EDGEWATER TECHNOLOGY INC/DE/
Form 10-K
March 16, 2018
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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 EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

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

Commission file number: 000-20971

EDGEWATER TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	71-0788538
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
200 Harvard Mill Square, Suite 210 Wakefield, Massachusetts	01880
(Address of principal executive offices)	(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, smaller reporting company, or an emerging growth company. See the definitions of large accelerated filer, accelerated filer, smaller reporting company, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large accelerated filer [ ]	Accelerated filer [X]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [ ]
	Emerging growth company [ ]

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

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, 2017, there were 13,905,136 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, 2017 was approximately $94.6 million, computed based upon the closing price of $6.80 per share on June 30, 2017.

As of March 13, 2018, there were 13,338,077 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 2018 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.

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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 opportunity, goal, objective, could, expect, expected, intend, plan, planned, or the negative of such t 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; (14) the failure of the marketplace to embrace advisory and product-based consulting services; and/or (15) the effects of the pending merger with a wholly-owned subsidiary of Alithya Group Inc., a Quebec corporation (Alithya), on our business and operations, and the potential adverse effects if such merger is not completed. 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.

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EDGEWATER TECHNOLOGY, INC.

Form 10-K

Annual Report

For the Year Ended December 31, 2017

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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.

Alithya Arrangement Agreement

On March 15, 2018, Company entered into an Arrangement Agreement (the Arrangement Agreement) with 9374-8572 Québec Inc., a newly-formed Quebec corporation (CanCo Parent), Alithya Group Inc., a Quebec private corporation (Alithya), and 9374-8572 Delaware Inc. (U.S. Merger Sub), a newly-formed wholly-owned Delaware subsidiary of CanCo Parent. The Arrangement Agreement is subject to approval by the respective shareholders of the Company and Alithya. In order to solicit such approval, the Company and Alithya will jointly prepare a circular for the Alithya shareholders and a prospectus/proxy statement for the Company shareholders. That prospectus/proxy statement will be included in a registration statement on Form F-4 (the CanCo Parent Registration Statement) to be filed by CanCo Parent with the Securities and Exchange Commission (the SEC) under which the common shares of CanCo Parent (CanCo Parent Shares) will be offered in accordance with the Arrangement Agreement to the shareholders of both the Company and Alithya as described below. CanCo Parent will also apply to have the CanCo Parent Shares listed, subject to official notice of issuance, for trading on NASDAQ and the Toronto Stock Exchange.

Upon the closing of the transactions contemplated under the Arrangement Agreement, upon the terms and subject to the conditions set forth therein, among other things, U.S. Merger Sub will merge with and into the Company, with the Company continuing as the surviving entity as a wholly-owned subsidiary of CanCo Parent, through the issuance of CanCo Parent Shares to the Company s shareholders in exchange for their shares in the Company (the Merger).

The Merger is expected to close in the third quarter of 2018. However, the Company cannot predict with certainty when, or if, the Merger will occur because such closing is subject to conditions beyond the Company s control.

The descriptions of our business in this Form 10-K do not assume that the Merger has been completed. However we do describe certain risk factors associated with the pending transaction under Item 1A, Risk Factors.

For more information about the Merger, see Note 18 Subsequent Event of the Notes to Consolidated Financial Statements in Item 8 herein. All descriptions contained herein of the Arrangement Agreement and the Merger are qualified in their entirety to the Arrangement Agreement, which was filed as Exhibit 2.1 to the Company s Current Report on Form 8-K, filed with the Securities and Exchange Commission on March 16, 2018.

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.

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.

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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.

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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 13.9%, 15.2% and 11.8% for the years ended December 31, 2017, 2016 and 2015, respectively. No single customer represented 10% or more of total revenue during the years ended December 31, 2017, 2016 or 2015. 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 2017, we recorded service revenue from 609 customers, of which 103 were new customers, as compared to recording service revenue from 670 customers in 2016, of which 140 were new customers. We recorded service revenue from 667 customers in 2015, of which 139 were new customers.

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.

