible workforce while ensuring the ability to properly respond to our customers' needs.

Project and personnel costs represented 53.4% and 55.1% of total revenue during the years ended December 31, 2016 and 2015, respectively. The periodic change, as a percentage of total revenue, was primarily related to the improvement in billable consultant utilization rate and growth in service revenue.

Software costs amounted to $6.2 million during the year ended December 31, 2016 compared to $5.8 million during the year ended December 31, 2015. The increase in the 2016 software costs was primarily driven by the full year impact of the Zero2Ten Acquisition (and its sales of Microsoft Dynamics CRM) combined with the timing of our Dynamics AX software resale arrangements (which we have historically highlighted as being volatile). Software costs are expected to fluctuate depending on our customers' demand for software.

Reimbursable expenses decreased in 2016, to $6.6 million, as compared to $7.0 million in 2015. The aggregate amount of reimbursable expenses will fluctuate from year-to-year depending on the location of our customers, the general fluctuation of travel costs, such as airfare, and the number of our projects that require travel.

Gross Profit. Gross profit in 2016 increased by $6.6 million, or 16.7%, to $46.2 million, as compared to $39.6 million in 2015. Gross profit, as a percentage of total revenue (which we generally refer to as gross margin), increased to 36.5%, as compared to 33.9% in 2015.

The comparative year-over-year increase in total gross margin was primarily attributable to the contributions of the M2 Dynamics and Zero2Ten Acquisitions as well as the increase in billable consultant utilization. The increased billable consultant utilization rate (and corresponding service revenue growth) were partially offset by the increased salary and salary-related expense (driven by the average billable headcount, as noted above).

Service revenue gross margin of 38.3% in the year ended December 31, 2016 increased from service revenue gross margin of 35.0% in 2015. This increase was similarly a factor of the increased billable consultant utilization and corresponding service revenue growth.

We anticipate that software revenue will continue to be a meaningful part of our revenue in future periods. Additionally, our future gross margins may continue to be influenced by the recognition of our software revenue.

Selling, General and Administrative ("SG&A") Expense. SG&A expense in 2016 increased to $37.7 million compared with SG&A expense of $34.6 million in 2015. SG&A expense, as a percentage of total revenue, was 29.8% and 29.6% in 2016 and 2015, respectively.

The increase in SG&A expense during the year ended December 31, 2016 was primarily the result of increased salary and salary-related expenses associated with the full year expenses associated with the Zero2Ten, Branchbird and M2 Dynamics Acquisitions (which closed during 2015).

Direct Acquisition Costs. The Company incurred $430 thousand of direct acquisition costs related to the acquisition of M2 Dynamics in the year ended December 31, 2016. The Company incurred $1.8 million of direct acquisition costs related to the acquisitions of Zero2Ten, Branchbird and M2 Dynamics in the year ended December 31, 2015. During the first quarter of 2015, the Company incurred approximately $613 thousand of direct acquisition costs associated with the March 13, 2015 Zero2Ten Acquisition. During the third quarter of 2015, the Company incurred approximately $340 thousand of direct acquisition costs associated with the August 17, 2015 Branchbird Acquisition. During the fourth quarter of 2015, the Company incurred approximately $801 thousand of direct acquisition costs associated with the December 21, 2015 M2 Dynamics Acquisition. Incurred expenses included investment banking fees, legal fees, accounting and other professional fees directly associated with completion of the acquisitions.

Change in Fair Value of Contingent Earnout Consideration. The Company continually examines actual results in comparison to financial metrics utilized in each of our earnout calculations and assesses the carrying value of the contingent earnout consideration. During the year ended December 31, 2016, the Company recorded changes in fair value of the estimated earnout consideration to be achieved (as a result of delays in the timing of forecasted revenue) which resulted in the reversal of $725 thousand. During the three-month period ended June 30, 2016, the Company recorded a reversal of $798 thousand related to the Branchbird contingent earnout as well as a reversal of $130 thousand related to the Zero2Ten contingent earnout. During the three-month period ended December 31, 2016, the Company similarly recorded reversals of $238 thousand and $221 thousand related to Zero2Ten and Branchbird, respectively, and recorded an increase of $662 thousand related to M2 Dynamics. No such adjustments were recorded during the year ended December 31, 2015.

Consent Solicitation Expense. During the year ended December 31, 2016, we incurred $187 thousand of legal and advisory expenses in connection with defense against consent solicitations. During the year ended December 31, 2015, we incurred $495 thousand of legal and advisory expenses in connection with defense against a consent solicitation.

Fullscope Embezzlement Loss Recovery. During the second quarter of 2014, the Company reached an agreement with the former Fullscope stockholders settling the Company's outstanding escrow claims associated with the Fullscope acquisition (the "Settlement Agreement"). Approximately $1.5 million of the settlement proceeds were recorded as a "loss recovery" gain and are included, as a reduction in operating expenses, within the Fullscope embezzlement costs (loss recovery) on our condensed consolidated statement of comprehensive income (loss) during the quarter ended June 30, 2014. During the quarter ended June 30, 2015, the remaining escrow balance was released and the Company simultaneously concluded that a reserve was no longer necessary and therefore reversed $250 thousand that had been previously reserved for potential sales and use tax penalties and interest from subsequent state inquiry or audit.

Depreciation and Amortization Expense. Depreciation and amortization expense increased by $2.5 million, or 165.0%, to $4.0 million in 2016, as compared to $1.5 million in 2015. Amortization expense increased to $3.4 million in 2016, as compared to $899 thousand in 2015. The increase in amortization expense during 2016 was the result of amortization expense associated with the intangible assets identified in connection with the Zero2Ten, Branchbird and M2 Dynamics Acquisitions. The Company recognizes amortization expense over the periods in which it expects to realize the economic benefit.

Operating Income. The Company's 2016 operating income increased by $3.0 million, to $4.5 million, compared to $1.5 million in 2015. The 2016 increase in operating income was primarily attributable to the increase in total revenue (driven by the contribution of the Zero2Ten and M2 Dynamics Acquisitions), and was partially offset by the increase in salary and salary-related expenses (which are primarily the result of the Zero2Ten, Branchbird and M2 Dynamics Acquisitions). The improvement in operating income during the year ended December 31, 2016 was further benefited by the direct acquisition costs recognized in 2015.

Other Expense, Net. Other expense, net totaled $2.3 million during 2016 compared to $2.0 million in 2015. Other expense, net, primarily represents accretion of the contingent earnout obligations related to the Zero2Ten, Branchird and M2 Dynamics Acquisitions. To a lesser extent, other expense, net, also includes the net impact of foreign currency exchange (gains)/losses recognized by the Company.

Income Tax Provision. We recorded income tax provisions of $5.0 million and $3.5 million during the years ended December 31, 2016 and 2015, respectively. Our 2016 and 2015 periodic income tax provision amounts were derived based upon federal and state income taxes (at statutory rates), foreign income taxes, changes in deferred tax assets and liabilities (and their related valuation allowance), uncertain tax positions and interest and penalties.

The Company's effective income tax rates were 229.1% and 664.6% for the years ended December 31, 2016 and 2015, respectively. Our 2016 effective income tax rate includes non-cash charges associated with a $3.7 million increase to the valuation allowance applied against the carrying value of our deferred tax attributes. Our 2015 effective income tax rate includes non-cash charges associated with the impairment of a certain state net operating loss carryforward and a $3.0 million increase to the valuation allowance applied against the carrying value of our deferred tax attributes.

We have net deferred tax assets that have arisen primarily as a result of timing differences, net operating loss carryforwards and tax credits. Our ability to realize a deferred tax asset is based on our ability to generate sufficient future taxable income. As is our practice, we assess, on a routine periodic basis, the estimated future realizability of the gross carrying value of our net deferred tax assets on a more likely than not basis. Our periodic assessments take into consideration both positive evidence (future profitability projections for example) and negative evidence (historical cumulative loss position for example) as it relates to evaluating the future recoverability of our deferred tax assets.

During the fourth quarter of 2016, in connection with our periodic review of the carrying value of our net deferred tax assets, we recorded a non-cash charge of $3.7 million in connection with an increase to the previously established valuation allowance recorded against the gross carrying value of our net deferred tax assets. Subsequent to this adjustment, the recorded valuation allowance against the total gross carrying value of our net deferred tax assets totaled $8.2 million.

The Company considers scheduled reversals of deferred tax liabilities, projected future taxable income, ongoing tax planning strategies and other matters, including the period over which our deferred tax assets will be recoverable, in assessing the need for and the amount of the valuation allowance. In the event that actual results differ from these estimates, or we adjust these estimates in the future periods, further adjustments to our valuation allowance may be recorded, which could materially impact our financial position and net income (loss) in the period of the adjustment.

Net Loss. Net loss in 2016 totaled $(2.8) million as compared to net loss of $(4.1) million in 2015. The net loss in both periods presented was driven by the increases to the valuation allowance associated with the deferred tax assets. The decrease in net loss during the year ended December 31, 2016 was primarily related to the contributions of the 2015 acquisitions as well as the absence of the direct acquisition related costs which were recognized in the year ended December 31, 2015.

Operating Segments. Total revenue within our EPM operating segment increased $10.8 million, or 20.0%, to $64.7 million in the year ended December 31, 2016 compared to $53.9 million in the year ended December 31, 2015. The increase in EPM total revenue was driven by the contributions of the M2 Dynamics Acquisition as well as the Branchbird Acquisition. Total revenue within our ERP operating segment decreased by $(1.5) million, or (3.2)%, to $45.7 million in the year ended December 31, 2016 compared to $47.2 million in the year ended December 31, 2015. The decrease in ERP revenue was driven by the channel disruption which occurred as our customers evaluated cloud based solutions. Total revenue within our Classic Consulting segment increased $0.5 million, or 3.3%, to $16.1 million in the year ended December 31, 2016 compared to $15.6 million in the year ended December 31, 2015.

Operating income within our EPM operating segment increased $1.6 million, or 22.2%, to $8.8 million in the year ended December 31, 2016 compared to $7.2 million in the year ended December 31, 2015. The increase in operating income was driven by the increase in total revenue (which was driven by the M2 Dynamics Acquisition and Branchbird Acquisition). Operating income within our ERP operating segment decreased by $0.6 million, or 11.8%, to $4.3 million in the year ended December 31, 2016 compared to $4.9 million in the year ended December 31, 2015. The decrease in operating income was driven by the decreased total revenue (which was primarily the result of the channel disruption noted above). Operating income within our Classic Consulting operating segment increased by $0.9 million, or 76.5%, to $2.0 million in the year ended December 31, 2016 compared to $1.1 million in the year ended December 31, 2015. The increase in operating income was driven by the improvement in billable consultant utilization.

Results for the Year Ended December 31, 2015 Compared to Results for the Year Ended December 31, 2014

Total Revenue. Total revenue increased by $3.7 million, or 3.3%, to $116.7 million for the year ended December 31, 2015 from $113.0 million for the year ended December 31, 2014. Service revenue increased by $2.2 million, or 2.3%, to $98.8 million for the year ended December 31, 2015 from $96.6 million for the year ended December 31, 2014.

Service revenue growth during the year ended December 31, 2015 was driven by the strategic acquisitions the Company completed during the year. The acquisition of Zero2Ten aided our Microsoft Dynamics offering and capitalized on the movement to the cloud, while our Branchbird and M2 Dynamics Acquisitions continued our investment in growth within the Oracle product offering. The timing of the M2 Dynamics Acquisition, which closed on December 21, 2015, significantly limited the revenue we recognized attributable to this acquisition.

The decline in billable consultant utilization was driven by temporary delays in project starts. Project start delays represent instances where signed contracts exist, however the initial project kick-off has been delayed. These delays were experienced predominantly within our EPM/BI service offerings. The effect of the project start delays essentially pushed out the timing of revenue recognition into 2016. Billable consultant utilization was 69.5% during the year ended December 31, 2015 compared to 76.7% during the year ended December 31, 2014. Billable headcount increased during 2015 as a direct result of our acquisitions (while our core billable consultant base remained constant). The M2 Dynamics Acquisition, which closed on December 21, 2015, included 39 billable consultants. Total billable headcount, excluding contractors, increased by 70, to 394 as of December 31, 2015, compared to 324 as of December 31, 2014.

Despite the project start delays noted during 2015, the Company experienced strong sales activity and increased pipeline across all entities of the organization.

Annualized service revenue per billable consultant, as adjusted for utilization, was consistent at $359 thousand during each of the years ended December 31, 2015 and 2014. Periodic fluctuations in our annualized service revenue per billable consultant metric typically reflect changes in the mix of our service offering revenue generated by our current engagements.

Total revenue in 2015 increased through the combination of our service revenue and software revenue growth. While our software revenue is volatile and subject to the timing of customer purchasing cycles, the increase in 2015 software revenue was largely attributable to the Microsoft Dynamics CRM cloud related revenue contributed by the strong performance of Zero2Ten after the acquisition date in March of 2015.

During the year ended December 31, 2015, software revenue totaled $10.9 million, or 9.3% of total revenue, compared to software revenue of $8.1 million, or 7.2% of total revenue, in the year ended December 31, 2014. Our software revenue was primarily related to our resale of Microsoft Dynamics software, cloud-based licenses and maintenance. Software revenue fluctuates on an annual period-to-period basis dependent upon our customers' demand for such third-party off-the-shelf software.

Generally, we are reimbursed for our out-of-pocket expenses incurred in connection with our customers' consulting projects. Reimbursable expense revenue decreased to $7.0 million for the year ended December 31, 2015 compared to $8.3 million for the year ended December 31, 2014. The aggregate amount of reimbursable expenses fluctuates from period-to-period depending on the number of billable consultants as well the location of our customers, the general fluctuation of travel costs, such as airfare, and the number of our projects that require travel.

During 2015, we recorded service revenue from 667 customers, of which 139 were new customers, as compared to recording service revenue from 403 customers in 2014, of which 83 were new customers. Total customers served and new customers added during 2015 benefited from the acquisitions of substantially all of the assets of Zero2Ten, Branchbird and M2 Dynamics. Specifically, the higher volume and lower cost revenue model of Zero2Ten was a driving force behind the yearly increase in these metrics.

Cost of Revenue. Cost of revenue primarily consists of project personnel costs principally related to salaries, payroll taxes, employee benefits and travel expenses for personnel dedicated to customer projects. These costs represent the most significant expense we incur in providing our services. In total, cost of revenue increased by $5.5 million, or 7.7%, to $77.1 million in 2015, as compared to $71.6 million in 2014.

The primary drivers of the 2015 increase in total cost of revenue, on an absolute dollar basis, were related to an increase in salary- and fringe-related expenses (primarily associated with the increase in billable consultant headcount attributable to the acquisitions), an increase in software expense (in line with the software revenue growth noted above), and an increase in contractor expense (as the number of contractors utilized increased by 14 compared to the year ended December 31, 2014). The Company had 48 active contractors at December 31, 2015 compared to 34 active contractors at December 31, 2014. These increases were partially offset by a reduction in billable consultant bonuses (driven by the decreased utilization rate) and a decrease in reimbursable expenses (a function of the timing and location of our customer mix).

During 2015, the Company increased billable consultant headcount as a result of its acquisitions (while the core billable consultant base remained constant). There remain scenarios under which it is more advantageous to leverage third-party contractors. We have in the past (and will continue to do so in the future) utilized contractors as a means to support project delivery needs during periods of growth or for highly specialized skill sets. The Company has made the decision to utilize external contractors in the short term (sacrificing some margin) to maintain a flexible workforce and more easily respond to customer demand without being required to carry the additional burden of full-time employee salary-related costs.

Project and personnel costs represented 55.1% and 52.2% of total revenue during the years ended December 31, 2015 and 2014, respectively. The periodic change, as a percentage of total revenue, was primarily related to the increase in comparative compensation-related expenses (salaries and fringe-related expenses) associated with the growth in the billable consultant base. The increase in salary and fringe expense was partially offset by the decrease in billable consultant bonus based on service revenue performance.

Software costs amounted to $5.8 million during the year ended December 31, 2015 compared to $4.4 million during the year ended December 31, 2014. The increase in the 2015 software costs was primarily driven by the sale of Microsoft Dynamics CRM (via the performance of the Zero2Ten business) combined with the timing of our Dynamics AX software resale arrangements (which we have historically highlighted as being volatile). Software costs fluctuate depending on our customers' demand for software.

Reimbursable expenses decreased in 2015, to $7.0 million, as compared to $8.3 million in 2014. The aggregate amount of reimbursable expenses fluctuate from year-to-year depending on the location of our customers, the general fluctuation of travel costs, such as airfare, and the number of our projects that require travel.

Gross Profit. Gross profit in 2015 decreased by $(1.8) million, or (4.3)%, to $39.6 million, as compared to $41.4 million in 2014. Gross profit, as a percentage of total revenue (which we generally refer to as gross margin), decreased to 33.9%, as compared to 36.6% in 2014.

The comparative year-over-year decrease in total gross margin was primarily attributable to the decrease in billable consultant utilization. The combination of increased salary and salary-related expense (driven by the acquisitions) combined with the decreased billable consultant utilization (driven by the project start delays in 2015) negatively impacted gross margin, despite the growth in total revenue.

Service revenue gross margin of 35.0% in the year ended December 31, 2015 decreased from service revenue gross margin of 39.0% in 2014. This decrease resulted in part from the decreased billable consultant utilization.

Selling, General and Administrative ("SG&A") Expense. SG&A expense in 2015 increased to $34.6 million compared with SG&A expense of $34.1 million in 2014. SG&A expense, as a percentage of total revenue, was 29.6% and 30.2% in 2015 and 2014, respectively.

The increase in SG&A expense during the year ended December 31, 2015 was primarily the result of increased salary and salary-related expenses associated with the Zero2Ten, Branchbird and M2 Dynamics Acquisitions closed during 2015.

Direct Acquisition Costs. The Company incurred $1.8 million of direct acquisition costs related to the acquisitions of Zero2Ten, Branchbird and M2 Dynamics in the year ended December 31, 2015. During the first quarter of 2015, the Company incurred approximately $613 thousand of direct acquisition costs associated with the March 13, 2015 Zero2Ten Acquisition. During the third quarter of 2015, the Company incurred approximately $340 thousand of direct acquisition costs associated with the August 17, 2015 Branchbird Acquisition. During the fourth quarter of 2015, the Company incurred approximately $801 thousand of direct acquisition costs associated with the December 21, 2015 M2 Dynamics Acquisition. Incurred expenses included investment banking fees, legal fees, accounting and other professional fees directly associated with completion of the acquisitions.

Consent Solicitation Expense. During the fourth quarter 2015, we incurred $495 thousand of legal and advisory expenses in connection with its defense against a consent solicitation. No such expenses were incurred in the year ended December 31, 2014.

Lease Abandonment Charge. During the second quarter of 2014, in connection with the quarterly assessment of our lease abandonment charge assumptions (associated with the 2011 abandonment of certain excess corporate facilities), the Company determined that an elimination of the estimated sub-lease income was warranted and, as a result, the Company recorded a non-cash operating expense of $400 thousand.

Fullscope Embezzlement Loss Recovery. During the second quarter of 2014, the Company reached an agreement with the former Fullscope stockholders settling the Company's outstanding escrow claims associated with the Fullscope Acquisition. Approximately $1.5 million of the settlement proceeds were recorded as a "loss recovery" gain and are included, as a reduction in operating expenses, within the Fullscope embezzlement costs (loss recovery) on our condensed consolidated statement of comprehensive income (loss) during the quarter ended June 30, 2014. During the quarter ended June 30, 2015, the remaining escrow balance was released and the Company simultaneously concluded that a reserve was no longer necessary and therefore reversed $250 thousand that had been previously reserved for potential sales and use tax penalties and interest from subsequent state inquiry or audit.

Depreciation and Amortization Expense . Depreciation and amortization expense increased by $589 thousand, or 63.5%, to $1.5 million, as compared to $928 thousand in 2014. Amortization expense increased to $899 thousand in 2015, as compared to $302 thousand in 2014. The increase in amortization expense during 2015 was the result of amortization expense associated with the intangible assets identified in connection with the Zero2Ten, Branchbird and M2 Dynamics Acquisitions. The Company recognizes amortization expense over the periods in which it expects to realize the economic benefit.