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, 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, 2017, Edgewater had 441 employees (excluding contractors). Of these employees, 316 were billable consultants and 125 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 24 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, 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, DXC and Avanade;

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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.

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 Segment Information.

Directors and Executive Officers of the Registrant

Name	Age	Position with the Company
Jeffrey L. Rutherford	57	Chairman of the Board, Interim President and Interim Chief Executive Officer
Timothy R. Oakes	49	Chief Financial Officer, Treasurer and Corporate Secretary
Paul McNeice	40	Chief Accounting Officer
Russell Smith	51	President, Edgewater Fullscope
Kristin Zaepfel	54	Vice President, Human Resources
Stephen Bova	71	Director
Matthew Carpenter	46	Director
Frederick DiSanto	55	Director
Timothy Whelan	52	Director
Kurtis J. Wolf	45	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. Oakes has served as Chief Financial Officer, Treasurer and Corporate Secretary of our Company since September 2009. 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.

Mr. McNeice joined Edgewater in 2010 and has been the Chief Accounting Officer since 2017. Mr. McNeice began his career working in the Boston office of Arthur Andersen. Prior to joining Edgewater, Mr. McNeice was a Senior Manager at Deloitte & Touche where he focused on the technology and biotechnology sectors. He has over 17 years of experience in financial and operational management.

Mr. Smith is President of Edgewater Fullscope. Mr. Smith was a co-founder of RedKlay Solutions which provided enterprise applications and consulting services to the manufacturing sector. RedKlay was acquired by Fullscope in 2002, and Smith served as the CEO of Fullscope from 2003 to 2009. He was integral in architecting and executing the business strategy that led Fullscope to being nationally recognized as a leading Microsoft Dynamics partner. In December, 2009, Fullscope was acquired by Edgewater where Mr. Smith continues to lead the strategic direction, operations, and growth of the Fullscope practice.

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.

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,

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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.

Risks Relating to Our Pending Merger with Alithya

The pendency of the merger with Alithya could adversely affect our business and operations. In connection with the pending merger with Alithya, some of our customers or vendors may delay or defer decisions, which could negatively affect our revenues, earnings, cash flows and expenses, regardless of whether the merger is completed. Similarly, our current and prospective employees may experience uncertainty about their future roles with the combined company following the merger, which may materially adversely affect our ability to attract, retain and motivate key personnel during the pendency of the merger and which may materially adversely divert attention from the daily activities of our existing employees.

In addition, due to operating covenants in the Arrangement Agreement, we may be unable, during the pendency of the merger, to pursue strategic transactions, undertake significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business, even if such actions would prove beneficial to us. Further, the process of seeking to accomplish the merger could also divert the focus of our management from pursuing other opportunities that could be beneficial to it, without realizing any of the benefits which might have resulted had the merger been completed.

Failure to complete the merger with Alithya could negatively impact our future business and financial results. We cannot make any assurances that we will be able to satisfy all of the conditions to the merger or succeed in any litigation brought in connection with the merger. If the merger is not completed, the financial results of the Company may be adversely affected and we will be subject to several risks, including but not limited to:

- the requirement that we pay Alithya a termination fee of $4.0 million under certain circumstances provided in the Arrangement Agreement;
- the payment of costs relating to the merger, such as legal, accounting, financial advisor and printing fees, regardless of whether the merger is completed;
- the focus of our management team on the merger instead of the pursuit of other opportunities that could have been beneficial to each company; and
- the potential occurrence of litigation related to any failure to complete the merger.

In addition, if the merger is not completed, we may experience negative reactions from the financial markets and from our customers and employees. If the merger is not completed, we cannot assure you that these risks will not materialize and will not materially and adversely affect our business, financial results and stock price.

The Arrangement Agreement contains provisions that limit each party s ability to pursue alternatives to the merger, could discourage a potential competing acquiror from making a favorable alternative transaction proposal for us and, in specified circumstances, could require us to pay a termination fee to Alithya. The Arrangement Agreement contains non-solicitation provisions that, subject to limited exceptions, restrict our ability to, among other things, directly or indirectly solicit, initiate, facilitate, knowingly encourage or induce or take any action that could be reasonably expected to lead to the making, submission or announcement of a proposal competing with the transactions contemplated by the Arrangement Agreement. In addition, while our board of directors has the ability, in certain circumstances, to change its recommendation of the transaction to the Company s stockholders, we cannot terminate the Arrangement Agreement to accept an alternative proposal, and Alithya generally has an opportunity to modify the terms of the merger and the Arrangement Agreement in response to any alternative proposals that may be made before such board of directors may withdraw or modify its recommendation. Moreover, in certain circumstances, we may be required to pay up to $2.0 million of Alithya s expenses and we may be required to pay Alithya a termination fee of $4.0 million.

These provisions could discourage a potential third party that might have an interest in acquiring all or a significant portion of us from considering or proposing that acquisition, even if it were prepared to pay consideration with a higher per share cash or market value than the market value proposed to be received or realized in the merger with Alithya. In addition, these provisions might result in a potential third party acquirer proposing to pay a lower price to our stockholders than it might otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances.

If the Arrangement Agreement is terminated and we determine to seek another business combination, we may not be able to negotiate a transaction with another party on terms comparable to, or better than, the terms of the merger with Alithya.

The activities of activist shareholders could be disruptive and costly and these actions could result in a change to the strategic direction of the Company. 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 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 2017, 2016 and 2015, fixed-price contracts represented approximately 9.4%, 10.5% and 13.0%, 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 2017 and 2016, our top five customers represented 13.9% and 15.2% of our 2017 and 2016 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, 2017, we had recorded goodwill and intangible assets with a net book value of $35.6 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.

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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 12, 2018, there were approximately 1,379 holders of record of our common stock, and approximately 14.3 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 2016 and 2017 and the first quarter of 2018 (through March 5, 2018).

	High	Low
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	$ 7.98	$ 6.26
Second Quarter	7.67	6.50
Third Quarter	7.19	6.30
Fourth Quarter	6.81	6.04
FISCAL 2018:		
First Quarter	$ 6.64	$ 5.58
(through March 12, 2018)		

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 22, 2017 (the Repurchase Period). On September 20, 2017, we announced that the Board had approved an extension of the Repurchase Period to September 21, 2018.

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.

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The following table provides information with respect to purchases of our common stock during the quarter ended December 31, 2017:

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, 2017	199,053	$6.46	199,053	$ 7,448,081
November 1 30, 2017	-	-	-	7,448,081
December 1 31, 2017	-	-	-	7,448,081
Total	199,053	$ 6.46	199,053	$ 7,448,081

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, 2012 (the closing sale price of our common stock on this date was $3.80) and ending on December 31, 2017, 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.

	Base Period	INDEXED RETURNS Years Ending				
Company Name / Index	**12/31/11**	**12/31/13**	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**
Edgewater Technology, Inc.	**100**	183.95	197.50	210.79	197.37	164.21
Nasdaq Index	**100**	140.12	160.78	171.97	187.22	242.71
S&P 600 IT Services	**100**	153.34	161.21	204.58	243.28	239.98
New Peer Group	**100**	149.29	171.44	165.05	209.42	247.88
Old Peer Group	**100**	148.73	169.95	163.67	204.14	240.75

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(1) Our 2017 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., CSP, Inc., CRA International Inc., Information Services Group, Inc. and Cartesian, Inc.

(2) Our 2016 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.

During 2017, we elected to change the composition of our self-selected peer group companies to eliminate Ciber, Inc. based on its 2017 divestiture. As a result we have removed Ciber, Inc. from our 2017 peer group and replaced it with CSP, 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.