Operating Income. The Company's 2015 operating income decreased by $(5.9) million, to $1.5 million, compared to $7.4 million in 2014. The 2015 decrease in operating income was primarily attributable to the decline in billable consultant utilization (due to the project start delays in 2015), the direct acquisition costs associated with the Zero2Ten, Branchbird and M2 Dynamics Acquisitions, legal and advisory fees associated with the consent solicitation contest and the impact of the prior-year recovery of $1.5 million in previously recorded Fullscope embezzlement-related expenses.

Other Expense, Net . Other expense, net totaled $2.0 million during 2015 compared to $181 thousand in 2014. The expenses in 2015 primarily represent accretion of the contingent earnout obligations related to the Zero2Ten, Branchird and M2 Dynamics Acquisitions. The 2015 amount also includes the net impact of foreign currency exchange (gains)/losses recognized by the Company. The expenses in 2014 represent the net amount of the foreign currency exchange (gains)/losses recognized by the Company.

Income Tax Provision (Benefit) . We recorded income tax provisions of $3.5 million and $3.2 million during the years ended December 31, 2015 and 2014, respectively. Our 2015 and 2014 periodic income tax provision amounts were derived based upon federal and state income taxes (at statutory rates), foreign income taxes, changes in deferred tax assets and liabilities (and their related valuation allowance), uncertain tax positions and interest and penalties.

The Company's effective income tax rates were 664.6% and 43.9% for the years ended December 31, 2015 and 2014, respectively. Our 2015 effective income tax rate includes non-cash charges associated with the impairment of a certain state net operating loss carryforward and a $3.0 million increase to the valuation allowance applied against the carrying value of our deferred tax attributes. Our 2014 effective income tax rate includes a reduction of income tax expense associated with the reversal of uncertain tax positions (and related interest and penalties) and an increase in deferred tax expense associated with the revaluation of the carrying value of our deferred tax attributes in connection with a realignment of our tax structure.

We have net deferred tax assets that have arisen primarily as a result of timing differences, net operating loss carryforwards and tax credits. Our ability to realize a deferred tax asset is based on our ability to generate sufficient future taxable income. As is our practice, we assess, on a routine periodic basis, the estimated future realizability of the gross carrying value of our net deferred tax assets on a more likely than not basis. Our periodic assessments take into consideration both positive evidence (future profitability projections for example) and negative evidence (historical cumulative loss position for example) as it relates to evaluating the future recoverability of our deferred tax assets.

During the fourth quarter of 2015, in connection with our periodic review of the carrying value of our net deferred tax assets, we recorded a non-cash charge of $3.0 million in connection with an increase to the previously established valuation allowance recorded against the gross carrying value of our net deferred tax assets. Subsequent to this adjustment, the recorded valuation allowance against the total gross carrying value of our net deferred tax assets totaled $4.5 million.

Net (Loss) Income. Net loss in 2015 totaled $(4.1) million as compared to net income of $4.1 million in 2014. The change in net income during the comparative fiscal periods was primarily related to the $3.6 million in non-cash charges associated with the Company's deferred tax assets and associated valuation allowance, the decline in billable consultant utilization (do to the project start delays in 2015), the direct acquisition costs associated with the acquisitions we completed during 2015, legal and advisory fees associated with the consent solicitation contest and the absence of the prior year recovery of $1.5 million in previously recorded Fullscope embezzlement-related expenses.

Operating Segments. Total revenue within our EPM operating segment decreased $(3.6) million, or (6.3)%, to $53.9 million in the year ended December 31, 2015 compared to $57.5 million in the year ended December 31, 2014. The decrease in EPM total revenue was driven by the project start delays experienced in the second half of the year ended December 31, 2015. Total revenue within our ERP operating segment increased by $5.3 million, or 12.6%, to $47.2 million in the year ended December 31, 2015 compared to $41.9 million in the year ended December 31, 2014. The increase in ERP revenue was driven by Zero2Ten Acquisition, which was completed in the first quarter of 2015. Total revenue within our Classic Consulting segment increased $2.0 million, or 15.0%, to $15.6 million in the year ended December 31, 2015 compared to $13.6 million in the year ended December 31, 2014.

Operating income within our EPM operating segment decreased $(3.4) million, or (32.2)%, to $7.2 million in the year ended December 31, 2015 compared to $10.6 million in the year ended December 31, 2014. The decrease in operating income was driven by the reduced total revenue due to project start delays (as noted above). Operating income within our ERP operating segment decreased by $(1.6) million, or (24.5)%, to $4.9 million in the year ended December 31, 2015 compared to $6.4 million in the year ended December 31, 2014. The decrease in operating income was driven by the 2014 recovery of $1.5 million of previously expensed embezzlement related costs. Operating income within our Classic Consulting operating segment increased by $0.5 million, or 82.2%, to $1.1 million in the year ended December 31, 2015 compared to $0.6 million in the year ended December 31, 2015. The increase in operating income was driven by the increased total revenue noted above.

Liquidity and Capital Resources

The following table summarizes our cash flow activities for the periods indicated:

	Year Ended December 31		
	2016	2015	2014
		(In Thousands)	
Cash flows provided by (used in):			
Operating activities	$6,714	$ 3,261	$5,768
Investing activities	(470)	(24,467)	(260)
Financing activities	1,470	6,451	976
Effects of exchange rates	(2)	(32)	(37)
Total cash provided by (used in):	$7,712	$(14,787)	$6,447

As of December 31, 2016, we had cash and cash equivalents of $19.7 million, a $7.7 million increase from the December 31, 2015 balance of $12.0 million. The primary drivers of the increase in cash during 2016 were the collection of accounts receivable. Significant cash payments included the first earnout payment related to Zero2Ten, our annual insurance policy renewals and the bonus and commission payments related to the Company's 2015 performance-based incentive programs. There was no change in the outstanding principal balance of our line of credit during 2016 (the outstanding balance remains at $5.0 million). Additionally, the earnout agreements entered into in connection with the acquisitions of Zero2Ten, Branchbird and M2 Dynamics may require significant cash payments upon the completion of the earnout periods during 2017.

Working capital, which is defined as current assets less current liabilities, increased $7.7 million, to $22.5 million, as of December 31, 2016, as compared to $14.9 million as of December 31, 2015.

Historically, we have used our operating cash flows, available cash and periodic sales of our common stock to finance ongoing operations and business combinations. We believe that our cash and cash equivalents will be sufficient to finance our working capital needs for at least the next twelve months. We periodically reassess the adequacy of our liquidity position, taking into consideration current and anticipated operating cash flow, anticipated capital expenditures, and possible business combinations. The pace at which we will either generate or consume cash will be dependent upon future operations and the level of demand for our services on an ongoing basis. See “Item 1. — Business, Potential Future Strategies, Transactions and Changes.”

Cash flow from operating activities is driven by collections of fees for our consulting services and reselling of software products. Cash used in operations predominantly relates to employee compensation, payments to third-party software providers, rent expense and professional fees.

Accrued payroll and related liabilities fluctuate from period to period based on the timing of our normal payroll cycle and the timing of variable compensation payments. Annual components of our variable compensation plans are paid in the first quarter of the following year, causing fluctuations in cash flow from quarter to quarter.

Accounts payable and accrued expenses are most significantly affected by the timing of payments required to be made to third-party software providers in connection with the resale of software products to our customers. While a significant portion of our software sales have historically occurred at the end of the second quarter, the Zero2Ten Acquisition is expected to minimize the fluctuations between quarters. Zero2Ten focuses on smaller dollar, higher volume, Dynamics CRM deals, which we do not expect to be influenced by the similar seasonality experience within the Dynamics AX product offering.

Net cash provided by operating activities was $6.7 million in 2016, as compared to net cash provided by operating activities of $3.3 million in 2015 and net cash provided by operating activities of $5.8 million in 2014. The primary components of operating cash flows during 2016 were associated with the contribution of total revenue growth combined with the impact of non-cash charges of $11.3 million (primarily the change in deferred tax assets, depreciation and amortization, accretion of contingent earnout, and amortization of stock-based compensation). The primary components of operating cash flows during 2015 were associated with the contribution of total revenue growth combined with the impact of non-cash charges of $7.9 million (primarily reversal of deferred tax assets, accretion of contingent earnout, depreciation and amortization and amortization of stock-based compensation). The primary components of operating cash flows during 2014 were associated with improved operating performance and receipt of the $1.9 million settlement of the Fullscope acquisition-related escrow, partially offset by the payment of bonus and commissions under our performance-based bonus programs. Additionally, cash flow from operations was influenced by non-cash charges of $5.3 million (primarily changes in deferred income taxes, depreciation, amortization, stock-based compensation expense and changes in lease abandonment assumptions).

For the year ended December 31, 2016, net cash used in investing activities was $(470) thousand compared to net cash used in investing activities of $(24.5) million in 2015 and $(260) thousand in 2014. Cash used in investing activities in the year ended December 31, 2016 consisted of purchases of property and equipment as well as the M2 Dynamics Acquisition. Cash used in investing activities in the year ended December 31, 2015 consisted of the Zero2Ten Acquisition, the Branchbird Acquisition and the M2 Dynamics Acquisition and, to a lesser extent, the purchases of property and equipment. The 2014 uses of cash were driven by the purchase of property and equipment.

All capital expenditures are discretionary as the Company currently has no long-term commitments for capital expenditures.

Net cash provided by financing activities was $1.5 million in 2016, $6.5 million in 2015 and $976 thousand in 2014. Net cash provided by financing activities in 2016 was driven by the proceeds received in connection with proceeds from employee stock plans and stock option exercise, partially offset by the payment of contingent earnout consideration related to the Zero2Ten Acquisition. The 2015 activity was driven by the drawdown of funds on the existing credit agreement of $5.0 million. The 2014 activities were driven by the repurchase of common stock in the amount of $(967), returning excess cash balances that were not being invested in organic operations or strategic acquisitions to stockholders, and offset by proceeds received from our employees related to our Employee Stock Purchase Plan and the exercise of employee stock options.

As a result of the above, our combined cash, cash equivalents, and marketable securities increased (decreased) by $7.7 million, $(14.8) million, and $6.4 million in 2016, 2015, and 2014, respectively. The aggregate of our cash, cash equivalents and marketable securities was $19.7 million, $12.0 million, and $26.8 million as of December 31, 2016, 2015, and 2014, respectively.

In September 2013, the Company entered into a secured revolving credit facility (the "Credit Facility"). The Credit Facility was modified through an amendment in December 2015, which increased the borrowing base to $15 million (from the previous $10 million) with an additional accordion feature that allows the Company to request an additional $5.0 million as needed, extending the total credit facility borrowing capacity to $20 million over its three-year term. The Credit Facility is secured by substantially all assets of the Company and its domestic subsidiaries, and is subject to normal covenants. Under the terms of the Credit Facility, any advances will accrue interest at a variable per annum rate of interest equal to the LIBOR Rate plus 1.5%. Interest is due and payable, in arrears, on a monthly basis. The Company will be obligated to pay an annual commitment fee of 0.15% on the daily undrawn balance of the facility. Any amounts outstanding under the Credit Facility will be due on December 21, 2018. The Company has drawn down $5.0 million of this balance as of December 31, 2016.

Off Balance Sheet Arrangements, Contractual Obligations and Contingent Liabilities and Commitments

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

We lease office space under noncancellable operating lease arrangements through 2020. Lease payments were approximately $1.8 million, $2.1 million and $1.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Annual future minimum payments required under operating leases that have an initial or remaining noncancellable lease term in excess of one year and existing purchase obligations are as follows:

	Payments Due By Period				
Contractual Obligations	Total	Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
			(In thousands)		
Contingent earnout agreements	$ 8,089	$8,089	$ -	$ -	$ -
Line of credit	$ 5,000	$ -	$5,000	$ -	$ -
Operating leases	$ 1,620	$ 835	$ 785	$ -	$ -
Total	$14,709	$8,924	$5,785	$ -	$ -

Recently Issued Accounting Pronouncements

Refer to "Item 8. — Financial Statements and Supplementary Data — Notes to Consolidated Financial Statements — Note 2 — Summary of Significant Accounting Policies" included elsewhere herein for a discussion of recent accounting changes.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary financial instruments include investments in money market funds that are sensitive to market risks and interest rates. The investment portfolio is used to preserve our capital until it is required to fund operations, strategic acquisitions or distributions to stockholders. None of our market-risk sensitive instruments is held for trading purposes. We did not purchase derivative financial instruments in 2016 or 2015. Should interest rates on the Company’s investments fluctuate by 10% the impact would not be material to the Company’s financial condition, results of operations or cash flows.

For the last three years, the impact of inflation and changing prices has not been material on revenues or income from continuing operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

(a) Consolidated Financial Statements:

The following consolidated financial statements are included in this Form 10-K:

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Edgewater Technology, Inc.
Wakefield, Massachusetts

We have audited the accompanying consolidated balance sheets of Edgewater Technology, Inc. (the “Company”) as of December 31, 2016 and 2015 and the related consolidated statements of comprehensive (loss) income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Edgewater Technology, Inc. at December 31, 2016 and 2015, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Edgewater Technology Inc.’s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 15, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Boston, Massachusetts
March 15, 2017

Report of Independent Registered Public Accounting Firm

Board of Directors and Stockholders
Edgewater Technology, Inc.
Wakefield, Massachusetts

We have audited Edgewater Technology, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Edgewater Technology, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Controls and Procedures. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Edgewater Technology, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Edgewater Technology, Inc. as of December 31, 2016 and 2015, and the related consolidated statements of comprehensive (loss) income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 and our report dated March 15, 2017 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Boston, Massachusetts
March 15, 2017

Table of Contents

EDGEWATER TECHNOLOGY, INC.
Consolidated Balance Sheets
(In Thousands, Except Per Share Data)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 19,693	$ 11,981
Accounts receivable, net of allowance of $150	25,661	27,753
Prepaid expenses and other current assets	1,208	704
Total current assets	46,562	40,438
Property and equipment, net	623	824
Intangible assets, net	8,378	11,990
Goodwill	29,983	29,910
Deferred tax assets, net	19,031	24,032
Other assets	228	230
Total assets	$ 104,805	$ 107,424
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 634	$ 586
Accrued liabilities	13,497	15,486
Short-term portion of contingent earnout consideration	8,089	7,072
Deferred revenue	1,811	2,428
Total current liabilities	24,031	25,572
Revolving credit facility	5,000	5,000
Long-term portion of contingent earnout consideration	-	3,468
Total liabilities	29,031	34,040
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 2,000 shares authorized, no shares issued or outstanding	-	-
Common stock, $0.01 par value; 48,000 shares authorized, 29,736 shares issued and 12,878 and 11,862 shares outstanding as of December 31, 2016 and 2015, respectively	297	297
Paid-in capital	207,445	210,324
Treasury stock, at cost, 16,858 and 17,874 shares at December 31, 2016 and 2015, respectively	(108,335)	(116,464)
Accumulated other comprehensive loss	(580)	(554)
Accumulated deficit	(23,053)	(20,219)
Total stockholders' equity	75,774	73,384
Total liabilities and stockholders' equity	$ 104,805	$ 107,424

See notes to consolidated financial statements.

EDGEWATER TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME
(In Thousands, Except Per Share Data)

	Year Ended December 31,		
	2016	2015	2014
Revenue:			
Service revenue	$109,459	$ 98,827	$ 96,604
Software revenue	10,476	10,859	8,118
Reimbursable expenses	6,587	7,018	8,267
Total revenue	126,522	116,704	112,989
Cost of revenue:			
Project and personnel costs	67,580	64,258	58,912
Software costs	6,173	5,838	4,444
Reimbursable expenses	6,587	7,018	8,267
Total cost of revenue	80,340	77,114	71,623
Gross profit	46,182	39,590	41,366
Operating expenses:			
Selling, general and administrative	37,747	34,592	34,145
Change in fair value of contingent earnout consideration	(725)	-	-
Direct acquisition costs	430	1,754	-
Consent solicitation expenses	187	495	-
Lease abandonment charge	-	-	400
Fullscope embezzlement loss recovery	-	(250)	(1,529)
Depreciation and amortization	4,020	1,517	928
Total operating expenses	41,659	38,108	33,944
Operating income	4,523	1,482	7,422
Other expense, net	2,327	2,013	181
Income (loss) before income taxes	2,196	(531)	7,241
Tax provision	5,030	3,529	3,177
Net (loss) income	$ (2,834)	$ (4,060)	$ 4,064
Comprehensive (loss) income:			
Currency translation adjustment	(26)	(334)	(66)
Total comprehensive (loss) income	$ (2,860)	$ (4,394)	$ 3,998
Income (loss) per share:			
Basic net (loss) income per share of common stock	$ (0.23)	$ (0.35)	$ 0.37
Diluted net (loss) income per share of common stock	$ (0.23)	$ (0.35)	$ 0.31
Shares used in computing basic net (loss) income per share of common stock	12,150	11,505	11,131
Shares used in computing diluted net (loss) income per share of common stock	12,150	11,505	13,090

See notes to consolidated financial statements.

EDGEWATER TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In Thousands)

	Common Stock		Paid-in	Treasury Stock		Accumulated Other Comprehensive	Retained	Total Stockholders'
	Shares	Amount	Capital	Shares	Amount	Loss	(Deficit)	Equity
BALANCE, January 1, 2014	29,736	$ 297	$211,852	(18,687)	$(123,186)	$ (154)	$(20,223)	$ 68,586
Issuance of common stock related to employee stock plans	-	-	(2,375)	534	4,275	-	-	1,900
Repurchases of common stock	-	-	-	(143)	(967)	-	-	(967)
Share-based compensation expense	-	-	1,512	-	-	-	-	1,512
Currency translation adjustment	-	-	-	-	-	(66)	-	(66)
Net income	-	-	-	-	-	-	4,064	4,064
BALANCE, December 31, 2014	29,736	297	210,989	(18,296)	(119,878)	(220)	(16,159)	75,029
Issuance of common stock related to employee stock plans	-	-	(2,258)	468	3,746	-	-	1,488
Repurchases of common stock	-	-	-	(46)	(332)	-	-	(332)
Share-based compensation expense	-	-	1,593	-	-	-	-	1,593
Currency translation adjustment	-	-	-	-	-	(334)	-	(334)
Net loss							(4,060)	(4,060)
BALANCE, December 31, 2015	29,736	297	210,324	(17,874)	(116,464)	(554)	(20,219)	73,384
Issuance of common stock related to employee stock plans	-	-	(4,165)	1,016	8,129	-	-	3,964
Share-based compensation expense	-	-	1,286	-	-	-	-	1,286
Currency translation adjustment	-	-	-	-	-	(26)	-	(26)
Net loss							(2,834)	(2,834)
BALANCE, December 31, 2016	29,736	$ 297	$207,445	(16,858)	$(108,335)	$ (580)	$(23,053)	$ 75,774

See notes to consolidated financial statements.

EDGEWATER TECHNOLOGY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Year Ended December 31, 2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (2,834)	$ (4,060)	$ 4,064
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	4,202	1,708	1,142
Provision for doubtful accounts	104	67	-
Deferred income taxes	5,001	3,137	3,102
Share-based compensation	1,286	1,593	1,512
Excess tax benefits from stock options	(732)	(295)	(43)
Lease abandonment	-	-	(400)
(Gain) loss on disposal of fixed assets	(13)	(10)	-
Accretion of contingent earnout consideration	2,182	1,710	-
Change in fair value of contingent earnout consideration	(725)	-	-
Changes in operating accounts, net of acquisitions:			
Accounts receivable	1,960	1,548	(4,839)
Prepaid expenses and other current assets	(504)	(286)	(119)
Other assets	3	(8)	44
Accounts payable	48	100	(364)
Accrued liabilities	(2,647)	(1,697)	1,867
Deferred revenue	(617)	(246)	(198)
Net cash provided by operating activities	6,714	3,261	5,768
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net cash used to acquire Zero2Ten	-	(4,643)	-
Net cash used to acquire Branchbird	-	(2,755)	-
Net cash used to acquire M2 Dynamics	(93)	(16,736)	-
Capitalization of product development costs	-	-	(40)
Purchases of property and equipment	(377)	(333)	(220)
Net cash used in investing activities	(470)	(24,467)	(260)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from employee stock purchase plans and stock option exercises	3,964	1,488	1,900
Payment of contingent earnout consideration	(3,226)	-	-
Borrowings under revolving credit facility	-	5,000	-
Excess tax benefits from stock options	732	295	43
Purchases of treasury stock	-	(332)	(967)
Net cash provided by financing activities	1,470	6,451	976
Effects of exchange rates on cash	(2)	(32)	(37)
Net increase (decrease) in cash and cash equivalents	7,712	(14,787)	6,447
CASH AND CASH EQUIVALENTS, beginning of period	11,981	26,768	20,321
CASH AND CASH EQUIVALENTS, end of period	$19,693	$ 11,981	$26,768
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 102	$ 18	$ 16
Cash paid for income taxes	$ 220	$ 208	$ 606
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of restricted stock awards	$ -	$ 728	$ 678

See notes to consolidated financial statements.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION:

Edgewater Technology, Inc. helps the C-suite drive transformational change through its unique selection of business and technology services and channel-based solutions.

Classic consulting disciplines (such as business advisory, process improvement, organizational change management, M&A due diligence, and domain expertise) are blended with technical services (such as digital transformation, technical roadmaps, data and analytics services, custom development and system integration) to help organizations leverage investments in legacy IT assets to create new digital business models.

The Company delivers product based consulting in both the Enterprise Performance Management ("EPM") and Enterprise Resource Planning ("ERP") areas both on premise and in the cloud. Within the EPM offering, our Oracle channel, Edgewater Ranzal provides Business Analytics solutions leveraging Oracle EPM, BI and Big Data technologies. Within the ERP offering, our Microsoft channel, Edgewater Fullscope delivers Dynamics AX ERP, Business Intelligence and CRM solutions primarily in the manufacturing space.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described in this note and elsewhere in the accompanying consolidated financial statements and notes.

Basis of Presentation –

The consolidated financial statements include the accounts of Edgewater and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

The Company considers events or transactions that occur after the balance sheet date but before the financial statements are issued to provide additional evidence relative to certain estimates or to identify matters that require additional disclosure. The Company did not identify any recognizable events during this period.

Use of Estimates –

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. These accounting principles require management to make certain estimates, judgments and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates, judgments and assumptions used in preparing the accompanying consolidated financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the consolidated financial statements. Although the Company regularly assesses these estimates, judgments and assumptions used in preparing these consolidated financial statements, actual results could differ from those estimates. Changes in estimates are recorded in the period in which they become known.

Property and Equipment –

Property and equipment are stated at cost, net of accumulated depreciation and amortization. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, which range from three to ten years. Additions that extend the lives of the assets are capitalized, while repairs and maintenance costs are expensed as incurred.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Product Development Costs –

The Company periodically develops software modules to be used within the Microsoft Dynamics AX environment. Capitalization of qualified software development costs begins upon the establishment of technological feasibility. Amortization of capitalized software development costs, which is recorded as a component of cost of revenue, is provided on a product-by-product basis, beginning upon commercial release of the product, and continuing over the remaining estimated economic life of the product, not to exceed three years. At each balance sheet date, the Company evaluates the unamortized capitalized software development costs for potential impairment by comparing the net unamortized balance to the net realizable value of the products. No software development costs were capitalized during the years ended December 31, 2016 or 2015. Amortization expense of $188 thousand, $191 thousand and $214 thousand has been recorded (within software costs on the consolidated statements of comprehensive income (loss)) during the years ended December 31, 2016, 2015 and 2014, respectively.

Impairment of Long-Lived Assets –

The Company evaluates its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Impairment is generally assessed by a comparison of cash flows expected to be generated by an asset to its carrying value. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair value.

Goodwill and Intangible Assets –

Goodwill has an indefinite useful life and is not amortized but is evaluated for impairment annually (the “Annual Impairment Test”) or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Intangible assets consist primarily of non-compete arrangements, customer relationships and trade names and trademarks. Intangible assets that have finite lives are amortized using either the straight-line method or based on estimated future cash flows to approximate the pattern in which the economic benefit of the asset will be utilized. Amortization is recorded over the estimated useful lives ranging from three to six years and is further described in Note 7.

The Company engages in business activities in three operating segments, which also represent reporting units. The Company determined that it has three operating segments (Enterprise Performance Management (“EPM”), Enterprise Resource Planning (“ERP”) and Classic Consulting). The Company has further determined that these operating segments constitute three reporting units. The Company has three reporting units (which also constitute our operating segments) for purposes of its allocation of goodwill and performance of its impairment evaluation.

Goodwill is tested for impairment annually at the reporting unit level utilizing the “fair value” methodology. The annual measurement date is December 2. Factors the Company considers important that could trigger an interim review for impairment include, but are not limited to, the following:

- Significant under-performance relative to historical or projected future operating results;
- Significant changes in the manner of its use of acquired assets or the strategy for its overall business;
- Significant negative industry or economic trends;
- Significant decline in its stock price for a sustained period; and
- Its market capitalization relative to net book value.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Goodwill is evaluated for impairment using a two-step process. The first step is to compare the fair value of the reporting unit to the carrying amount of the reporting unit (the "First Step"). If the carrying amount exceeds the fair value, a second step must be followed to calculate potential impairment (the "Second Step"). Otherwise, if the fair value of the reporting unit exceeds the carrying amount, the goodwill is not considered to be impaired as of the measurement date. In its review of the carrying value of the goodwill, the Company determines fair values for the reporting unit using the Income Approach, or more specifically the Discounted Cash Flow Method, and the Market Approach, utilizing the Guideline Company Method. These valuation methods require management to project revenues, operating expenses, working capital investment, capital spending and cash flows for the reporting unit over a multi-year period, as well as determine the weighted average cost of capital to be used as a discount rate. The 2016 analysis confirmed that fair values exceeded carrying values, and therefore no impairment existed, and accordingly, a second step analysis was not deemed necessary.

Revenue Recognition –

Our Company recognizes revenue primarily through the provision of consulting services and the resale of third-party, off-the-shelf software and maintenance.

We recognize revenue by providing consulting services under written service contracts with our customers. The service contracts we enter into generally fall into three specific categories: time and materials, fixed-price and retainer.

We consider amounts to be earned once evidence of an arrangement has been obtained, services are delivered, fees are fixed or determinable and collectability is reasonably assured. We establish billing terms at the time at which the project deliverables and milestones are agreed. Our standard payment terms are 30 days from invoice date. Out-of-pocket reimbursable expenses charged to customers are reflected as revenue.

When a customer enters into a time and materials, fixed-price or a periodic retainer-based contract, the Company recognizes revenue in accordance with its evaluation of the deliverables in each contract. If the deliverables represent separate units of accounting, the Company then measures and allocates the consideration from the arrangement to the separate units, based on vendor specific objective evidence ("VSOE") of the value for each deliverable.

The revenue under time and materials contracts is recognized as services are rendered and performed at contractually agreed upon rates. Revenue pursuant to fixed-price contracts is recognized under the proportional performance method of accounting. We routinely evaluate whether revenue and profitability should be recognized in the current period. We estimate the proportional performance on our fixed-price contracts on a monthly basis utilizing hours incurred to date as a percentage of total estimated hours to complete the project. This method is used because reasonably dependable estimates of costs and revenue earned can be made, based on historical experience and milestones identified in any particular contract. If we do not have a sufficient basis to measure progress toward completion, revenue is recognized upon completion of performance, subject to any warranty provisions or other project management assessments as to the status of work performed.

Estimates of total project costs are continually monitored during the term of an engagement. There are situations where the number of hours to complete projects may exceed our original estimate, as a result of an increase in project scope, unforeseen events that arise, or the inability of the client or the delivery team to fulfill their responsibilities. Accordingly, recorded revenues and costs are subject to revision throughout the life of a project based on current information and historical trends. Such revisions may result in increases or decreases to revenue and income and are reflected in the consolidated financial statements in the periods in which they are first identified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

If our initial estimates of the resources required or the scope of work to be performed on a contract are inaccurate, or we do not manage the project properly within the planned time period, a provision for estimated losses on incomplete projects is made. Any known or probable losses on projects are charged to operations in the period in which such losses are determined. A formal project review process takes place quarterly, although projects are evaluated on an ongoing basis. Management reviews the estimated total direct costs on each contract to determine if the estimated amounts are accurate, and estimates are adjusted as needed in the period identified. No material losses were recognized on contracts during the years ended December 31, 2016, 2015 or 2014.

We also perform services on a monthly retainer basis under infrastructure service contracts, which include monthly hosting and support services. Revenue under periodic retainer-based contracts is recognized ratably over the contract period, as outlined within the respective contract. In the event additional services are required, above the minimum retained or contracted amount, then such services are billed on a time and materials basis.

Typically, the Company provides warranty services on its fixed-price contracts related to providing customers with the ability to have any “design flaws” remedied and/or have our Company “fix” routine defects. The warranty services, as outlined in the respective contracts, are provided for a specific period of time after a project is complete. The Company values the warranty services based upon historical labor hours incurred for similar services at standard billing rates. Revenue related to the warranty provisions within our fixed-price contracts is recognized as the services are performed or the revenue is earned. The warranty period is typically for a 30-60 day period after the project is complete.

Customer prepayments, even if nonrefundable, are deferred (classified as deferred revenue) and recognized over future periods as services are performed.

Software revenue represents the resale of certain third-party off-the-shelf software and maintenance and is recorded on a gross basis provided we act as a principal in the transaction, which we have determined based upon several factors including, but not limited to, the fact that we have credit risk and we set the price to the end user. In the event we do not meet the requirements to be considered a principal in the software sale transaction and act as an agent, software revenue will be recorded on a net basis.

Prior to the second quarter of 2013, we recorded substantially all of our software resale revenue on a gross basis (reporting the revenue and cost from the transaction in our consolidated statement of comprehensive income (loss)). However, beginning in the second quarter of 2013, due to changes in the nature of the terms of certain of our Microsoft Dynamics AX software resale arrangements, we began to recognize a portion of our software resale revenue on a net basis (reporting only the net profit from the transaction as revenue in our consolidated statement of comprehensive income (loss)). It is expected that the mix of software revenue we report on a gross verses net basis will continue to fluctuate in future periods.

The majority of the software sold by the Company is delivered electronically. For software that is delivered electronically, we consider delivery to have occurred when the customer either (a) takes possession of the software via a download (that is, when the customer takes possession of the electronic data on its hardware), or (b) has been provided with access codes that allow the customer to take immediate possession of the software on its hardware pursuant to an agreement or purchase order for the software.

The Company enters into multiple element arrangements which typically include software, post-contract support (or maintenance), and consulting services. Consistent with the software described above, maintenance that is in the form of a pass through transaction is recognized upon delivery of the software, as all related warranty and maintenance is performed by the primary software vendor and not the Company. Maintenance fee

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

revenue for the Company's software products, which is inconsequential in all years presented, is recognized ratably over the term of the arrangements, which are generally for a one-year period. The Company has established VSOE with respect to the services provided based on the price charged when the services are sold separately. The Company has established VSOE for maintenance based upon the stated renewal rate.

Allowance for Doubtful Accounts –

The Company maintains an allowance for doubtful accounts related to its accounts receivable that have been deemed to have a high risk of uncollectability. Management reviews its accounts receivable balances on a monthly basis to determine if any receivables are potentially uncollectible. Management further analyzes historical collection trends and changes in its customer payment patterns, customer concentration and credit worthiness when evaluating the adequacy of its allowance for doubtful accounts. The Company includes any accounts receivable balances that are deemed to be potentially uncollectible, along with a general reserve, in its overall allowance for doubtful accounts.

Billed and unbilled receivables that are specifically identified as being at risk are provided for with a charge to revenue or bad debts as appropriate in the period the risk is identified.

Based on the information available, management believes the allowance for doubtful accounts is adequate; however, future write-offs could exceed the recorded allowance.

Cost of Services –

Our cost of services is composed primarily of project personnel costs, including direct salaries, payroll taxes, employee benefits, contractor costs and travel expenses for personnel dedicated to customer projects. These costs represent the most significant expense we incur in providing our services.

Consent Solicitation Expense –

During the years ended December 31, 2016 and 2015, the Company incurred $187 thousand and $495 thousand, respectively, of legal and advisory expenses in connection with its defense against consent solicitations. No such expenses were incurred in the year ended December 31, 2014.

Other Expense, Net –

The following table represents the components of other expense, net:

	Year Ended December 31,		
	2016	2015	2014
		(In Thousands)	
Interest expense, net	$ 100	$ 18	$ 15
Accretion of contingent earnout consideration	$2,182	$1,710	$ -
Loss on foreign exchange transactions	$ 45	$ 285	$ 166
Other expense, net	$2,327	$2,013	$ 181

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Provision for Taxes –

In determining our current income tax provision, we assess temporary differences resulting from different treatments of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are recorded in our consolidated balance sheets. We evaluate the realizability of our deferred tax assets and assess the need for a valuation allowance on an ongoing basis. In evaluating our deferred tax assets, we consider whether it is more likely than not that the deferred income tax assets will be realized. The ultimate realization of our deferred tax assets depends upon generating sufficient future taxable income during the periods in which our temporary differences either become deductible or expire. This assessment requires significant judgment.

Any future changes in the valuation allowance could result in additional income tax expense (benefit) and reduce or increase stockholders' equity, and such changes could have a significant impact upon our earnings in the future.

Income tax reserves are based on a determination of whether and how much of a tax benefit taken by the Company in its tax filings or positions is more likely than not realized based on the technical merits of the position. Potential interest and penalties associated with such uncertain tax position is recorded as a component of the income tax provision.

Earnings Per Share –

A reconciliation of net income (loss) and weighted average shares used in computing basic and diluted net income per share is as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In Thousands, Except Per Share Data)		
Basic net (loss) income per share:			
Net (loss) income applicable to common shares	$ (2,834)	$ (4,060)	$ 4,064
Weighted average common shares outstanding	12,150	11,505	11,131
Basic net (loss) income per share of common stock	$ (0.23)	$ (0.35)	$ 0.37
Diluted net (loss) income per share:			
Net (loss) income applicable to common shares	$ (2,834)	$ (4,060)	$ 4,064
Weighted average common shares outstanding	12,150	11,505	11,131
Dilutive effects of stock options and restricted stock awards	-	-	1,959
Weighted average common shares, assuming dilutive effect of stock options	12,150	11,505	13,090
Diluted net (loss) income per share of common stock	$ (0.23)	$ (0.35)	$ 0.31

Share-based awards, inclusive of all grants made under the Company's equity plans, for which either the stock option exercise price, or the fair value of the restricted share award, exceeds the average market price over the period, have an anti-dilutive effect on earnings per share, and accordingly, are excluded from the diluted computations for all periods presented. Had such shares been included, shares for the diluted computation would have increased by approximately 63 thousand and 47 thousand in the years ended December 31, 2015 and 2014,

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

respectively. No such shares were excluded in the year ended December 31, 2016. As of December 31, 2016 and 2015, there were approximately 2.9 million and 3.9 million share-based awards outstanding under the Company's equity plans, respectively. The Company excluded 2.0 million and 1.9 million shares from the dilutive calculations during the years ended December 31, 2016 and 2015, respectively, as a result of the net loss position.

Concentrations of Credit Risk –

Financial instruments that potentially subject the Company to significant concentration of market or credit risk consist principally of cash equivalent instruments and accounts receivable. The Company places its cash balances with reputable financial institutions. Trade receivables potentially subject the Company to credit risk. The Company extends credit to its customers based upon an evaluation of the customer's financial condition and credit history and generally does not require collateral.

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. We have never experienced any losses related to these balances.

The Company has historically incurred minimal credit losses. No customer balances were in excess of 10% of the Company's total receivables balance as of December 31, 2016 or 2015.

For the years ended December 31, 2016, 2015 and 2014, no customer represented 10% or more of the Company's total revenue or total service revenue. For the years ended December 31, 2016, 2015 and 2014, our five largest customers represented 15.2%, 11.8% and 17.8% of our service revenue in the aggregate, respectively.

Comprehensive Income (Loss) –

Other comprehensive income (loss) consists of periodic currency translation adjustments.

Share-Based Compensation –

The Company recognizes the total fair value of share-based awards as compensation expense, over the requisite employee service period (generally the vesting period of the grant). The Company has used the Black-Scholes option-pricing model to compute the estimated fair value of stock option grants on the date of the award. The Black-Scholes option-pricing model includes assumptions regarding dividend yields, expected volatility, expected option term and risk-free interest rates. The Company estimates expected volatility based upon historical volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Restricted stock awards are valued at the price of our common stock on the date of the award.

The assumptions used in computing the fair value of share-based awards reflect management's best estimates but involve uncertainties relating to market and other conditions, many of which are outside of the Company's control. As a result, if other assumptions or estimates had been used, the share-based compensation expense that was recorded for the years ended December 31, 2016, 2015, and 2014 could have been materially different. Furthermore, if different assumptions are used in future periods, share-based compensation expense could be materially impacted in the future.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Foreign Currency Translation –

The financial statements for Edgewater's non-U.S. operations use the local currency as the functional currency and are translated to U.S. dollars. For assets and liabilities, the year-end rate is used. For revenues, expenses, gains and losses, the average rate for the period is used. Unrealized currency adjustments in our financial statements are accumulated in equity as a component of accumulated other comprehensive income (loss). Realized net gains (losses) on foreign currency transactions are immaterial and are reflected in earnings.

Recent Accounting Pronouncements –

In May 2014, the Financial Accounting Standards Board issued ASU No. 2014-9, Revenue from Contracts with Customers (Topic 606), (the "New Revenue Standard") requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Additional disclosures will also be required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The New Revenue Standard will replace most existing revenue recognition guidance in GAAP when it becomes effective and permits the use of either the retrospective or modified retrospective method upon adoption. Adoption of the New Revenue Standard is permitted as early as the first quarter of 2017 and is required by the first quarter of 2018. The Company currently expects to adopt the standard on January 1, 2018 using the modified retrospective method and will apply the guidance only to the most current period presented in the financial statements and only on contracts that are not completed as of the date of initial application. The cumulative effect of initially applying the standard will be recognized as an adjustment to the opening balance of retained earnings within stockholders' equity. The Company has begun to evaluate the effect that ASU No. 2014-09 and its related amendments will have on its consolidated financial statements and related disclosures. In particular, we are currently evaluating the potential impact of the new standard as it relates to distinguishing performance obligations, client acceptance and cancellation provisions, variable consideration, principal vs. agent consideration, warranties and post-contract support services among others. Due to the complexity of the new standard and the nature of our contracts, the actual revenue recognition treatment required under the new standard may vary and will be dependent on contract-specific terms. The Company expects to complete its assessment of the impact of adoption during 2017.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* , which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements* , which allows an entity to present debt issuance costs associated with a revolving line of credit arrangement as an asset, regardless of whether a balance is outstanding. The recognition and measurement guidance for debt issuance costs are not affected by these updates. The Company adopted these updates retrospectively on January 1, 2016. The adoption of ASU No. 2015-03 and ASU No. 2015-15 did not have an impact on the Company's consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, *Simplifying the Accounting for Measurement-Period Adjustments* , which eliminates the requirement for an acquirer to retrospectively adjust the financial statements for measurement-period adjustments that occur in periods after the acquisition date. The Company adopted this update prospectively on January 1, 2016. The adoption of ASU No. 2015-16 did not have a material impact on the Company's consolidated financial statements.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In February 2016, the FASB issued ASU No. 2016-02, *Leases* , which supersedes ASC Topic 840, *Leases,* and creates a new topic, ASC Topic 842, *Leases* . This update requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The update also expands the required quantitative and qualitative disclosures surrounding leases. This update is to become effective for the Company on January 1, 2019, with earlier application permitted. This update will be applied using a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. While the Company is currently assessing the impact ASU No. 2016-02 will have on its consolidated financial statements, the Company expects the primary impact upon adoption will be the recognition, on a discounted basis, of its minimum commitments under noncancellable operating leases on its consolidated balance sheets resulting in the recording of right of use assets and lease obligations. Current minimum commitments under noncancellable operating leases are disclosed in Note 13, *Commitments and Contingencies* .