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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,				
	2017	2016	2015	2014	2013
	(In Thousands, Except per Share Data)				
Consolidated Statements of Operations Data:					
Total revenue	$ 111,753	$ 126,522	$ 116,704	$ 112,989	$ 103,556
Cost of revenue	72,055	80,340	77,114	71,623	65,984
Gross profit	39,698	46,182	39,590	41,366	37,572
Operating expenses:					
Selling, general and administrative	40,034	37,747	34,592	34,145	31,636
Executive officer severance	4,187	-	-	-	-
Contract termination expense	1,125	-	-	-	-
Change in fair value of contingent earnouts	(252)	(725)	-	-	-
Direct acquisition costs	-	430	1,754	-	-
Consent solicitation expenses	666	187	495	-	-
Lease abandonment expense (1) (2)	-	-	-	400	-
Fullscope embezzlement loss recovery	-	-	(250)	(1,529)	-
Depreciation and amortization	3,157	4,020	1,517	928	1,225
Total operating expenses	48,917	41,659	38,108	33,944	32,861
Operating (loss) income	(9,219)	4,523	1,482	7,422	4,711
Other expense, net	302	2,327	2,013	181	92
(Loss) Income before taxes	(9,521)	2,196	(531)	7,241	4,619
Tax provision (benefit) (3) (4) (5) (6)	19,615	5,030	3,529	3,177	(30,089)
Net (loss) income	$ (29,136)	$ (2,834)	$ (4,060)	$ 4,064	$ 34,708
Net (loss) income per share:					
Basic net (loss) income per share	$ (2.14)	$ (0.23)	$ (0.35)	$ 0.37	$ 3.21
Weighted average shares, basic	13,623	12,150	11,505	11,131	10,813
Diluted net (loss) income per share	$ (2.14)	$ (0.23)	$ (0.35)	$ 0.31	$ 2.88
Weighted average shares, diluted	13,623	12,150	11,505	13,090	12,031

(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, 2017, in connection with our routine, periodic assessment of the estimated future realizability of the carrying value of our net deferred tax assets, we increased the valuation allowance recorded against the carrying value of our deferred tax assets by $13.5 million. On December 22, 2017, the Tax Cuts and Jobs Act the (Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from a graduated rate of 35% to a flat rate of 21%. Accordingly, in connection with the reduction in the U.S. federal corporate tax rate, we recorded a $10.9 million non-cash charge in order to present our deferred tax attributes at a level reflecting the anticipated future economic benefit we expect to receive upon their reversal.

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(4) 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.

(5) 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.

(6) 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, (In Thousands)				
	2017	**2016**	**2015**	**2014**	**2013**
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 15,398	$ 19,693	$ 11,981	$ 26,768	$ 20,321
Accounts receivable, net	22,218	25,661	27,753	24,654	19,842
Goodwill and intangibles, net	35,558	38,361	41,900	12,529	13,005
Deferred tax assets, net	-	19,031	24,032	27,170	30,272
All other assets	2,700	2,059	1,758	2,292	2,627
Total assets	$ 75,874	$ 104,805	$ 107,424	$ 93,413	$ 86,067
Accrued contingent earnout obligations	$ -	$ 8,089	$ 10,540	$ -	$ -
Revolving credit facility	5,000	5,000	5,000	-	-
All other liabilities	17,891	15,942	18,500	18,384	17,481
Stockholders equity	52,983	75,774	73,384	75,029	68,586
Total liabilities and stockholders equity	$ 75,874	$ 104,805	$ 107,424	$ 93,413	$ 86,067
Outstanding shares of common stock	14,046	12,878	11,862	11,440	11,049

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 84.1% of service revenue for the year ended December 31, 2017. Revenue under time and materials contracts is recognized as services are rendered and performed at contractually agreed upon rates. Fixed-price contracts represented 9.4% of service revenue for the year ended December 31, 2017. Revenue pursuant to fixed-price contracts is recognized under the proportional performance method of accounting. Retainer-based contracts represented 6.5% of service revenue for the year ended December 31, 2017. 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, 2017, 2016 or 2015. 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 10.5%, 8.3% and 9.3% of revenue for the years ended December 31, 2017, 2016 and 2015, respectively.

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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.

Executive Officer Severance.