In March 2016, the FASB issued ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting.* This update was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendments in this update address, among other things, the recognition of excess tax benefits and deficiencies associated with share-based payments, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. The guidance in this update may be applied either prospectively, retrospectively or using a modified retrospective transition method, depending on the area covered in this update and is effective on January 1, 2017, with earlier application permitted. The Company does not expect the adoption of ASU No. 2016-19 to have a material impact on the Company's consolidated financial statements.

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

3. BUSINESS COMBINATIONS:

M2 Dynamics Inc. ("M2 Dynamics"): On December 21, 2015, the Company acquired substantially all of the assets and certain liabilities of M2 Dynamics Inc., pursuant to the terms of an Asset Purchase Agreement (the "M2 Dynamics Acquisition"). Headquartered in Irvine, California, M2 Dynamics is an Oracle Platinum Partner providing Oracle Enterprise Performance Management ("EPM") and Business Intelligence ("BI") solutions and services, primarily to the West Coast and southern regions of the United States. M2 Dynamics has joined the Company's Edgewater Ranzal business in providing clients with information technology consultancy services specializing in Business Analytics and encompassing EPM, BI and Big Data solutions.

The Company initially estimated total fair value of the purchase price consideration to be \$19.8 million. The initial cash consideration paid at close consisted of the \$16.1 million base purchase price plus \$596 thousand attributable to a net working capital adjustment. The initial cash consideration paid by the Company was increased by \$3.0 million, representing the adjusted fair value estimate of additional contingent earnout consideration that may be earned by M2 Dynamics, which is described in more detail below.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

During the quarter ended March 31, 2016, the Company increased total purchase price consideration of the M2 Dynamics Acquisition, resulting in an increase to the carrying value of goodwill, by $93 thousand. The increase is attributable to the final true-up of excess net working capital delivered by M2 Dynamics at the closing of the transaction.

An earnout agreement was entered into in connection with the M2 Dynamics Acquisition under which M2 Dynamics is eligible to receive additional contingent consideration. Contingent earnout consideration to be paid, if any, to M2 Dynamics will be based upon the achievement of certain performance measures (and is not impacted by continued employment status of M2 Dynamics owners) over a one-year earnout period, concluding on December 21, 2016. The maximum amount of contingent earnout consideration that can be earned by M2 Dynamics is capped at $6.6 million. The Company continually examines actual results in comparison to financial metrics utilized in the earnout calculation and assesses the carrying value of the contingent earnout consideration. During the three-month period ended December 31, 2016, the Company recorded a change in fair value of the estimated earnout consideration to be achieved (as a result of better than forecasted financial performance). This change in estimate resulted in an expense of $662 thousand (which was recorded as a component of change in fair value of contingent earnout consideration in the accompanying condensed consolidated statements of comprehensive income). As of December 31, 2016, the Company had recorded an accrual of $4.5 million related to M2 Dynamics contingent earnout consideration.

In addition to the above payments, the Company incurred approximately $430 thousand and $801 thousand in direct transaction costs, which were expensed (within direct acquisition costs on the consolidated statement of comprehensive income (loss)) in the years ended December 31, 2016 and 2015, respectively.

In connection with the M2 Dynamics Acquisition, the Company made certain preliminary estimates related to the fair value of assets acquired, liabilities assumed, contingent earnout consideration, identified intangibles and goodwill.

The Company performed a fair value allocation of the purchase price among assets, liabilities and identified intangible assets. The final allocation of the purchase price was as follows:

	Total (In Thousands)	Life (In Years)
Accounts receivable	$ 2,878	
Other assets	21	
Accounts payable and accrued expenses	(866)	
Customer relationships	7,700	6 Years
Goodwill (deductible for tax purposes)	10,038	
Total purchase price	$ 19,771	

The M2 Dynamics Acquisition was accounted for as a purchase transaction, and accordingly, the results of comprehensive income (loss), commencing December 21, 2015, are included in the Company's accompanying consolidated statement of comprehensive income (loss).

The Company recorded total revenues of $247 thousand and a net loss of $(118) thousand in its statement of comprehensive income (loss) for the year ended December 31, 2015 related to the M2 Dynamics business.

The following table sets forth supplemental pro forma financial information that assumes the acquisition of M2 Dynamics was completed at the beginning of 2015. The information for the year ended December 31, 2015
includes the historical results of Edgewater and M2 Dynamics. The pro forma results include estimates and

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

assumptions regarding the amortization of intangible assets recognized as part of the acquisition and income taxes. The pro forma results, as presented, are not necessarily indicative of the results that would have occurred if the acquisition had occurred on the date indicated, or that may result in the future.

	Unaudited December 31,	
	2015	2014
	(In Thousands)	
Pro forma revenue	$ 129,522	$ 122,956
Pro forma net (loss) income	(2,679)	3,565
Pro forma basic net (loss) income per share	$ (0.23)	$ 0.32
Pro forma diluted net (loss) income per share	$ (0.23)	$ 0.27

Acquisition of Branchbird LLC ("Branchbird"): On August 17, 2015, the Company acquired substantially all of the assets and liabilities of Branchbird, pursuant to the terms of an Asset Purchase Agreement (the "Branchbird Acquisition"). Headquartered in Chicago, Illinois, Branchbird delivers Big Data solutions to their clients utilizing the Oracle Endeca and Big Data Discovery (BDD) products. The Branchbird Acquisition extends Ranzal's presence in the Midwest.

The Company determined the total allocable purchase price consideration to be $4.2 million. The initial cash consideration paid at closing was $2.7 million, net of $19 thousand attributable to a net working capital adjustment. The initial consideration paid by the Company was increased by $1.4 million, representing our initial estimate of the fair value of additional contingent earnout consideration that may be earned by Branchbird, which is described in more detail below. In addition to the above payments, the Company incurred approximately $340 thousand in direct transaction costs, which were expensed (within direct acquisition costs on the consolidated statement of comprehensive income (loss)) during the year ended December 31, 2015.

An earnout agreement was entered into in connection with the Branchbird Acquisition under which Branchbird is eligible to receive additional contingent consideration. Contingent earnout consideration to be paid, if any, to Branchbird will be based upon the achievement of certain performance measures (and is not impacted by continued employment status of Branchbird owners) over two consecutive one-year earnout periods, concluding on August 16, 2017. The maximum amount of contingent earnout consideration that can be earned by Branchbird is capped at $2.4 million. The Company continually examines actual results in comparison to financial metrics utilized in the earnout calculation and assesses the carrying value of the contingent earnout consideration. During the three-month period ended December 31, 2016, the Company recorded a change in fair value of the estimated earnout consideration to be achieved (as a result of lower than forecasted revenue performance). This change in estimate resulted in a reversal of $221 thousand (which was recorded as a component of change in fair value of contingent earnout consideration in the accompanying condensed consolidated statements of comprehensive income). During the three-month period ended June 30, 2016, the Company recorded a change in fair value of the estimated earnout consideration to be achieved (as a result of lower than forecasted revenue performance). This change in estimate resulted in a reversal of $798 thousand (which was recorded as a component of change in fair value of contingent earnout consideration in the accompanying condensed consolidated statements of comprehensive income). As of December 31, 2016, the Company had recorded an accrual of $757 thousand related to Branchbird contingent earnout consideration.

In connection with the Branchbird Acquisition, the Company made certain estimates related to the fair value of assets acquired, liabilities assumed, contingent earnout consideration, identified intangibles and goodwill.

3. BUSINESS COMBINATIONS (Continued):

The Company performed a fair value allocation of the purchase price among assets, liabilities and identified intangible assets. The final allocation of the purchase price was as follows:

	Total (In Thousands)	Life (In Years)
Accounts receivable	$ 540	
Other assets	16	
Accounts payable and accrued expenses	(86)	
Customer relationships	2,100	5
Goodwill (deductible for tax purposes)	1,613	
Total purchase price	$ 4,183	

The Branchbird Acquisition was accounted for as a purchase transaction, and accordingly, the results of operations, commencing August 17, 2015, are included in the Company's accompanying consolidated statement of comprehensive income (loss). Pro forma financial information related to the Branchbird Acquisition is not presented as the effect of this acquisition was not material to the Company.

Acquisition of Zero2Ten, Inc. ("Zero2Ten"): On March 13, 2015, the Company acquired substantially all of the assets and liabilities of Zero2Ten, pursuant to the terms of an Asset Purchase Agreement (the "Zero2Ten Acquisition"). Headquartered in Alpharetta, Georgia, Zero2Ten is a specialty solution provider of Microsoft's CRM Cloud product. Zero2Ten has delivered its services to organizations across various vertical markets with an emphasis on manufacturing. The acquisition of Zero2Ten continues our investment in service offerings that complement the Microsoft Dynamics product suite.

The Company determined the total allocable purchase price consideration to be $9.0 million. The initial cash consideration paid at closing was $4.5 million. The cash paid at closing consisted of the $5.0 million purchase price less $457 thousand attributable to a net working capital adjustment. The initial consideration paid by the Company was increased by $4.4 million, representing its initial estimate of the fair value estimate of additional contingent earnout consideration that may be earned by Zero2Ten, which is described in more detail below. In addition to the above payments, the Company incurred approximately $613 thousand in direct transaction costs, which were expensed (within direct acquisition costs on the consolidated statement of comprehensive income (loss)) during the year ended December 31, 2015.

An earnout agreement was entered into in connection with the Zero2Ten Acquisition under which Zero2Ten is eligible to receive additional contingent consideration. Contingent earnout consideration to be paid, if any, to Zero2Ten will be based upon the achievement of certain performance measures (and is not impacted by continued employment status of Zero2Ten shareholders) over two consecutive one-year earnout periods, concluding on March 13, 2017.

In March 2016, Zero2Ten completed its first twelve-month earnout period, during which the required performance measurements were achieved. Accordingly, Zero2Ten received additional contingent consideration related to the first earnout period in the amount of $3.9 million.

The Company continually examines actual results in comparison to financial metrics utilized in the earnout calculation and assesses the carrying value of the contingent earnout consideration. During the three-month periods ended December 31, 2016 and June 30, 2016, we reversed $238 thousand and $130 thousand, respectively, of accrued contingent earnout consideration (reported as a part of change in fair value of contingent earnout consideration in our condensed consolidated statements of comprehensive income) associated with the

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

completion of the first earnout period and the projected completion of the second earnout period, as it was determined that current forecasts are slightly below those originally utilized in determining the fair value of the contingent earnout consideration.

The Company, as of December 31, 2016, had accrued $2.9 million in potential future contingent earnout consideration payable to Zero2Ten in connection with the second twelve-month earnout period. The maximum amount of contingent earnout consideration that can be earned by Zero2Ten during the remaining earnout period is capped at $4.3 million.

In connection with the Zero2Ten Acquisition, the Company made certain estimates related to the fair value of assets acquired, liabilities assumed, contingent earnout consideration, identified intangibles and goodwill.

The Company performed a fair value allocation of the purchase price among assets, liabilities and identified intangible assets. The final allocation of the purchase price was as follows:

	Total (In Thousands)	Life (In Years)
Accounts receivable	$ 1,596	
Other assets	142	
Deferred revenue	(1,158)	
Accounts payable and accrued expenses	(580)	
Customer relationships	2,800	5
Goodwill (deductible for tax purposes)	6,210	
Total purchase price	$ 9,010	

The Zero2Ten Acquisition was accounted for as a purchase transaction, and accordingly, the results of operations, commencing March 13, 2015, are included in the Company's accompanying consolidated statement of comprehensive income (loss). Pro forma financial information related to the Zero2Ten Acquisition is not presented as the effect of this acquisition was not material to the Company.

4. FAIR VALUE MEASUREMENTS:

The following valuation hierarchy is used for disclosure of the inputs to valuation used to measure fair value. This hierarchy prioritizes the inputs into three broad levels as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 inputs are unobservable inputs based on our own assumptions used to measure assets and liabilities at fair value.

A financial asset's or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

As of December 31, 2016 and 2015, the Company's only financial assets and liabilities required to be measured on a recurring basis were its contingent earnout obligations.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

4. FAIR VALUE MEASUREMENTS (Continued):

The following table represents the Company's fair value hierarchy for its financial assets and liabilities required to be measured on a recurring basis:

	Balance	Basis of Fair Value Measurements: Quoted Prices in Active Markets for Identical Items (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Balance at December 31, 2015:				
Financial liabilities:				
Contingent earnout consideration	$ 8,089	$ -	$ -	$ 8,089
Total financial liabilities	$ 8,089	$ -	$ -	$ 8,089
Balance at December 31, 2015:				
Financial liabilities:				
Contingent earnout consideration	$10,540	$ -	$ -	$ 10,540
Total financial liabilities	$10,540	$ -	$ -	$ 10,540

No financial instruments were transferred into or out of Level 3 classification during the year ended December 31, 2016.

The Company has classified its net liability for contingent earnout considerations relating to its Zero2Ten, Branchbird and M2 Dynamics Acquisitions within Level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which included probability weighted cash flows. A description of these acquisitions is included within Note 3. The contingent earnout payments for each acquisition are based on the achievement of certain revenue and earnings before interest, taxes, depreciation and amortization targets.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

4. FAIR VALUE MEASUREMENTS (Continued):

A reconciliation of the beginning and ending Level 3 net liabilities for the years ended December 31, 2016 and 2015 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	(In Thousands)
Balance at January 1, 2015	$ -
Initial estimate of fair value related to Zero2Ten contingent earnout consideration	4,367
Initial estimate of fair value related to Branchbird contingent earnout consideration	1,428
Initial estimate of fair value related to M2 Dynamics contingent earnout consideration	3,035
Accretion of contingent earnout consideration (included within other expense, net)	1,710
Balance at December 31, 2015	10,540
Payment of contingent earnout consideration	(3,906)
Adjustment to estimated fair value of contingent earnout consideration (included within Selling, general and administrative expense)	(725)
Accretion of contingent earnout consideration (included within other expense, net)	2,182
Ending balance at December 31, 2016	$ 8,089

As of December 31, 2016 and December 31, 2015, the fair values of our other financial instruments, which include cash and cash equivalents, accounts receivable and accounts payable, approximate the carrying amounts of the respective asset and/or liability due to the short-term nature of these financial instruments. Borrowings under the Company's revolving credit facility approximate fair value due to their market rate of interest.

5. ACCOUNTS RECEIVABLE:

Included in accounts receivable are unbilled amounts totaling approximately $2.7 million and $4.8 million at December 31, 2016 and 2015, respectively, which relate to services performed during the year and billed in the subsequent year. The Company maintains allowances for potential losses which management believes are adequate to absorb any probable losses to be incurred in realizing the accounts receivable amounts recorded in the accompanying consolidated financial statements.

The following are the changes in the allowance for doubtful accounts:

	Year Ended December 31,		
	2016	2015	2014
		(In Thousands)	
Balance at beginning of year	$ 150	$ 150	$ 150
Provisions for doubtful accounts	104	67	—
Charge-offs, net of recoveries	(104)	(67)	—
Balance at end of year	$ 150	$ 150	$ 150

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

6. PROPERTY AND EQUIPMENT:

Components of property and equipment consisted of the following:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Furniture, fixtures and equipment	$ 1,000	$ 1,683
Computer equipment and software	1,411	1,365
Leasehold improvements	3,014	3,024
	5,425	6,072
Less accumulated depreciation and amortization	(4,802)	(5,248)
Total	$ 623	$ 824

Depreciation expense related to property and equipment for the years ended December 31, 2016, 2015 and 2014 totaled approximately $590 thousand, $618 thousand and $626 thousand, respectively. The Company disposed of $1.0 million, $238 thousand and $378 thousand of equipment that was no longer in use during 2016, 2015 and 2014, respectively. A gain on disposal of property and equipment of $13 and $10 thousand was recognized in the years ended December 31, 2016 and 2015. No gain or loss on disposal was recognized during the year ended December 31, 2014.

7. GOODWILL AND INTANGIBLE ASSETS:

The changes in the carrying amount of goodwill are as follows:

	Classic Consulting	EPM	ERP	Consolidated
	(In Thousands)			
Balance at January 1, 2015	$ 140	$ 2,079	$ 9,830	$ 12,049
Increase to goodwill related to Zero2Ten, Branchbird, and M2 Dynamics Acquisitions	—	11,651	6,210	17,861
Balance at December 31, 2015	140	13,730	16,040	29,910
Increase to goodwill in 2016 related to the M2 Dynamics Acquisition	—	73	—	73
Balance at December 31, 2016	$ 140	$13,803	$16,040	$ 29,983

Cumulative goodwill impairment charges of $54.6 million (related to impairments recognized in 2002 and 2008 within the Classic Consulting operating segment) are reflected in the ending goodwill balance at December 31, 2016.

As of December 31, 2016, the net carrying amount of intangible assets consists of amounts related to business combination transactions consummated by the Company in 2015 and capitalized internally developed software costs.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

7. GOODWILL AND INTANGIBLE ASSETS (Continued):

Other net intangibles amounted to $8.4 million and $12.0 million as of December 31, 2016 and 2015, respectively. Below is a summary of the Company's identifiable intangible assets that are subject to amortization:

	December 31, 2016			
	Gross Carrying Amount	Impairment Charges	Accumulated Amortization	Net Carrying Amount
	(In Thousands)			
Identifiable intangibles:				
Non-compete agreements	$ 3,860	$ -	$ 3,860	$ -
Customer relationships	22,978	-	14,611	8,367
Capitalized product development costs	1,139	-	1,128	11
	$27,977	$ -	$ 19,599	$ 8,378

	December 31, 2015			
	Gross Carrying Amount	Impairment Charges	Accumulated Amortization	Net Carrying Amount
	(In Thousands)			
Identifiable intangibles:				
Non-compete agreements	$ 3,860	$ -	$ 3,860	$ -
Customer relationships	22,978	-	11,187	11,791
Capitalized product development costs	1,139	-	940	199
	$27,977	$ -	$ 15,987	$ 11,990

The intangible assets were identified and valued by the Company. The original estimated useful lives of the acquired identifiable intangible assets are as follows:

Non-compete agreements	4 to 5 years
Customer relationships	4 to 6 years
Capitalized product development costs	3 years

Intangible assets are amortized assuming no expected residual value over the periods in which the economic benefit of these assets is consumed. Customer relationships are amortized on an accelerated method based on the proportional relationship of projected future discounted cash flows. The weighted average amortization period for all intangible assets subject to amortization was 4.4 years, 5.4 years and 0.5 years as of December 31, 2016, 2015 and 2014, respectively. Amortization expense related to all intangible assets was $3.4 million, $899 thousand and $302 thousand in 2016, 2015 and 2014, respectively.

Amortization of $188 thousand, $191 thousand and $214 thousand related to capitalized software development costs were included within cost of revenue (specifically within software expense) on the consolidated statements of comprehensive income (loss) for the years ended December 31, 2016, 2015 and 2014, respectively.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

7. GOODWILL AND INTANGIBLE ASSETS (Continued):

Estimated annual amortization expense for the next five years ending December 31, which encompasses the remaining useful life of the intangible assets, is as follows:

	Amortization Expense (In Thousands)
2017	$ 2,804
2018	2,240
2019	1,712
2020	1,057
2021 and thereafter	565
Total	$ 8,378

8. ACCRUED EXPENSES AND OTHER LIABILITIES:

Components of accrued expenses consisted of the following:

	December 31, 2016	December 31, 2015
	(In Thousands)	
Accrued bonuses	3,053	2,939
Accrued payroll related liabilities	2,614	2,423
Accrued vacation	2,243	2,272
Accrued commissions	2,537	1,496
Accrued software expense	844	1,284
Accrued contractor fees	455	1,132
Accrued professional service fees	344	1,016
Short-term portion of lease abandonment accrual	-	437
Deferred rent	74	220
Income tax related accruals	166	318
Other accrued expenses	1,167	1,949
Total	$13,497	$15,486

9. INCOME TAXES:

General overview:

The Company is subject to U.S. federal tax as well as income tax in multiple states and local and foreign jurisdictions. The Company's 2004 through 2015 tax years are open and may be subject to examination by these taxing authorities. Such examinations, if any, could result in challenges to tax positions taken and, accordingly, we may record adjustments to our tax provision based on the outcome of such matters.

The Company has elected to recognize interest and penalties related to income tax matters as a part of the income tax provision.

For the year ended December 31, 2016, we recorded an income tax provision of $5.0 million compared to an income tax provision of $3.5 million and $3.2 million in the years ended December 31, 2015 and 2014, respectively. The income tax provision recorded during 2016 includes a non-cash charge of $3.7 million

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

associated with an increase to the valuation allowance provided against the carrying value of our deferred tax attributes. Similarly, our 2015 income tax provision includes non-cash charges associated with the impairment of a certain state income net operating loss carryforward and a $3.0 million increase to the valuation allowance provided against the carrying value of our deferred tax attributes.

Deferred tax asset valuation allowance:

As of December 31, 2016, we had gross deferred tax assets of $27.2 million. Our deferred tax assets have arisen as a result of timing differences (primarily generated in connection with historical goodwill and intangible asset impairment charges), net operating loss carryforwards and tax credits. These assets represent amounts that we are able to use to reduce our future taxable income.

We maintained a valuation allowance of $8.2 million and $4.5 million against the carrying value of our gross deferred tax attributes as of December 31, 2016 and 2015, respectively.

We assess the realizability of our deferred tax assets and assess the need for a valuation allowance on an ongoing basis. The periodic assessment of the net carrying value of our deferred tax assets under the applicable accounting rules is judgmental. We are required to consider all available positive and negative evidence in evaluating the likelihood that we will be able to realize the benefit of our deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and the results of recent operations. Since this evaluation requires consideration of events that may occur some years into the future, there is significant judgment involved, and our conclusion could be materially different should certain of our expectations not transpire.

During our 2016 periodic assessment of the need for a valuation allowance against the carrying value of our deferred tax assets, we noted a continued shift in objectively verifiable trends which lessened the strength of our previously identified positive evidence. Specifically, during our assessment, we noted the following positive and negative evidence:

Positive Evidence:

- We had generated U.S.-based pre-tax income of more than $8.9 million over the previous three years and had utilized some of our available tax assets to reduce tax liabilities that would have otherwise arisen in those periods.
- Our forecasts of future taxable income indicated that our pre-tax income and taxable income would increase in the future.

Negative Evidence:

- While we generated U.S.-based profit before income taxes during 2016, we did not utilize a significant amount of our federal and state net operating loss carryforwards in 2016 as originally expected.
- Foreign operations are generating a larger portion of our consolidated profit before income taxes.
- The majority of our federal net operating loss carryforwards expire in 2020, reducing the time period over which the Company has to generate sufficient income to realize future benefit from the loss carryforward amounts.
- The Company did not achieve 100% of its plans and/or projections in 2016.
- Our forecasts have increased risk associated with operations due to current disruption in our sales pipeline attributable to our channel partners pushing customers toward cloud-based service offerings and away from on-premise applications.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

The Company, in connection with its determination of the future utilization of deferred tax assets, considered various future profitability scenarios. This analysis noted that there existed risk and uncertainty that the Company would be able to fully realize future economic benefit from all of the gross carrying value of its deferred tax attributes based upon the forecasted profitability. Accordingly, the Company recorded an increase of $3.7 million in the valuation allowance applied against the carrying value of its deferred tax assets, reducing the net carrying value to the more likely than not anticipated future economic benefit to be realized from the assets.

During our 2015 periodic assessment of the need for a valuation allowance against the carrying value of our deferred tax assets, we noted a shift in objectively verifiable trends which lessened the strength of our previously identified positive evidence. Specifically, during our assessment, we noted the following positive and negative evidence:

Positive Evidence:

- We had generated U.S.-based pre-tax income of more than $8.8 million over the previous three years and had utilized some of our available tax assets to reduce tax liabilities that would have otherwise arisen in those periods.
- Our forecasts of future taxable income indicated that our pre-tax income and taxable income would increase in the future.

Negative Evidence:

- We are reporting a loss in U.S.-based profit before income taxes during 2015 as a result we did not utilize a significant amount of our federal and state net operating loss carryforwards in 2015 as originally expected.
- The majority of our federal net operating loss carryforwards expire in 2020, reducing the time period over which the Company has to generate sufficient income to realize future benefit from the loss carryforward amounts.
- The Company did not achieve 100% of its plans and/or projections in 2015.
- Our forecasts have increased risk associated with operations of newly acquired businesses.

The Company, in connection with its determination of the future utilization of deferred tax assets, considered various future profitability scenarios. This analysis noted that there existed risk and uncertainty that the Company would be able to fully realize future economic benefit from all of the gross carrying value of its deferred tax attributes based upon the forecasted profitability. Accordingly, the Company recorded an increase of $3.0 million in the valuation allowance applied against the carrying value of its deferred tax assets, reducing the net carrying value to the more likely than not anticipated future economic benefit to be realized from the assets.

Realization of our deferred tax assets is dependent on our generating sufficient taxable income in future periods. Although we believe it is more likely than not that future taxable income would be sufficient to allow us to recover substantially all of the value of our deferred tax assets, realization is not assured and future events could cause us to change our judgment. In the event that actual results differ from our estimates, or we adjust these estimates in the future periods, further adjustments to our valuation allowance may be recorded, which could materially impact our financial position and net income (loss) in the period of the adjustment.

Table of Contents

9. INCOME TAXES (Continued):

Income tax provision:

Significant components of the Company's income tax provision (benefit) consisted of the following:

	Year Ended December 31,		
	2016	2015	2014
		(In Thousands)	
Current tax expense:			
Federal	$ -	$ -	$ -
State	185	161	377
Foreign	(9)	264	68
	176	425	445
Deferred tax expense (benefit):			
Federal	801	(544)	2,092
State	344	476	709
Foreign	9	205	301
Change in valuation allowance	3,700	3,000	-
	4,854	3,137	3,102
Unrecognized tax benefit	-	(33)	(370)
Income tax provision	$5,030	$3,529	$3,177

The components of income (loss) before income taxes are as follows:

	Year Ended December 31,		
	2016	2015	2014
Domestic	$1,568	$(1,875)	$6,259
Foreign	628	1,344	982
Income (loss) before income taxes	$2,196	$ (531)	$7,241

In general, it is the practice and intention of the Company to reinvest the earnings of its foreign subsidiary in those operations. However, as of December 31, 2016 the Company's foreign subsidiary is in a cumulative loss position which results in the tax basis of the subsidiary exceeding its book basis. As a result, no deferred tax asset is necessary to record in the financial statements as this temporary difference is not expected to reverse in the foreseeable future.

Table of Contents

9. INCOME TAXES (Continued):

The differences in income taxes determined by applying the statutory federal tax rate of 34% to income from continuing operations before income taxes and the amounts recorded in the accompanying consolidated statements of comprehensive income (loss) result from the following:

	Year Ended December 31,					
	2016		2015		2014	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollar Amounts In Thousands)					
Income tax at statutory rate	$ 747	34.0%	$ (195)	34.0%	$ 2,468	34.0%
Add (deduct):						
State income taxes, net of federal tax benefit	429	19.6	484	(84.4)	556	7.7
Tax rate difference on foreign income taxes	17	0.8	(36)	6.2	26	0.4
Tax effect of rate change on deferred tax assets	-	-	-	0.0	252	3.5
Non-deductible items	126	5.7	155	(27.1)	112	1.6
Net decrease in deferred tax attributes	-	-	-	-	183	2.5
Increase in valuation allowance against certain deferred tax assets	3,700	168.5	3,000	(523.8)	-	-
Unrecognized tax benefits	-	-	(33)	5.8	(370)	(5.1)
Other, net	11	0.5	154	(27.0)	(50)	(0.7)
	$5,030	229.1%	$ 3,529	(616.3)%	$ 3,177	43.9%

Deferred income taxes:

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2016 and 2015 are as follows:

	December 31,	
	2016	2015
	(In Thousands)	
Deferred income tax assets:		
Net operating loss carryforwards and credits	$16,090	$16,753
Acquired intangible assets	6,561	6,517
Reserves and accruals	2,209	2,115
Share-based compensation	2,837	3,092
Depreciation	395	397
Total deferred income tax assets	28,092	28,874
Deferred income tax liabilities:		
Acquired intangible assets	(549)	(180)
Other	(312)	(162)
Total deferred income tax liabilities	(861)	(342)
Valuation allowance	(8,200)	(4,500)
Deferred income tax asset, net	$19,031	$24,032

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

As of December 31, 2015, the Company elected to early adopt the provisions of FASB Accounting Standards Update No. 2015-17, *Income Taxes (Topic 740) Balance Sheet Classification of Deferred Taxes* (ASU 2015-17). The adoption of ASU 2015-17 resulted in the reclassification of $2.0 million of current deferred tax assets to noncurrent deferred tax assets as of December 31, 2015. Adoption of this standard did not impact results of operations, retained earnings, or cash flows in the current or previous interim and annual reporting periods.

Significant deferred tax attributes and current activity within the Company's deferred tax accounts included the following:

Net Operating Loss Carryforwards and Credits : As of December 31, 2016, we had net operating loss carryforwards for both federal and state income tax purposes of approximately $48.0 million and alternative minimum and worker's opportunity credits of approximately $2.1 million, which expire at various intervals through 2030. However, $35.8 million of the Company's federal net operating loss carryforwards and $1.0 million of worker's opportunity tax credits are set to expire in 2020.

Not included in the federal net operating loss carryforwards are $4.0 million of excess tax deductions from stock option exercises during fiscal 2016, 2015 and 2014. Pursuant to the guidance on accounting for stock-based compensation, the deferred tax asset relating to excess tax benefits from these exercises was not recognized for financial statement purposes. The future benefit from these deductions will be recorded as a credit to additional paid-in capital when taxes payable are reduced on the income tax return.

Additionally, the Internal Revenue Code contains provisions that limit the amount of net operating loss and tax credit carryforwards available to be used in any given year in the event of certain circumstances, including significant changes in ownership interests. These limitations may result in the expiration of our historical net operating loss carryforwards and tax credits prior to their utilization. The Company has various tax-effected net operating loss carryforwards for state income tax purposes of approximately $442 thousand which expire at various intervals through 2036.

Annual changes to the deferred tax valuation allowance are as follows:

	Year Ended December 31,		
	2016	2015	2014
		(In Thousands)	
Balance, beginning of year	$4,500	$1,500	$1,500
Additions	3,700	3,000	-
Balance, end of year	$8,200	$4,500	$1,500

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

Unrecognized tax benefits:

In accordance with our evaluation of unrecognized tax benefits, we have established a liability representing our estimated amount of unrecognized tax benefits, plus an additional provision for penalties and interest. A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In Thousands)		
Gross unrecognized tax benefits, beginning of year	$ -	$ 9	$ 108
Increase in tax position in current year	-	-	-
Settlement/Expiration of statute	-	-	-
De-recognition through administrative policy	-	(9)	(99)
Gross unrecognized tax benefits, end of year	$ -	$ -	$ 9

The Company's policy is to recognize accrued interest and penalties related to unrecognized tax benefits and income tax liabilities, when applicable, as part of income tax expense in its consolidated statements of comprehensive income (loss). There was no accrual for interest and penalties as of December 31, 2016 and 2015. Accrued interest and penalties totaled $49 thousand as of December 31, 2014.

As of December 31, 2015, we no longer maintain an accrual associated with unrecognized tax benefits. We do not expect our unrecognized tax benefits to change significantly over the next twelve months.

10. EMPLOYEE BENEFIT PLANS:

The Company has a 401(k) tax deferred savings plan that is available to all employees who satisfy certain minimum hour requirements each year (the "Plan"). The Company matches 30% of each participant's annual contribution under the Plan, up to 6% of each participant's annual base salary. Contributions by the Company to the Plan were approximately $776 thousand, $684 thousand and $592 thousand for the years ended December 31, 2016, 2015 and 2014, respectively.

11. EMPLOYEE SHARE-BASED COMPENSATION PLANS:

Overview

The total fair value of share-based awards is recognized as a compensation expense, over the requisite employee service period (generally the vesting period of the grant). The Company has used the Black-Scholes option-pricing model to compute the estimated fair value of share-based awards on the date of grant. The Black-Scholes option pricing model includes assumptions regarding dividend yields, expected volatility, expected option term and risk-free interest rates. Expected volatility is estimated based upon a combination of historical and implied volatility. The risk-free interest rate is based on the U.S. treasury yield curve in effect at the time of grant.

Share-Based Compensation Plans

The Company has five share-based compensation plans which are described below: the Amended and Restated 1996 Stock Option Plan ("1996 Plan"), the Amended and Restated 2000 Stock Option Plan ("2000

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

11. EMPLOYEE SHARE-BASED COMPENSATION PLANS (Continued):

Plan"), the 2003 Equity Incentive Plan ("2003 Plan"), the 2008 Omnibus Incentive Plan ("2008 Plan"), and the 2012 Omnibus Incentive Plan ("2012 Plan"), collectively the "Equity Plans." Specifics related to each plan are as follows:

1996 Plan : Grants for shares under the 1996 Plan were limited to 15% of the Company's outstanding common stock. The only grants outstanding under the 1996 Plan are non-qualified stock option grants, with total qualified stock option grants under the 1996 Plan limited to 650,000 shares of the Company's common stock. No grants of qualified stock options were ever issued under the 1996 Plan. The 1996 Plan expired on June 30, 2006; thus, no further grants have been awarded after June 30, 2006, but options awarded prior to that date remain outstanding subject to the terms of the 1996 Plan and any related option agreements.

2000 Plan : The 2000 Plan provides for grants of non-qualified stock options of the Company's common stock. The 2000 Plan is limited to grants covering up to 4.0 million shares of the Company's common stock.

2003 Plan : The 2003 Plan provides for grants of non-qualified stock options and awards of restricted shares of the Company's common stock. The 2003 Plan is limited to stock option grants and restricted stock awards covering up to 500,000 shares of the Company's common stock. The 2003 Plan expired on May 22, 2013; thus, no further grants have been awarded after May 22, 2013, but options awarded prior to that date remain outstanding subject to the terms of the 2003 Plan and any related option agreements.

2008 Plan : The 2008 Plan provides for a broad range of awards, including stock options and awards of restricted shares of the Company's common stock. The 2008 Plan authorizes the issuance of 1.5 million shares of the Company's common stock. The 2008 Plan became effective on June 11, 2008.

2012 Plan : The 2012 Plan provides for a broad range of awards, including stock options and awards of restricted shares of the Company's common stock. The 2012 Plan authorizes the issuance of 1.1 million shares of the Company's common stock. The 2012 Plan became effective on June 6, 2012.

As of December 31, 2016, there are 80,293; 51,702; and 28,197 shares available for future grant under the 2000 Plan, 2008 Plan, and 2012 Plan, respectively. No shares were available for issuance under the 1996 Plan, as it expired on June 30, 2006 or the 2003 Plan, as it expired on May 22, 2013.

The Equity Plans provide that the exercise price of the stock options will be determined based upon the fair market value of the Company's common stock on the NASDAQ Global Market System as of the date of grant. Options granted to officers and employees generally vest in three-, four- or five-year periods, dependent upon the plan or award, and expire on the seventh anniversary of the grant date. Annual options granted to non-employee members of the Company's Board of Directors generally vest in equal quarterly increments and expire on the fifth anniversary of the grant date, and option grants issued upon their initial election to the Company's Board of Directors vest in equal one-third increments as of the date of grant and the first and second anniversary of the date of grant.

During the years ended December 31, 2016 and 2015, the Company granted options to purchase 45,000 and 304,000 shares of common stock, respectively, principally as part of a long-term incentive program and in connection with the Company's Board of Directors compensation program. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model utilizing the assumptions noted in the following table. Expected volatility is based upon historical volatility of the Company's common stock. The expected life (period of time the award will be outstanding) was estimated using the historical exercise behavior of the Company's employees. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The Company applied an estimated forfeiture rate of 22.5% (in all periods presented) to the calculated fair value of each option. The applied forfeiture rate utilized by the Company was based upon the historical forfeiture experience of the Equity Plans.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

11. EMPLOYEE SHARE-BASED COMPENSATION PLANS (Continued):

The share-based compensation expense and its classification in the statements of comprehensive income (loss) were as follows:

	Year Ended December 31,		
	2016	2015	2014
	(In Thousands)		
Project and personnel costs	$ 202	$ 191	$ 242
Selling, general and administrative	1,084	1,402	1,270
Total share-based compensation expense	$1,286	$1,593	$1,512

The fair value of each option award granted during 2016, 2015 and 2014, was based upon the following weighted-average assumptions:

	Year Ending December 31,		
	2016	2015	2014
Expected volatility	40.8%	46.6%	48.0%
Expected dividend yield	-%	-%	-%
Expected life (in years)	3.57	3.63	3.69
Risk-free interest rate	1.1%	1.1%	0.8%

The weighted-average grant-date fair value of all options granted (excluding restricted share awards) during the years ended December 31, 2016, 2015 and 2014 was $2.38, $2.50 and $2.53 per share, respectively.

A summary of stock option activity under the Equity Plans (excluding restricted share awards) is presented below:

Stock Options:	Shares Under Options	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In Thousands)
Outstanding at January 1, 2015	3,735,233	$ 3.85		
Granted	304,000	7.05		
Exercised	(259,549)	3.21		
Forfeited or expired	(29,901)	3.80		
Outstanding at December 31, 2015	3,749,783	$ 4.15	2.93	$ 14,456
Granted	45,000	7.61		
Exercised	(883,085)	3.64		
Forfeited or expired	(61,368)	4.64		
Outstanding at December 31, 2016	2,850,330	$ 4.36	2.63	$ 8,961
Vested and expected to vest at December 31, 2016	2,778,665	$ 4.29	2.57	$ 8,041
Exercisable at December 31, 2016	2,531,819	$ 4.02	2.35	$ 8,810

The total intrinsic value of stock options exercised during 2016, 2015 and 2014 was approximately $3.1 million, $1.0 million and $1.2 million, respectively.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

11. EMPLOYEE SHARE-BASED COMPENSATION PLANS (Continued):

2003 Equity Incentive Plan, 2008 Omnibus Incentive Plan, and 2012 Omnibus Incentive Plan — Restricted Share Awards

The 2003 Plan, the 2008 Plan, and 2012 Plan also authorize the granting of restricted share awards to officers, employees and certain non-employee members of the Board of Directors (the "Restricted Share Plans"). Restricted share awards are made at prices determined by the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") and are compensatory in nature. Employees granted restricted share awards are required to provide consideration for the shares at the share price set by the Compensation Committee, which historically has equaled the par value per share of the Company's common stock ($0.01 per share). Shares of restricted stock generally vest over a 5-year period, during which time the Company has the right to repurchase any unvested shares at the amount paid if the relationship between the employee and the Company ceases. As of December 31, 2016, 75 thousand restricted share awards were subject to repurchase by the Company under the restricted stock agreements. The Company records compensation expense related to restricted share awards on a straight-line basis over the vesting term of the award.

During the years ended December 31, 2015 and 2014, the Company issued 91,000 and 84,800 restricted share awards, respectively, to employees at a purchase price of $0.01 per share. The Company did not issue any restricted share awards during the year ended December 31, 2016. Additionally, the Company recognized share-based compensation expense of $420 thousand, $557 thousand, and $386 thousand during the years ended December 31, 2016, 2015 and 2014, respectively related to restricted share awards.

A summary of non-vested restricted share activity under the Restricted Share Plans is presented below:

Restricted Share Awards:	Non-vested Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2015	153,718	$ 5.57
Granted	91,000	7.00
Vested	(76,601)	(5.54)
Non-vested at December 31, 2015	168,117	$ 6.36
Granted	—	—
Vested	(92,683)	(5.88)
Non-vested at December 31, 2016	75,434	$ 6.95
Expected to vest at December 31, 2016	75,434	$ 6.95

The total fair value of stock awards vested during the years ended December 31, 2016, 2015 and 2014 was $545 thousand, $422 thousand and $797 thousand, respectively.