The Company incurred $3.4 million of expense associated with the termination of two Executive Officers of the Company during the three-month period ended March 31, 2017. During the three-months ended March 31, 2017, the Company terminated without cause the employment of the Chairman, President, and Chief Executive Officer as well as the Executive Vice President and Chief Strategy and Technology Officer. The severance expense associated with these terminations include salary and salary related expenses (including bonus) as well as the expense associated with the acceleration of stock award vesting.

The Company also incurred $816 thousand of expense associated with the termination of an Executive Officer of the Company during the three-month period ended September 30, 2017. During the three-month period ended September 30, 2017 the Company terminated without cause the employment of the President of

Edgewater-Ranzal. The severance expense associated with this termination includes salary and salary related expenses (including bonus) as well as the expense associated with the acceleration of stock award vesting.

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.

No such expenses were incurred in the year ended December 31, 2017.

Consent Solicitation Expense.

During the year ended December 31, 2017, the Company incurred $666 thousand of legal and advisory expenses in connection with its defense against a consent solicitation. 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.

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, the Company had $8.1 million accrued in connection with the contingent earnout obligations associated with the Zero2Ten, Branchbird, and M2 Dynamics Acquisitions. No such liability existed as of December 31, 2017 (as all contingent earnouts were completed and settled prior to that date). The decrease in accrued contingent earnout consideration was driven by the payments related to the completion of the Zero2Ten and M2 Dynamics earnout periods 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.

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Changes to the Carrying Value of our Deferred Tax Attributes

2017 Deferred Tax Asset Impairment Charge.

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 within the applicable carryforward period and subject to any applicable limitations. We assess, on a routine periodic basis, the estimated future realizability of the gross carrying value of our 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 (recent and historical financial performance for example) as it relates to evaluating the future recoverability of our deferred tax assets.

During the year ended December 31, 2017, in connection with such periodic reviews, we have recorded non-cash charges of $13.5 million (the 2017 DTA Impairment Charge) related to an increase in the valuation allowance recorded against the gross carrying value of our net deferred tax assets. Subsequent to the recording of the 2017 DTA Impairment Charge, the recorded valuation allowance represents a full valuation reserve against the total gross carrying value of our net deferred tax assets.

The Company s forecasts and projections were a key assumption utilized in our 2017 periodic assessments. While the Company s forward-looking forecasts and projections supported forward looking profitability trends, they projected a reduction in near-term earnings. Additionally, as a result of the operating loss incurred during 2017, our assessment of our adjusted and cumulative loss positions and uncertainty as to the timing of profitability in future periods, we determined that it was not more likely than not that the Company would be able to realize future economic benefit from its net deferred tax assets. Accordingly, during 2017, we increased our deferred tax valuation allowance by $13.5 million, providing for a full valuation allowance against our deferred tax assets as of December 31, 2017. The 2017 DTA Impairment Charge is more fully described in Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9 Income Taxes included elsewhere herein.

The establishment of a full valuation allowance against the gross carrying value of our net deferred tax assets does not prohibit or limit the Company s ability to realize a tax benefit in future periods. All existing deferred tax assets, net operating loss carryforwards and credits will be fully available to reduce certain future federal and state income tax obligations, subject to applicable limitations, if taxable income is generated.

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.

2017 Tax Cuts and Jobs Act.

The Company accounts for income taxes under ASC 740. Deferred income tax assets and liabilities are determined based upon differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from a graduated rate of 35% to a flat rate of 21%. Accordingly, in connection with the reduction in the U.S. federal corporate tax rate, we recorded a $10.9 million non-cash charge in order to present our deferred tax attributes at a level reflecting the anticipated future economic benefit we expect to receive upon their reversal in future periods.

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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, 2017, Compared to Results for the Year Ended December 31, 2016, 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

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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, 2017, the gross carrying value of the Company s net deferred tax assets was $21.7 million. This amount consisted of approximately $12.2 million in federal NOL carryforwards, $1.6 million in state NOL carryforwards, $1.0 million in available federal credits, $1.5 million in future tax benefits related to share-based compensation expense and $5.5 million in net deferred tax assets related to other temporary differences.