Employee Stock Purchase Plan

In June 2008, in connection with the Company's Annual Meeting of Stockholders, the stockholders of the Company approved, and the Company adopted, the Edgewater Technology, Inc. 2008 Employee Stock Purchase Plan (the "2008 ESPP"). The 2008 ESPP became effective on October 1, 2008. The 2008 ESPP, which was amended in June 2011 and June 2015, allows a maximum of 1,700,000 shares of the Company's common stock to be purchased by Edgewater employees.

11. EMPLOYEE SHARE-BASED COMPENSATION PLANS (Continued):

The 2008 ESPP offers eligible employees the option to purchase the Company's common stock at 85% of the lower of the closing price, as quoted on NASDAQ, on either the first trading day or the last trading day of the quarterly purchase period. Enrollment periods occur on January 1 and July 1. Purchases occur every three months. The 2008 ESPP is designed to qualify for certain tax benefits for employees under section 423 of the Internal Revenue Code.

During the years ended December 31, 2016, 2015 and 2014, the Company issued 132,849, 117,431 and 103,401 shares, respectively, to employees under the 2008 ESPP.

The fair value of each 2008 ESPP offering was estimated on the date of grant using the Black-Scholes option pricing model that uses the weighted-average assumptions noted in the following table. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Expected volatility was based on historical volatility.

	Year Ended December 31,		
	2016	2015	2014
Expected volatility	30.5%	32.0%	47.2%
Expected dividend yield	-%	-%	-%
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	0.3%	0.0%	0.0%

The weighted-average fair value of the shares issued under the 2008 ESPP in 2016, 2015 and 2014, based upon the assumptions in the preceding table, was $1.73, $1.54 and $1.75, respectively.

Compensation Expense

As of December 31, 2016, unrecognized compensation expense, net of estimated forfeitures, related to the unvested portion of all share-based compensation arrangements was approximately $743 thousand and is expected to be recognized over a weighted average period of 0.8 years.

The Company is using previously purchased treasury shares for all shares issued for options, restricted share awards and 2008 ESPP issuances. Shares may also be issued from authorized but unissued shares.

12. CAPITAL STOCK:

Common and Preferred Stock-

The Company's stockholders had authorized 48.0 million shares of common stock available for issuance as of December 31, 2016 and 2015, and had 2.0 million shares of preferred stock available for issuance as of December 31, 2016 and 2015.

Stock Repurchase Program-

In December 2007, our Board of Directors (the "Board") authorized a stock repurchase program for up to $5.0 million of common stock on the open market or through privately negotiated transactions from time-to-time through December 31, 2008 (the "Stock Repurchase Program"). The Board subsequently amended the Stock Repurchase Program, authorizing both an increase to and an extension of the Stock Repurchase Program. The Stock Repurchase Program, as amended, had a maximum purchase value of shares of $23.1 million (the

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

12. CAPITAL STOCK (Continued):

"Purchase Authorization") and was set to expire on September 23, 2016 (the "Repurchase Period"). On September 23, 2016, we announced that the Board had approved an extension of the Repurchase Period to September 22, 2017.

The timing and amount of the purchases will be based upon market conditions, securities law considerations and other factors. The Stock Repurchase Program does not obligate the Company to acquire a specific number of shares in any period and may be modified, suspended, extended or discontinued at any time, without prior notice.

The Company did not repurchase any shares of common stock during the year ended December 31, 2016. The Company repurchased a total of 46 thousand shares of common stock during the year ended December 31, 2015, at an aggregate purchase price of $332 thousand. As of December 31, 2016, the Company had $8.7 million of purchase authorization remaining under the plan.

13. COMMITMENTS AND CONTINGENCIES:

Commitments. We lease office space and certain equipment under operating leases that expire at various times through 2020. Future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2016, were as follows:

Year Ending December 31,	Operating Leases
2017	$ 835
2018	363
2019	338
2020	84
Thereafter	-
	$ 1,620

Rent payments under operating leases were $1.8 million, $2.1 million and $1.8 million for the years ended December 31, 2016, 2015 and 2014, respectively.

Contingencies. We are sometimes a party to litigation incidental to our business. We believe that these routine legal proceedings will not have a material adverse effect on our financial position. We are not involved in any legal proceedings which would be material to our consolidated financial statements. We maintain insurance in amounts with coverages and deductibles that we believe are reasonable. However, there can be no assurance that such coverages will continue to be available on reasonable terms or will be available in sufficient amounts to cover possible claims that may arise in the future, or that our insurers will not disclaim coverage as to any future claim. The successful assertion of one or more claims against the Company that exceed available insurance coverages or changes in the Company's insurance policies, including premium increases or the imposition of a large deductible or co-insurance requirements, could have a material adverse effect on the Company's business, results of operations and financial condition.

The Company had no unrecognized tax benefits, penalties or interest expense related to uncertain tax positions as of December 31, 2016 or 2015.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

14. REVOLVING CREDIT FACILITY

In September 2013, the Company entered into a secured revolving credit facility (the "Credit Facility"). The Credit Facility was modified through an amendment in December 2015, which increased the borrowing base to $15 million (from the previous $10 million) with an additional accordion feature that allows the Company to request an additional $5.0 million as needed, extending the total credit facility borrowing capacity to $20 million over its three-year term. The Credit Facility is collateralized by substantially all assets of the Company and its domestic subsidiaries, and is subject to normal financial covenants. The Company was in compliance with all covenants as of December 31, 2016. Under the terms of the Credit Facility, any advances will accrue interest at a variable per annum rate of interest equal to the LIBOR Rate plus 1.5%. Interest is due and payable, in arrears, on a monthly basis. The Company will be obligated to pay an annual commitment fee of 0.15% on the daily undrawn balance of the facility. Any amounts outstanding under the Credit Facility will be due on December 21, 2018. The Company has drawn down $5.0 million of this balance as of December 31, 2016.

15. GEOGRAPHIC INFORMATION

Net sales to unaffiliated customers by geographic area were as follows:

	For the Years Ending December 31,		
	2016	2015	2014
United States	$ 108,200	$ 100,730	$ 103,446
Canada	12,288	11,377	6,572
Other International	6,034	4,598	2,971
Total Revenue	$ 126,522	$ 116,704	$ 112,989

Substantially all of the Company's long-lived assets are located within the United States.

16. SEGMENT INFORMATION

In accordance with the provisions of Topic 280, Segment Reporting to the FASB ASC ("ASC 280"), the Company determined that it has three operating segments (Enterprise Performance Management ("EPM"), Enterprise Resource Planning ("ERP") and Classic Consulting). The Company has further determined that these operating segments no longer meet the aggregation criteria and therefore constitute three reportable segments.

The EPM segment provides Business Analytics solutions leveraging Oracle EPM, BI and Big Data technologies. The ERP segment delivers Dynamics AX ERP, Business Intelligence and CRM solutions, primarily in the manufacturing space. The Classic Consulting segment provides business advisory services that are blended with technical services to help organizations leverage investments in legacy IT assets to create new digital business models.

The Company's chief operating decision maker evaluates performance using several factors, of which the primary financial measures are revenue and operating segment operating income. The accounting policies of the operating segments are the same as those described in Note 2 "Summary of Significant Accounting Policies".

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

16. SEGMENT INFORMATION (Continued)

Segment information for the years ended December 31, 2016, 2015 and 2014 is as follows (in thousands):

	EPM	ERP	Classic Consulting	Corporate	Consolidated
			(In Thousands)		
2016					
Total revenue	$64,703	$45,692	$ 16,127	$ -	$ 126,522
Operating income (loss)	$ 8,820	$ 4,292	$ 1,991	$ (10,580)	$ 4,523
Depreciation and amortization expense	$ 2,872	$ 971	$ 169	$ 190	$ 4,202
2015					
Total revenue	$53,907	$47,180	$ 15,617	$ -	$ 116,704
Operating income (loss)	$ 7,219	$ 4,864	$ 1,128	$ (11,729)	$ 1,482
Depreciation and amortization expense	$ 495	$ 814	$ 211	$ 188	$ 1,708
2014					
Total revenue	$57,508	$41,901	$ 13,580	$ -	$ 112,989
Operating income (loss)	$10,645	$ 6,439	$ 619	$ (10,281)	$ 7,422
Depreciation and amortization expense	$ 196	$ 509	$ 245	$ 192	$ 1,142

The Company is not disclosing total assets for each of its reportable segments, as total assets by reportable segment is not a key metric provided to the Company's chief operating decision maker.

17. UNAUDITED SUPPLEMENTARY QUARTERLY FINANCIAL INFORMATION:

The following tables set forth certain unaudited supplementary quarterly financial information for the years ended December 31, 2016 and 2015. The quarterly operating results are not necessarily indicative of future results of operations.

	2016				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
	(In Thousands, Except Per Share Data)				
Total revenue	$31,898	$34,024	$30,826	$29,774	$126,522
Gross profit	$10,750	$12,814	$10,640	$11,978	$ 46,182
Net (loss) income	$ (763)	$ 1,313	$ 43	$ (3,427)(1)	$ (2,834)
Basic (loss) income per share	$ (0.06)	$ 0.11	$ 0.00	$ (0.28)	$ (0.23)
Diluted (loss) income per share	$ (0.06)	$ 0.09	$ 0.00	$ (0.28)	$ (0.23)

	2015				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter	Total
	(In Thousands, Except Per Share Data)				
Total revenue	$26,578	$30,527	$31,184	$28,415	$116,704
Gross profit	$ 7,645	$10,413	$11,756	$ 9,776	$ 39,590
Net (loss) income	$ (940)	$ 494	$ 1,027	$ (4,641)(1)	$ (4,060)
Basic (loss) income per share	$ (0.08)	$ 0.04	$ 0.09	$ (0.40)	$ (0.35)
Diluted (loss) income per share	$ (0.08)	$ 0.04	$ 0.08	$ (0.40)	$ (0.35)

(1) The Company's fourth quarter 2016 and 2015 net loss includes $3.7 million and $3.6 million, respectively, of expense associated with the increase to the valuation allowance applied against the carrying value of its deferred tax attributes and the impairment of certain state net operating loss carryforwards.

EDGEWATER TECHNOLOGY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

18. SUBSEQUENT EVENTS:

On March 8, 2017, the Board of Directors of the Company voted to remove without cause Shirley Singleton as the Company's President and Chief Executive Officer, effective immediately. The Board of Directors also voted to remove Ms. Singleton as Chairman of the Board. Ms. Singleton continues to serve as a member of the Board.

The Employment Agreement, dated as of June 12, 2007, as amended, with Ms. Singleton provides that, if Ms. Singleton is terminated without cause, then the Company is required to pay Ms. Singleton a lump-sum payment equal to two (2) times her annual base salary in effect at the time of such termination plus an amount equal to her bonus target for 2016. In no event will the bonus paid exceed one (1) year's annual base salary. The total amounts due will be payable in two installments: (a) thirty (30) days after the date of termination, a first payment equal to the greater of (i) $510,000 or (ii) two (2) times Ms. Singleton's annual base salary in effect at the time of such termination; and (b) six months after the date of such termination, a second payment equal to the excess of (i) the amount of the severance payment, over (ii) the amount paid under section (a) above. In addition, all unvested options and restricted stock awards become immediately vested and exercisable, and Ms. Singleton's healthcare, life insurance and disability coverage continue for a period of two years following termination.

On March 8, 2017, the Board appointed Jeffrey L. Rutherford, age 56, as Interim President and Interim Chief Executive Officer, effective immediately. The Board also elected Mr. Rutherford as Chairman of the Board, effective immediately. Mr. Rutherford joined the Board on February 16, 2017.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures, which we have designed to ensure that material information related to the Company, including our consolidated subsidiaries, is properly identified and evaluated on a regular basis and disclosed in accordance with all applicable laws and regulations. In response to applicable laws and regulations, we reviewed our disclosure controls and procedures. We also established a disclosure committee, which consists of certain members of our senior management. The President and Chief Executive Officer and the Chief Financial Officer of Edgewater Technology, Inc. (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluations as of the end of the period covered by this Report, that the Company’s disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms, and include controls and procedures designed to ensure that information required to be disclosed by the Company in such reports is accumulated and communicated to the Company’s management as appropriate to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control include providing management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management’s authorization and recorded properly to permit the preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment under those criteria, management concluded that the Company’s internal control over financial reporting was effective as of December 31, 2016.

The attestation report concerning the effectiveness of our internal control over financial reporting as of December 31, 2016 issued by BDO USA, LLP, an independent registered public accounting firm, appears in Item 8 of this Annual Report on Form 10-K.

Changes in Controls and Procedures

There were no changes in the Company’s internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by Part III of the Annual Report on Form 10-K is omitted from this report because we will file a definitive proxy statement in accordance with Regulation 14A of the SEC's rules on or before May 1, 2017. These items include:

(a) The information called for by Item 10 of the Annual Report on Form 10-K involving Item 401 of Regulation S-K is incorporated by reference to the material under the captions "Election of Directors — Nominees for Election" and "Executive Officers" in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

(b) The information called for by Item 10 of the Annual Report on Form 10-K involving Item 405 of Regulation S-K is incorporated by reference to the material under the caption "Stock Ownership — Section 16 (a) Beneficial Ownership Reporting Compliance" in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

(c) The information called for by Item 10 of the Annual Report on Form 10-K involving Item 406 of Regulation S-K is incorporated by reference to the material under the caption "Corporate Governance — Code of Ethics" in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

(d) The information called for by Item 10 of the Annual Report on Form 10-K involving paragraphs (c)(3), (d)(4) and (d)(5) of Item 407 of Regulation S-K is incorporated by reference to the material under caption "Corporate Governance — Board and Board Committee Matters" in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

ITEM 11. EXECUTIVE COMPENSATION

The information called for by Item 11 of the Annual Report on Form 10-K for management remuneration involving Item 402 of Regulation S-K and paragraphs (e)(4) and (e)(5) of Item 407 of Regulation S-K is incorporated herein by reference to the material under the captions "Corporate Governance — Compensation of Outside Directors", "Corporate Governance — Outside Directors Compensation Table for 2016," "Corporate Governance — Compensation Committee Interlocks and Insider Participation," "Compensation Committee Report," "Compensation Discussion and Analysis" and "Compensation of Named Executive Officers" in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

The "Compensation Committee Report" contained in our proxy statement shall not be deemed "soliciting material" or "filed" with the SEC or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filings under the Securities Act of 1933 or the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate such information by reference into a document filed under the Securities Act or Exchange Act.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by Item 12 of the Annual Report on Form 10-K involving Item 201(d) of Regulation S-K and Item 403 of Regulation S-K for the securities authorized under equity compensation plans and security ownership of certain beneficial owners and management, respectively, is incorporated herein by reference to the material under the captions "Equity Compensation Plans" and "Stock Ownership — Beneficial Ownership of Certain Stockholders, Directors and Executive Officers," respectively, in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information called for by Item 13 of the Annual Report on Form 10-K involving Item 404 of Regulation S-K and Item 407(a) of Regulation S-K is incorporated herein by reference to the material under the captions "Certain Relationships and Related Transactions" and "Corporate Governance — Board and Board Committee Matters" in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for by Item 9(e) of Schedule 14A is incorporated herein by reference to the material under the captions "Corporate Governance — Board and Board Committee Matters — Audit Committee", "Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Auditor" and "Audit Fees and Non-Audit Services" in our proxy statement for our Annual Meeting of Stockholders to be held on June 14, 2017.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements required by Item 15 are included and indexed in Part II, Item 8.
2. Financial Statement Schedules included in Part IV of this report. Schedule II is omitted because the information is included in the Notes to Consolidated Financial Statements. All other schedules under the accounting regulations of the SEC are not required under the related instructions or are inapplicable and, thus have been omitted.
3. See “Exhibit Index” on the following pages.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the Town of Wakefield, Commonwealth of Massachusetts, on March 15, 2017.

Edgewater Technology, Inc.

/s/ JEFFREY L. RUTHERFORD
Jeffrey L. Rutherford
Chairman, Interim President and Interim Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below appoints jointly and severally, Jeffrey L. Rutherford and Timothy R. Oakes and each one of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that each said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Name	Title	Date
/s/ JEFFREY L. RUTHERFORD Jeffrey L. Rutherford	Chairman, Interim President and Interim Chief Executive Officer *(Principal Executive Officer)*	March 15, 2017
/s/ TIMOTHY R. OAKES Timothy R. Oakes	Chief Financial Officer *(Principal Financial and Accounting Officer)*	March 15, 2017
/s/ STEPHEN BOVA Stephen Bova	Director	March 15, 2017
/s/ MATTHEW CARPENTER Matthew Carpenter	Director	March 15, 2017
/s/ FREDERICK DISANTO Frederick DiSanto	Director	March 15, 2017
/s/ NANCY L. LEAMING Nancy Leaming	Director	March 15, 2017
/s/ SHIRLEY SINGLETON Shirley Singleton	Director	March 15, 2017
/s/ TIMOTHY WHELAN Timothy Whelan	Director	March 15, 2017
/s/ KURTIS J. WOLF Kurtis J. Wolf	Director	March 15, 2017

Table of Contents

(a) 3. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
2.1	Asset Purchase Agreement, dated as of March 13, 2015, by and among Edgewater Technology-Zero2Ten, Inc., Zero 2 Ten, Inc., Zero2Ten EMEA Limited, and Paul A. Colella, Ryan Casey, David T. Kohar and Adam Spurr (Incorporated by reference from Exhibit 2.1 to the Company's Form 8-K filed with the SEC on March 17, 2015).*
2.2	Earnout Agreement, dated as of March 13, 2015, by and among Edgewater Technology-Zero2Ten, Inc. and Zero 2 Ten, Inc. (Incorporated by reference from Exhibit 2.2 to the Company's Form 8-K filed with the SEC on March 17, 2015).
2.3	Asset Purchase Agreement, dated as of August 17, 2015, by and among Edgewater Technology-Branchbird, Inc., Branchbird LLC, and Andrew Oh, Patrick Rafferty and Dan Brock (Incorporated by reference from Exhibit 2.1 to the Company's Form 8-K filed with the SEC on August 19, 2015).*
2.4	Earnout Agreement, dated as of August 17, 2015, by and among Edgewater Technology-Branchbird, Inc. and Branchbird LLC (Incorporated by reference from Exhibit 2.2 to the Company's Form 8-K filed with the SEC on August 19, 2015).
2.5	Asset Purchase Agreement, dated as of December 21, 2015, by and among Edgewater Technology-M2, Inc., M2 Dynamics Inc. and Michael A. Kember, Brian Grimes, Darlene Finn and the Rambeau Living Trust dated March 9, 2013 (Incorporated by reference from Exhibit 2.1 to the Company's Form 8-K filed with the SEC on December 22, 2015).*
2.6	Earnout Agreement, dated as of December 21, 2015, by and among Edgewater Technology-M2, Inc. and M2 Dynamics Inc. (Incorporated by reference from Exhibit 2.2 to the Company's Form 8-K filed with the SEC on December 22, 2015).
3.1	Restated Certificate of Incorporation of the Company (Incorporated by reference from Exhibit 3.1 to the Company's Form 10-Q filed with the SEC on May 13, 2011).
3.2	Amended and Restated By-Laws of the Company, as amended to date.+
4.1	Form of certificate evidencing ownership of common stock of the Company (Incorporated by reference from Exhibit 4.1 to the Company's Form 10-K for the year ended December 31, 2013).
10.1	Form of Indemnification Agreement between the Company and its directors and executive officers (Incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed with the SEC on March 25, 2016). (1)
10.2	Edgewater Technology, Inc. Amended and Restated 1996 Stock Option Plan, most recently amended, effective March 20, 2002 (Incorporated by reference from Exhibit 10.48 to the Company's Form 10-K for the year ended December 31, 2001 filed with the SEC on March 27, 2002). (1)
10.3	Edgewater Technology, Inc. Amended and Restated 2000 Stock Option Plan, as amended (Incorporated by reference from Exhibit 10.3 to the Company's Form 10-Q for the quarter ended March 31, 2016 filed with the SEC on May 6, 2016). (1)

(a) 3. Exhibits-(Continued)

EXHIBIT INDEX

Exhibit Number	Description
10.4	Edgewater Technology, Inc. 2008 Employee Stock Purchase Plan, as amended (Incorporated by reference from Appendix A to the Company's Proxy Statement on Schedule 14A (File No. 000-20971) filed on April 22, 2015). (1)
10.5	Edgewater Technology, Inc. 2003 Equity Incentive Plan (Incorporated by reference to Exhibit 4.10 of Form S-8 (File No. 333-106325), filed with the SEC on June 20, 2003). (1)
10.6	Third Amendment to Lease between Edgewater Technology (Delaware), Inc. and Harvard Mills Limited Partnership, dated March 21, 2006 and effective as of May 3, 2006 for Edgewater Technology, Inc.'s corporate headquarters at 20 Harvard Mill Square, Wakefield, Massachusetts. (Incorporated by reference from Exhibit 99.1 to the Company's Form 8-K filed with the SEC on May 3, 2006).
10.7	Employment Agreement by and among the Company, Edgewater Technology (Delaware), Inc. ("Edgewater Delaware") and Shirley Singleton dated as of June 12, 2007, which supersedes and terminates that certain employment agreement dated as of June 12, 2003 by and between Edgewater Delaware and Shirley Singleton (Incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed with the SEC on June 15, 2007). (1)
10.8	Employment Agreement by and among the Company, Edgewater Technology (Delaware), Inc. ("Edgewater Delaware") and David Clancey dated as of June 12, 2007, which supersedes and terminates that certain employment agreement dated as of June 12, 2003 by and between Edgewater Delaware and David Clancey (Incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed with the SEC on June 15, 2007). (1)
10.9	Restated Change in Control Agreement by and among the Company and Timothy R. Oakes, dated as of December 4, 2013 (Incorporated by reference from Exhibit 10.3 to the Company's Form 8-K filed with the SEC on December 6, 2013). (1)
10.10	Edgewater Technology, Inc. 2008 Omnibus Incentive Plan (Incorporated by reference to Exhibit 10.1 of Form S-8 (File No. 333-153740) filed with the SEC on September 30, 2008). (1)
10.11	Restated Change in Control Agreement by and among the Company and Robin Ranzal Knowles, dated as of December 4, 2013 (Incorporated by reference from Exhibit 10.4 to the Company's Form 8-K filed with the SEC on December 6, 2013). (1)
10.12	Second Amendment to Employment Agreement by and among Edgewater Technology, Inc. and Shirley Singleton, dated as of December 4, 2013 (Incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 6, 2013). (1)
10.13	Second Amendment to Employment Agreement by and among Edgewater Technology, Inc. and David Clancey, dated as of December 4, 2013 (Incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed with the SEC on December 6, 2013). (1)

Table of Contents

(a) 3. Exhibits-(Continued)

EXHIBIT INDEX

Exhibit Number	Description
10.14	Edgewater Technology, Inc. 2012 Omnibus Incentive Plan (Incorporated by reference from Exhibit 99.2 to the Company's Form 8-K filed with the SEC on June 8, 2012). (1)
10.15	Form of Non-Qualified Stock Option Agreement (Employee) under the 2012 Omnibus Incentive Plan (Incorporated by reference from Exhibit 99.3 to the Company's Form 8-K filed with the SEC on June 8, 2012). (1)
10.16	Form of Non-Qualified Stock Option Agreement (Non-Employee Director) under the 2012 Omnibus Incentive Plan (Incorporated by reference from Exhibit 99.4 to the Company's Form 8-K filed with the SEC on June 8, 2012). (1)
10.17	Form of Non-Qualified Stock Option Agreement (Executive) under the 2012 Omnibus Incentive Plan (Incorporated by reference from Exhibit 99.2 to the Company's Form 8-K filed with the SEC on September 28, 2012). (1)
10.18	First Amendment to Employment Agreement by and among Edgewater Technology, Inc. and Shirley Singleton dated as of December 17, 2010, which amends that certain employment agreement dated as of June 12, 2007 (Incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 22, 2010). (1)
10.19	First Amendment to Employment Agreement by and among Edgewater Technology, Inc. and David Clancey dated as of December 17, 2010, which amends that certain employment agreement dated as of June 12, 2007 (Incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed with the SEC on December 22, 2010). (1)
10.20	Loan Agreement, dated as of September 23, 2013, among Edgewater Technology, Inc., its subsidiaries listed therein and RBS Citizens, N.A. (Incorporated herein by reference to Exhibit 10.1 to the Company's Form 8-K filed with the Securities and Exchange Commission on September 25, 2013).
10.21	Amendment No. 1 to Loan Agreement and Joinder, dated as of December 21, 2015, to Loan Agreement, dated as of September 23, 2013, among Edgewater Technology, Inc., its subsidiaries listed therein and Citizens Bank, N.A. (Incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 22, 2015).
10.22	Form of Stock Purchase Agreement under the Edgewater Technology, Inc. 2012 Omnibus Incentive Plan (Version for Executive Officers with Employment Agreements) (Incorporated by reference from Exhibit 10.1 to the Company's Form 10-Q for the quarter ended March 31, 2013). (1)
10.23	Form of Stock Purchase Agreement under the Edgewater Technology, Inc. 2012 Omnibus Incentive Plan (Version for Employees without Employment Agreements) (Incorporated by reference from Exhibit 10.2 to the Company's Form 10-Q for the quarter ended March 31, 2013). (1)
10.24	Form of Stock Purchase Agreement under the Edgewater Technology, Inc. 2012 Omnibus Incentive Plan (Version for Non-Employee Directors) (Incorporated by reference from Exhibit 10.1 to the Company's Form 10-Q for the quarter ended June 30, 2013). (1)

(a) 3. Exhibits-(Continued)

EXHIBIT INDEX

Exhibit Number	Description
10.25	Third Amendment to Employment Agreement by and among Edgewater Technology, Inc. and Shirley Singleton, dated as of December 2, 2016 (Incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed with the SEC on December 6, 2016).(1)
10.26	Third Amendment to Employment Agreement by and among Edgewater Technology, Inc. and David Clancey, dated as of December 2, 2016 (Incorporated by reference from Exhibit 10.2 to the Company's Form 8-K filed with the SEC on December 6, 2016).(1)
10.27	Settlement Agreement by and between Edgewater Technology, Inc. and Lone Star Value Investors, LP and others, dated March 24, 2016 (Incorporated by reference from Exhibit 10.1 to the Company's Form 8-K filed with the SEC on March 25, 2016).
21.1	Subsidiaries of Edgewater Technology, Inc.+
23.1	Consent of BDO USA, LLP, Independent Registered Public Accounting Firm.+
24.1	Power of Attorney (See Signature Page).+
31.1	13a-14 Certification — President and Chief Executive Officer+
31.2	13a-14 Certification — Chief Financial Officer+
32	Section 1350 Certification+
101	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2016 and 2015, (ii) Consolidated Statements of Comprehensive (Loss) Income for the years ended December 31, 2016, 2015 and 2014, (iii) Consolidated Statements of Stockholders Equity for the years ended December 31, 2016, 2015 and 2014, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014 and (v) Notes to the Consolidated Financial Statements.+

(1) This agreement is a management contract or compensatory plan or arrangement required to be filed as an exhibit to this Annual Report on Form 10-K pursuant to Item 15(b).

* Pursuant to Item 601(b)(2) of Regulation S-K, the Company agrees to furnish supplementally a copy of any omitted schedules to this agreement to the SEC upon its request.

+ Filed herewith.

Exhibit 3.2

THE AMENDED AND RESTATED

BY-LAWS OF

EDGEWATER TECHNOLOGY, INC., AS AMENDED

(As Amended Through February 16, 2017)

ARTICLE I—STOCKHOLDERS

SECTION 1. Annual Meeting . The annual meeting of the stockholders of the Corporation shall be held on such date, at such time and at such place within or without the State of Delaware as may be designated by the Board of Directors, for the purpose of electing Directors and for the transaction of such other business as may be properly brought before the meeting.

SECTION 2 Special Meetings . Except as otherwise provided in the Certificate of Incorporation, a special meeting of the stockholders of the Corporation shall be called only by the secretary of the Corporation at the request of (i) a majority of the total number of Directors which the Corporation at the time would have if there were no vacancies or (ii) by any person authorized by the Board of Directors (through a vote of a majority of the total number of Directors which the Corporation at the time would have if there were no vacancies) to call a special meeting. Any special meeting of the stockholders shall be held on such date, at such time and at such place within or without the State of Delaware as the Board of Directors or the authorized person requesting such special meeting may designate. At a special meeting of the stockholders, no business shall be transacted and no corporation action shall be taken other than that stated in the notice of the meeting.

SECTION 3 Notice of Meetings . Except as otherwise provided in these By-Laws or by law, a written notice of each meeting of the stockholders shall be given not less than ten (10) nor more than sixty (60) days before the date of the meeting to each stockholder of the Corporation entitled to vote at such meeting at his address as it appears on the records of the Corporation. The notice shall state the place, date and hour of the meeting and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

SECTION 4 Quorum . At any meeting of the stockholders, the holders of a majority in number of the total outstanding shares of stock of the Corporation entitled to vote at such meeting, present in person or represented by proxy, shall constitute a quorum of the stockholders for all purposes, unless the representation of a larger number of shares shall be required by law, by the Certificate of Incorporation or by these By-Laws, in which case the representation of the number of shares so required shall constitute a quorum; provided that at any meeting of the stockholders at which the holders of any class of stock of the Corporation shall be entitled to vote separately as a class, the holders of a majority in number of the total outstanding shares of such class, present in person or represented by proxy, shall constitute a quorum for purposes of such class vote unless the representation of a larger number of shares of such class shall be required by law, by the Certificate of Incorporation, or by these By-Laws.

SECTION 5. Adjourned Meetings . Whether or not a quorum shall be present in person or represented by proxy at any meeting of the stockholders, the holders of a majority in number of the shares of stock of the Corporation present in person or represented by proxy and entitled to vote at such meeting may adjourn from time to time; provided, however, that if the holders of any class of stock of the Corporation are entitled to vote separately as a class upon any matter at such meeting, any adjournment of the meeting in respect of action of such class upon such matter shall be determined by the holders of a majority of the shares of such class present in person or represented by proxy and entitled to vote at such meeting. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting at which the adjournments is taken. At the adjourned meeting the stockholders, or the holder of any class of stock entitled to vote separately as a class, as the case may be, may transact any business which might have been transacted by them at the original meeting. If the adjournment is for more than thirty days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the adjourned meeting.

SECTION 6. Organization . The President or, in his absence, any Vice President shall call all meetings of the stockholders to order, and shall act as Chairman of such meetings. In the absence of the President and all of the Vice Presidents, the holders of a majority in number of the shares of stock of the Corporation present in person or represented by proxy and entitled to vote at such meeting shall elect a Chairman.

The Secretary of the Corporation shall act as Secretary of all meetings of the stockholders; but in the absence of the Secretary, the Chairman may appoint any person to act as Secretary of the meeting. It shall be the duty of the Secretary to prepare and make, at least ten days before every meeting of stockholders, a complete list of stockholders entitled to vote at such meeting, arranged in alphabetical order and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting or, if not so specified, at the place where the meeting is to be held, for the ten days next preceding the meeting, to the examination of any stockholder, for any purpose germane to the meeting, during ordinary business hours, and shall be produced and kept at the time and place of the meeting during the whole time thereof and subject to the inspection of any stockholder who may be present.

SECTION 7. Voting . Except as otherwise provided in the Certificate of Incorporation or by law, each stockholder shall be entitled to one vote for each share of the capital stock of the Corporation registered in the name of such stockholder upon the books of the Corporation. Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for him by proxy, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. When directed by the presiding officer or upon the demand of any stockholder, the vote upon any matter before a meeting of stockholders shall be by ballot. Except as otherwise provided by law or by the Certificate of Incorporation, Directors shall be elected by a plurality of the votes cast at a meeting of stockholders by the stockholders entitled to vote in the election and, whenever any corporate action, other than the election of Directors is to be taken, it shall be authorized by a majority of the votes cast at a meeting of stockholders by the stockholders entitled to vote thereon.

Shares of the capital stock of the Corporation belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors of such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes.

SECTION 8. Inspectors . When required by law or directed by the presiding officer or upon the demand of any stockholder entitled to vote, but not otherwise, the polls shall be opened and closed, the proxies and ballots shall be received and taken in charge, and all questions touching the qualification of voters, the validity of proxies and the acceptance or rejection of votes shall be decided at any meeting of the stockholders by two or more inspectors who may be appointed by the Board of Directors before the meeting, or if not so appointed, shall be appointed by the presiding officer at the meeting. If any person so appointed fails to appear or act, the vacancy may be filled by appointment in like manner.

SECTION 9. Consent of Stockholders in Lieu of Meeting . Except as otherwise provided in the Certificate of Incorporation, any action required or permitted to be taken by the stockholders of the Corporation at an annual or special meeting of the stockholders may be taken without a meeting and without a vote, if a consent in writing, meeting the requirements of the succeeding proviso and setting forth the action so taken, shall be signed by the record holders of outstanding stock as of the record date duly established by the Board of Directors consistent with these By-Laws having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted; provided, however, no purported action shall be effective by written consent unless written notice of the proposed action is provided to the secretary of the Corporation and the Board of Directors shall have been provided the opportunity to meet, within ten days of the secretary’s receipt of such written notice, and duly establish a record date which shall be effective for taking such action by the written consent, which record date shall be as of a date within ten days of the date upon which the Board of Directors shall have met to consider, and establish a record date, for the proposed action by written consent set forth in such notice. Prompt notice of the taking of any such corporate action without a meeting by less than unanimous written consent shall be given to those stockholders who have not consented in writing.

SECTION 10. Notice of Stockholder Business and Nominations . Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders may be made at an annual meeting of stockholders (i) by or at the direction of the Board of Directors pursuant to a resolution adopted by a majority of the total number of Directors which the Corporation at the time would have if there were no vacancies or (ii) by any stockholder of the Corporation who is entitled to vote at the meeting with respect to the election of Directors or the business to be proposed by such stockholder, as the case may be, who complies with the notice procedures set forth below and who is a stockholder of record at the time such notice is delivered to the secretary of the Corporation as provided below.

For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (ii) of the preceding paragraph, the stockholder must have given timely notice thereof in writing to the secretary of the Corporation and such business must be a proper subject for stockholder action under the Delaware General Corporation Law. To be timely, a stockholder's notice shall be delivered to the secretary of the Corporation at the principal executive office of the Corporation not less than sixty days nor more than ninety days prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is advanced by more than 30 days, or delayed by more than 30 days, from such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the ninetieth day prior to such annual meeting and not later than either the close of business on the tenth day following the earlier of (i) the day on which notice of the date of such meeting was mailed or (ii) the day on which public announcement of the date of such meeting is first made. Such stockholder's notice shall set forth (x) as to each person whom the stockholder proposes to nominate for election or reelection as a director all information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (y) as to any other business that the stockholder proposes to bring before the meeting, a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made; and (z) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (A) the name and address of such stockholder, as they appear on the Corporation's books, and of such beneficial owner and (B) the class and number of shares of the Corporation which are owned beneficially and of record by such stockholder and such beneficial owner.

Notwithstanding anything in the second sentence of the preceding paragraph to the contrary, in the event that the number of Directors to be elected to the Board of Directors is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least eighty days prior to the first anniversary of the preceding year's annual meeting, a stockholders' notice required by the preceding paragraph shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the secretary of the Corporation at the principal executive offices of the Corporation not later than the close of business on the tenth day following the day on which such public announcement is first made by the Corporation.

ARTICLE II
BOARD OF DIRECTORS

SECTION 1. Number and Term of Office. The business and affairs of the Corporation shall be managed by or under the direction of a Board of Directors, none of whom need be stockholders of the Corporation. The number of Directors constituting the Board of Directors shall be eight members; provided, however, that the number of Directors constituting the Board of Directors may be adjusted from time to time by (i) a By-Law amending this Section 1 duly adopted by the Board of Directors or by the stockholders or (ii) a resolution passed by a majority of the Board of Directors. The Director shall, except as hereinafter otherwise provided for filling vacancies, be elected at the annual meeting of stockholders, and shall hold office until their respective successors are elected and qualified or until their earlier resignation or removal.

SECTION 2. Vacancies and Additional Directors. Unless otherwise required by law or the Certificate of Incorporation, vacancies on the Board of Directors caused by death, resignation, retirement or disqualification, and any newly created directorship resulting from any increase in the authorized number of Directors, may be filled by the affirmative vote of a majority of the Directors then in office, although less than a quorum, and any Director so elected to fill any such vacancy or newly created directorship shall hold office until his successor is elected and qualified or until his earlier resignation or removal; however, the stockholders shall have the exclusive ability to fill any vacancies on the Board of Directors arising from the removal of any Director(s) by the stockholders, and any Director(s) so chosen shall hold office until a successor is elected and qualified or until such Director's earlier resignation or removal.

SECTION 3. Place of Meeting. The Board of Directors may hold its meetings in such place or places in the State of Delaware or outside the State of Delaware as the Board from time to time shall determine.

SECTION 4. Regular Meetings. Regular meetings of the Board of Directors shall be held at such times and places as the Board from time to time by resolution shall determine. No notice shall be required for any regular meeting of the Board of Directors; but a copy of every resolution fixing or changing the time or place of regular meetings shall be mailed to every Director at least five days before the first meeting held in pursuance thereof.

SECTION 5. Special Meeting. Special meetings of the Board of Directors shall be held whenever called by direction of the President, the Chairman of the Board or by any two of the Directors then in office.

Notice of the day, hour and place of holding of each special meeting shall be given by mailing the same at least two days before the meeting or by causing the same to be transmitted by telegraph, cable or wireless at least one day before the meeting to each Director. Unless otherwise indicated in the notice thereof, any and all business other than an amendment of these By-Laws may be transacted at any special meeting, and an amendment of these By-Laws may be acted upon if the notice of the meeting shall have stated that the amendment of these By-Laws is one of the purposes of the meeting. At any meeting at which every Director shall be present, even though without any notice, any business may be transacted, including the amendment of these By-Laws.

SECTION 6. Quorum. Subject to the provisions of Section 2 of this Article II, a majority of the members of the Board of Directors in office (but in no case less than one-third of the total number of Directors nor less than two Directors) shall constitute a quorum for the transaction of business and the vote of the majority of the Directors present at any meeting of the Board of Directors at which a quorum is present shall be the act of the Board of Directors. If at any meeting of the Board there is less than a quorum present, a majority of those present may adjourn the meeting from time to time.

SECTION 7. Organization. The Chairman of the Board shall preside at all meetings of the Board of Directors. In the absence of the Chairman, an acting Chairman shall be elected from the Directors present to preside at such meeting. The Secretary of the Corporation shall act as Secretary of all meetings of the Directors; but in the absence of the Secretary, the Chairman may appoint any person to act as Secretary of the meeting.

SECTION 8. Committees. The Board of Directors may, by resolution passed by a majority of the whole Board, designate one or more committees, each committee to consist of one or more of the Directors of the Corporation. The Board may designate one or more Directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence of disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not be or they constitute a quorum, may unanimously appoint another member of the Board of Directors to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided by resolution passed by a majority of the whole Board, shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation, and may authorize the seal of the Corporation to be affixed to all papers which may require it; but no such committee shall have the power or authority in reference to amending the Certificate of Incorporation, adopting an agreement of merger or consolidation, recommending to the stockholders the sale, lease or exchange of all or substantially all of the Corporation’s property and assets, recommending to the stockholders a dissolution of the Corporation or a revocation of a dissolution, or amending these By-Laws; and unless such resolution, these By-Laws, or the Certificate of Incorporation expressly to provide, no such committee shall have the power or authority to declare a dividend or to authorize the issuance of stock.

SECTION 9. Conference Telephone Meetings. Unless otherwise restricted by the Certificate of Incorporation or by these By-Laws, the members of the Board of Directors or any committee designated by the Board, may participate in a meeting of the Board of such committee, as the case may be, by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at such meeting.