During the years ended December 31, 2017 and 2016, in connection with our periodic review of the estimated future realizability of our net deferred tax attributes, we recorded non-cash charges totaling $13.5 million and $3.7 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.

At December 31, 2017, subsequent to this adjustment, the recorded valuation allowance represented a full valuation reserve against the total gross carrying value of our net deferred tax assets. The Company maintained a $21.7 million and $8.2 million valuation allowance against the gross carrying value of its net deferred tax assets as of December 31, 2017 and 2016, respectively.

The establishment of a full valuation allowance against the gross carrying value of our net deferred tax assets does not prohibit or limit the Company s ability to realize a tax benefit in future periods. All existing deferred tax assets, net operating loss carryforwards and credits will be fully available to reduce certain future federal and state income tax obligations.

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.

On December 22, 2017, the Tax Cuts and Jobs Act the (Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from a graduated rate of 35% to a flat rate of 21%. Accordingly, in connection with the reduction in the U.S. federal corporate tax rate, we recorded a $10.9 million non-cash charge in order to present our deferred tax attributes at a level reflecting the anticipated future economic benefit we expect to receive upon their reversal.

Additionally, the Act requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. In December 2017, the Securities and Exchange Commission (SEC) issued guidance under Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (SAB 118) directing taxpayers to consider the impact of the U.S. legislation as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. As of December 31, 2017, the Company has not yet completed its accounting for all of the tax effects of the enactment of the Act, however, the Company has made a reasonable estimate of the effects on our existing deferred tax balances and one-time transition tax. For the year ended December 31, 2017, we recognized an additional $266 thousand in taxable income associated with one-time transition tax.

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 84.1%, 84.0% and 82.3% of service revenue for the years ended December 31, 2017, 2016 and 2015, 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, 2017, 2016 or 2015.

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, 2017 and 2016, the Company recorded a deferred liability of approximately $291 thousand and $349 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 10.5%, 8.3% and 9.3% of total revenue for the years ended December 31, 2017, 2016 and 2015, 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.

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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, 2017, 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 as of December 31, 2017 and 2016. Other net intangible assets amounted to $5.6 million and $8.4 million as of December 31, 2017 and 2016, 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,		
	2017	2016	2015
Revenue:			
Service revenue	84.5%	86.5%	84.7%
Software revenue	10.5%	8.3%	9.3%
Reimbursable expenses	5.0%	5.2%	6.0%
Total revenue	100.0%	100.0%	100.0%
Cost of revenue:			
Project and personnel costs	53.7%	53.4%	55.1%
Software costs	5.8%	4.9%	5.0%
Reimbursable expenses	5.0%	5.2%	6.0%
Total cost of revenue	64.5%	63.5%	66.1%
Gross profit	35.5%	36.5%	33.9%
Operating expenses:			
Selling, general and administrative	35.8%	29.8%	29.6%
Executive officer severance	3.7%	-%	-%
Contract termination expense	1.0%	-%	-%
Change in fair value of contingent earnout consideration	(0.2)%	(0.5)%	-%
Direct acquisition costs	-%	0.3%	1.5%
Consent solicitation expenses	0.6%	0.1%	0.4%
Fullscope embezzlement loss recovery	-%	-%	(0.2)%
Depreciation and amortization	2.8%	3.2%	1.3%
Total operating expenses	43.7%	32.9%	32.6%
Operating (loss) income	(8.2)%	3.6%	1.3%
Other expense, net	0.3%	1.9%	1.8%
(Loss) income before taxes	(8.5)%	1.7%	(0.5)%
Tax provision	17.6%	3.9%	3.0%
Net loss	(26.1)%	(2.2)%	(3.5)%

Results for the Year Ended December 31, 2017 Compared to Results for the Year Ended December 31, 2016

Total Revenue. Total revenue decreased by $(14.8) million, or (11.7)%, to $111.8 million for the year ended December 31, 2017 from $126.5 million for the year ended December 31, 2016. Service revenue decreased by $(15.1) million, or (13.8)%, to $94.4 million for the year ended December 31, 2017 from $109.5 million for the year ended

December 31, 2016.