SECTION 10. Consent of Directors or Committee in Lieu of Meeting. Unless otherwise restricted by the Certificate of Incorporation or by these By-Laws, any action required or permitted to be taken at any meeting of the Board of Directors, or any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing and the writing or writings are filed with the minutes of proceedings of the Board or committee, as the case may be.

ARTICLE III
OFFICERS

SECTION 1. Officers. The officers of the Corporation may be a President, one or more Vice Presidents, a Secretary and a Treasurer, and such additional officers, if any, as shall be elected by the Board of Directors pursuant to the provisions of Section 6 of this Article III. The President, one or more Vice Presidents, the Secretary and the Treasurer shall be elected by the Board of Directors at its first meeting after each annual meeting of the stockholders. The failure to hold such election shall not of itself terminate the term of office of any officer. All officers shall hold office at the pleasure of the Board of Directors. Any officer may resign at any time upon written notice to the Corporation. Officers may, but need not, be Directors. Any number of offices may be held by the same person.

All officers, agents and employees shall be subject to removal, with or without cause, at any time by the Board of Directors. The removal of an officer without cause shall be without prejudice to his contract rights, if any. The election or appointment of an officer shall not of itself create contract rights. All agents and employees other than officers elected by the Board of Directors shall also be subject to removal, with or without cause, at any time by the officers appointing them.

Any vacancy caused by the death of any officer, his resignation, his removal, or otherwise, may be filled by the Board of Directors, and any officer so elected shall hold office at the pleasure of the Board of Directors.

In addition to the powers and duties of the officers of the Corporation as set forth in these By-Laws, the officers shall have such authority and shall perform such duties as from time to time may be determined by the Board of Directors.

SECTION 2. Powers and Duties of the President. The President shall be the chief executive officer of the Corporation, and subject to the control of the Board of Directors, shall have general charge and control of all its business and affairs and shall have all powers and shall perform all duties incident to the office of President. He shall preside at all meetings of the stockholders and at all meetings of the Board of Directors and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors.

SECTION 3. Powers and Duties of the Vice Presidents. Each Vice President shall have all powers and shall perform all duties incident to the office of Vice President and shall have such other powers and perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

SECTION 4. Powers and Duties of the Secretary . The Secretary shall keep the minutes of all meetings of the Board of Directors and the minutes of all meetings of the stockholders in books provided for that purpose, he shall attend to the giving or serving of all notices of the Corporation; he shall have custody of the corporate seal of the Corporation and shall affix the same to such documents and other papers as the Board of Directors or the President shall authorize and direct; he shall have charge of the stock certificate books, transfer books and stock ledgers and such other books and papers as the Board of Directors or the President shall direct, all of which shall at all reasonable times be open to the examination of any Director, upon application, at the office of the Corporation during business hours; and he shall have all powers and shall perform all duties incident to the office of Secretary and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

SECTION 5. Powers and Duties of the Treasurer . The Treasurer shall have custody of, and when proper shall pay out, disburse or otherwise dispose of, all funds and securities of the Corporation which may have come into his hands; he may endorse on behalf of the Corporation for collection checks, notes and other obligations and shall deposit the same to the credit of the Corporation in such bank or banks or depository or depositories as the Board of Directors may designate; he shall sign all receipts and vouchers for payments made to the Corporation; he shall enter or cause to be entered regularly in the books of the Corporation kept for the purpose full and accurate accounts of all moneys received or paid or otherwise disposed of by him and whenever required by the Board of Directors or the President shall render statements of such accounts; he shall, at all reasonable times, exhibit his books and accounts to any Director of the Corporation upon application at the office of the Corporation during business hours; and he shall have all powers and shall perform all duties incident of the office of Treasurer and shall also have such other powers and shall perform such other duties as may from time to time be assigned to him by these By-Laws or by the Board of Directors or the President.

SECTION 6. Additional Officers . The Board of Directors may from time to time elect such other officers (who may but need not be Directors), including a Controller, Assistant Treasurer, Assistant Secretaries and Assistant Controllers, as the Board may deem advisable and such officers shall have such authority and shall perform such duties as may from time to time be assigned to them by the Board of Directors or the President.

The Board of Directors may from time to time by resolution delegate to any Assistant Treasurer or Assistant Treasurers any of the powers or duties herein assigned to the Treasurer; and may similarly delegate to any Assistant Secretary or Assistant Secretaries any of the powers or duties herein assigned to the Secretary.

SECTION 7. Giving of Bond by Officers . All officers of the Corporation, if required to do so by the Board of Directors, shall furnish bonds to the Corporation for the faithful performance of their duties, in such penalties and with such conditions and security as the Board shall require.

SECTION 8. Voting Upon Stocks . Unless otherwise ordered by the Board of Directors, the President or any Vice President shall have full power and authority on behalf of the Corporation to attend and to act and to vote, or in the name of the Corporation to execute proxies to vote, at any meeting of stockholders of any corporation in which the Corporation may hold stock, and at any such meeting shall possess and may exercise, in person or by proxy, any and all rights, powers and privileges incident to the ownership of such stock. The Board of Directors may from time to time, by resolution, confer like powers upon any other person or persons.

SECTION 9. Compensation of Officers . The officers of the Corporation shall be entitled to receive such compensation for their services as shall from time to time be determined by the Board of Directors.

ARTICLE IV
INDEMNIFICATION OF DIRECTORS AND OFFICERS

SECTION 1. Nature of Indemnity . The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he is or was or has agreed to become a Director or officer of the Corporation, or is or was serving or has agreed to serve at the request to the Corporation as a Director or officer of another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, and may indemnify any person who was or is a party or is threatened to be made a party to such an action, suit or proceeding by reason of the fact that he is or was or has agreed to become an employee or agent of the Corporation, or is or was serving or has agreed to serve at the request of the Corporation, as an employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid settlement actually and reasonably incurred by him or on his behalf in connection with such action, suit or proceeding and any appeal therefrom, if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding had no reasonable cause to believe his conduct was unlawful, except that in the case of an action or suit by or in the right of the Corporation to procure a judgment in its favor (1) such indemnification shall be limited to expenses (including attorneys' fees) actually and reasonably incurred by such person in the defense or settlement of such action or suit, and (2) no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Delaware Court of Chancery or such other court shall deem proper.

The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

SECTION 2. Successful Defense . To the extent that a Director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 1 of this Article IV or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SECTION 3. Determination that Indemnification is Proper . Any indemnification of a Director or officer of the Corporation under Section 1 of this Article IV (unless ordered by a court) shall be made by the Corporation unless a determination is made that indemnification of the Director or officer is not proper in the circumstances because he has not met the applicable standard of conduct set forth in Section 1. Any indemnification of an employee or agent of the Corporation under Section 1 (unless ordered by a court) may be made by the Corporation upon a determination that indemnification of the employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Section 1. Any such determination shall be made (1) by the Board of Directors by a majority vote of a quorum consisting of Directors who were not parties to such actions, suit or proceeding, or (2) if such a quorum is not obtainable, or, even if obtainable a quorum of disinterested Directors so directs, by independent legal counsel in a written opinion, or (3) by the stockholders.

SECTION 4. Advance Payment of Expenses . Unless the Board of Directors otherwise determines in a specific case, expenses incurred by a Director or officer in defending a civil or criminal action, suite or proceeding shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the Director or officer to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article IV. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board of Directors deems appropriate. The Board of Directors may authorize the Corporation's legal counsel to represent such Director, officer, employee or agent in any action, suit or proceeding, whether or not the Corporation is a party to such action, suit or proceeding.

SECTION 5. Survival: Preservation of Other Rights . The foregoing indemnification provisions shall be deemed to be a contract between the Corporation and each Director, officer, employee and agent who serves in any such capacity at any time while these provisions as well as the relevant provisions of the Delaware General Corporation Law are in effect and any repeal or modification thereof shall not affect any right or obligation then existing with respect to any state of facts then or previously existing or any action, suit or proceeding previously or thereafter brought or threatened based in whole or in part upon any such state of facts. Such a contract right may not be modified retroactively without the consent of such Director, officer, employee or agent.

The indemnification provided by this Article IV shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested Directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a Director, officer, employee or agent shall inure to the benefit of the heirs, executors and administrators of such a person. The corporation may enter into an agreement with any of its Directors, officers, employees or agents providing for indemnification and advancement of expenses, including attorneys fees, that may change, enhance, qualify or limit any right to indemnification or advancement of expenses created by this Article IV.

SECTION 6. Severability . If this Article IV or any portion hereof shall be invalidated on any ground by any court of competent jurisdiction, then the Corporation shall nevertheless indemnify each Director or officer and may indemnify each employee or agent of the Corporation as to costs, charges and expenses (including attorney's fees), judgment, fines and amounts paid in settlement with respect to any action, suit or proceeding, whether civil, criminal, administrative or investigative, including an action by or in the right of the corporation, to the fullest extent permitted by any applicable portion of this Article IV that shall not have been invalidated and to the fullest extent permitted by applicable law.

SECTION 7. Subrogation . In the event of payment of indemnification to a person described in Section 1 of this Article IV, the Corporation shall be subrogated to the extent of such payment to any right of recovery such person may have and such person, as a condition of receiving indemnification from the Corporation, shall execute all documents and do all things that the Corporation may deem necessary or desirable to perfect such right of recovery, including the execution of such documents necessary to enable the Corporation effectively to enforce any such recovery.

SECTION 8. No Duplication of Payments . The Corporation shall not be liable under this Article IV to make any payments in connection with any claim made against a person described in Section 1 of this Article IV to the extent such person has otherwise received payment (under any insurance policy, by-law or otherwise) of the amounts otherwise indemnifiable hereunder.

ARTICLE V
STOCK SEAL FISCAL YEAR

SECTION 1. Certificates for Shares of Stock . The shares of the Corporation shall be represented by certificates, provided that the Board of Directors may provide by resolution that some or all of any or all classes or series of the Corporation's stock shall be uncertificated shares. All certificates shall be signed by the President or a Vice President and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer, and shall not be valid unless so signed. Any or all the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar whose signature or facsimile signature appears on a certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the Corporation with the same effect as if such person were such officer, transfer agent or registrar at the date of issue.

The Board of Directors may appoint a transfer agent and one or more co-transfer agents and a registrar and one or more co-registrars of transfer and may make or authorize the transfer agents to make all such rules and regulations deemed expedient concerning the issue, transfer and registration of shares of stock. If the Corporation has a transfer agent or agents or transfer clerk and registrar of transfers acting on its behalf, the signature of any officer or representative thereof may be in facsimile.

All certificates for shares of stock shall be consecutively numbered as the same are issued. The name of the person owning the shares represented thereby with the number of such shares and the date of issue thereof shall be entered on the books of the Corporation. Except as hereinafter provided, all certificates surrendered to the Corporation for transfer shall be canceled, and no new certificates shall be issued until former certificates for the same number of shares have been surrendered and canceled.

SECTION 2. Lost, Stolen or Destroyed Certificates . Whenever a person owning a certificate for shares of stock of the Corporation alleges that it has been lost, stolen or destroyed, he shall file in the office of the Corporation an affidavit setting forth, to the best of his knowledge and belief, the time, place and circumstances of the loss, theft or destruction, and if required by the Board of Directors, a bond of indemnity or other indemnification sufficient in the opinion of the Board of Directors to indemnify the Corporation and its agents against any claim that may be made against it or them on account of the alleged loss, theft or destruction of any such certificate or the issuance of a new certificate in replacement therefor. Thereupon the Corporation may cause to be issued to such person a new certificate in replacement for the certificate alleged to have been lost, stolen or destroyed. Upon the stub of every new certificate so issued shall be noted the fact of such issue and the number, date and the name of the registered owner of the lost, stolen or destroyed certificate in lieu of which the new certificate is issued.

SECTION 3. Transfer of Shares . Shares of stock of the Corporation shall be transferred on the books of the Corporation by the holder hereof, in person or by his attorney duly authorized in writing, upon surrender and cancellation of certificates for the number of shares of stock to be transferred, except as provided in or contemplated by this Article V or resolution of the Board of Directors.

SECTION 4. Regulations . The Board of Directors shall have power and authority to make such rules and regulations as it may deem expedient concerning the issue, transfer and registration of certificates for shares of stock or uncertificated shares of stock of the Corporation.

SECTION 5. Record Date . In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or to express consent to corporate action in writing without a meeting or to receive payment of any dividend or other distribution or allotment of any rights, or to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, as the case may be, the Board of Directors may fix, in advance, a record date, which shall not be (i) more than sixty (60) nor less than ten (10) days before the date of such meeting, or (ii) in the case of corporate action to be taken by consent in writing without a meeting, prior to, or more than ten (10) days after, the date upon which the resolution fixing the record date is adopted by the Board of Directors, or (iii) more than sixty (60) days prior to any other action.

If no record date is fixed, the record date for determining stockholders entitled to notice of or so vote at a meeting of stockholders shall be at the close of the business on the day next preceding the day on which notice is given or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held; the record date for determining stockholders entitled to express consent to corporate action in writing without a meeting, when no prior action by the Board of Directors is necessary, shall be the day on which the first written consent is delivered to the Corporation; and the record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board of Directors adopts the resolution relating thereto. A determination of stockholders of record shall be made in accordance with this Article V and any determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any meeting or any adjournment of the meeting; provided, however, that the Board of Directors may fix a new record date for the adjourned meeting.

SECTION 6. Dividends . Subject to the provisions of the Certificate of Incorporation, the Board of Directors shall have power to declare and pay dividends upon shares of stock of the Corporation, but only out of funds available for the payment of dividends as provided by law.

Subject to the provisions of the Certificate of Incorporation, any dividends declared upon the stock of the Corporation shall be payable on such date or dates as the Board of Directors shall determine. If the date fixed for the payment of any dividend shall in any year fall upon a legal holiday, then the dividend payable on such date shall be paid on the next day not a legal holiday.

SECTION 7. Corporate Seal . The Board of Directors shall provide a suitable seal, containing the name of the Corporation, which seal shall be kept in the custody of the Secretary. A duplicate of the seal may be kept and be used by any officer of the Corporation designated by the Board of Directors or the President.

SECTION 8. Fiscal Year . The fiscal year of the Corporation shall be such fiscal year as the Board of Directors from time to time by resolution shall determine.

SECTION 9. Stockholders of Record . The Corporation shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends or other distributions, to receive notifications, to vote as such owner, and to exercise all the rights and powers of an owner. The Corporation shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise may be provided by the Delaware General Corporation Law.

ARTICLE VI
MISCELLANEOUS PROVISIONS

SECTION 1. Checks, Notes, Etc . All checks, drafts, bills of exchange, acceptances, notes or other obligations or orders for the payment of money shall be signed and, if so required by the Board of Directors, countersigned by such officers of the Corporation and/or other persons as the Board of Directors from time to time shall designate.

Checks, drafts, bills of exchange, acceptance notes, obligations and orders for the payment of money made payable to the Corporation may be endorsed for deposit to the credit of the Corporation with a duly authorized depository by the Treasurer and/or such other officers or persons as the Board of Directors from time to time may designate.

SECTION 2. Loans . No loans and no renewals of any loans shall be contracted on behalf of the Corporation except as authorized by the Board of Directors. When authorized to do so, any officer or agent of the Corporation may effect loans and advances for the Corporation from any bank, trust company or other institution or from any firm, corporation or individual, and for such loans and advances may make, execute and deliver promissory notes, bonds or other evidences of indebtedness of the Corporation. When authorized so to do, any officer or agent of the Corporation may pledge, hypothecate or transfer, as security for the payment of any and all loans, advances, indebtedness and liabilities of the Corporation, any and all stocks, securities and other personal property at any time held by the Corporation, and to that end may endorse, assign and deliver the same. Such authority may be general or confined to specific instances.

SECTION 3. Contracts . Except as otherwise provided in these By-Laws or by law or as otherwise directed by the Board of Directors, the President or any Vice President shall be authorized to execute and deliver, in the name and on behalf of the Corporation, all agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and the seal of the Corporation, if appropriate, shall be affixed thereto by any of such officers or the Secretary or an Assistant Secretary. The Board of Directors, the President or any Vice President designated by the Board of Directors may authorize any other officer, employee or agent to execute and deliver, in the name and on behalf of the Corporation, agreements, bonds, contracts, deeds, mortgages, and other instruments, either for the Corporation's own account or in a fiduciary or other capacity, and, if appropriate, to affix the seal of the Corporation thereto. The grant of such authority by the Board or any such officer may be general or confined to specific instances.

SECTION 4. Waivers of Notice . Whenever any notice whatever is required to be given by law, by the Certificate of Incorporation or by these By-Laws to any person or persons, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after the time stated therein, shall be deemed equivalent thereto.

SECTION 5. Offices Outside of Delaware . Except as otherwise required by the laws of the State of Delaware, the Corporation may have an office or offices and keep its books, documents and papers outside of the State of Delaware at such place or places as from time to time may be determined by the Board of Directors or the President.

ARTICLE VII
AMENDMENTS

These By-Laws and any amendment thereof may be altered, amended or repealed, or new By-Laws may be adopted, by the Board of Directors at any regular or special meeting by the affirmative vote of a majority of all of the members of the Board, provided in the case of any special meeting at which all of the members of the Board are not present, that the notice of such meeting shall have stated that the amendment of these By-Laws was one of the purposes of the meeting; but these By-Laws and any amendment thereof may be altered, amended or repealed or new By-Laws may be adopted by the holders of a majority of the total outstanding stock of the Corporation entitled to vote at any annual meeting or at any special meeting provided, in the case of any special meeting, that notice of such proposed alteration, amendment, repeal or adoption is included in the notice of the meeting.

EXHIBIT 21.1

Edgewater Technology, Inc. owns one hundred percent (100%) of the issued and outstanding shares of each of the following subsidiaries.

Subsidiary	State or Country of Origin
Edgewater Technology (Delaware), Inc.	Delaware, USA
Edgewater Technology-Ranzal, LLC	Delaware, USA
Fullscope, Inc.	Delaware, USA
Edgewater Technology — Zero2Ten, Inc.	Delaware, USA
Edgewater Technology-Branchbird, Inc.	Delaware, USA
Edgewater Technology-M2, Inc.	Delaware, USA

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-30209, 333-175660, 333-50912, 333-88313, 333-106325, 333-153740, 333-153741, 333-182164 and 333-204898) of Edgewater Technology, Inc. of our reports dated March 15, 2017, relating to the consolidated financial statements and the effectiveness of Edgewater Technology, Inc.'s internal control over financial reporting, which appear in this Form 10-K.

/s/ BDO USA, LLP

Boston, Massachusetts
March 15, 2017

EXHIBIT 31.1

13a-14 CERTIFICATION

I, Jeffrey L. Rutherford, certify that:

1. I have reviewed this Annual Report on Form 10-K of Edgewater Technology, Inc. (the "Company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;

4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and

5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 15, 2017

/s/ JEFFREY L. RUTHERFORD
Jeffrey L. Rutherford
Chairman, Interim President and Interim Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 31.2

13a-14 CERTIFICATION

I, Timothy R. Oakes, certify that:

1. I have reviewed this Annual Report on Form 10-K of Edgewater Technology, Inc. (the "Company");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Company as of, and for, the periods presented in this report;
4. The Company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Company and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the Company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.

Date: March 15, 2017

/s/ TIMOTHY R. OAKES
Timothy R. Oakes
Chief Financial Officer
(*Principal Financial and Accounting Officer*)

EXHIBIT 32

1350 CERTIFICATION

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350, as adopted), Jeffrey L. Rutherford, the Chairman, Interim President and Interim Chief Executive Officer of Edgewater Technology, Inc. (the "Company"), and Timothy R. Oakes, the Chief Financial Officer of the Company, each hereby certifies that, to the best of her or his knowledge:

The Company's Annual Report on Form 10-K for the period ended December 31, 2016, to which this Certification is attached as Exhibit 32 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended; and the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 15, 2017

/s/ JEFFREY L. RUTHERFORD
Jeffrey L. Rutherford
Chairman, Interim President and Interim Chief Executive Officer
(Principal Executive Officer)

Date: March 15, 2017

/s/ TIMOTHY R. OAKES
Timothy R. Oakes
Chief Financial Officer
(Principal Financial and Accounting Officer)

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.