Service revenue continues to be negatively affected by the channel disruption related to the vendor push to the adoption of cloud-based technologies and our customers decision processes and timing related to such adoption. While our 2015 acquisitions of M2 Dynamics, Branchbird and Zero2Ten have strengthened the Company s cloud-based offerings in both the EPM and ERP markets, we are still experiencing delays in customer purchasing. To a lesser extent, our service revenue has also been negatively impacted by the timing of project starts (with certain projects kicking off later than expected and therefore impacting our ability to generate recognizable service revenue in the quarter).

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 decrease in billable consultant utilization was driven by the performance of the EPM business unit and the customer hesitation to move to cloud based solutions within that space. The decrease in utilization with the EPM business unit was compounded by the decrease in utilization from the Tech Consulting business unit, while the ERP business unit experienced a slight improvement in billable consultant utilization as compared to 2016. Billable consultant utilization, on a consolidated basis, was 71.9% during the year ended December 31, 2017 compared to 73.5% during the year ended December 31, 2016. Total billable headcount, excluding contractors, was 316 as of December 31, 2017, compared to 359 as of December 31, 2016. Total billable headcount decreased as a result of management s proactive adjustments designed to maintain a properly adequate and flexible workforce based on the known base of service revenue.

Annualized service revenue per billable consultant, as adjusted for utilization, was $355 thousand during the year ended December 31, 2017, compared to $357 thousand during the year ended December 31, 2016. 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, 2017, software revenue totaled $11.8 million, or 10.5% of total revenue, compared to software revenue of $10.5 million, or 8.3% of total revenue, in the year ended December 31, 2016. 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 $5.6 million for the year ended December 31, 2017 compared to $6.6 million for the year ended December 31, 2016. 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 2017, we recorded service revenue from 609 customers, of which 103 were new customers, as compared to recording service revenue from 670 customers in 2016, of which 140 were new customers.

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 decreased by $(8.3) million, or (10.3)%, to $72.1 million in 2017, as compared to $80.3 million in 2016.

The primary drivers of the 2017 decrease in total cost of revenue, on an absolute dollar basis, were related to a decrease in salary- and fringe-related expenses. The decrease was the result of a decrease in average annual billable headcount. The impact of decreased salary- and fringe-related expenses were combined with the decreased revenue share component (which was directly related to the decreased service revenue). Additionally, the Company scaled back the reliance on external contractors during the year ended December 31, 2017.

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 53.7% and 53.4% of total revenue during the years ended December 31, 2017 and 2016, respectively.

Software costs amounted to $6.5 million during the year ended December 31, 2017 compared to $6.2 million during the year ended December 31, 2016. The increase in the 2017 software costs was primarily driven by the strong performance of both the Microsoft Dynamics CRM and 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 2017, to $5.6 million, as compared to $6.6 million in 2016. 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 2017 decreased by $(6.5) million, or (14.0)%, to $39.7 million, as compared to $46.2 million in 2016. Gross profit, as a percentage of total revenue (which we generally refer to as gross margin), decreased to 35.5%, as compared to 36.5% in 2016.

The comparative year-over-year decrease in total gross margin was primarily attributable to the decreased service revenue contribution which was influenced by our customers delay with respect to moving to cloud based solutions.

Service revenue gross margin of 36.5% in the year ended December 31, 2017 decreased from service revenue gross margin of 38.3% in 2016. This decrease was similarly the result of decreased service revenue contributions.

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 2017 increased to $40.0 million compared with SG&A expense of $37.7 million in 2016. SG&A expense, as a percentage of total revenue, was 35.8% and 29.8% in 2017 and 2016, respectively.

The increase in SG&A expense during the year ended December 31, 2017 was primarily the result of focused investments within the sales and marketing departments of both the EPM and ERP business units. These investments came in the form of both salary and salary-related expenses as well as professional service and traditional marketing expenses.

Executive Officer Severance. During the year ended December 31, 2017, the Company terminated the employment of the former Chairman, President, and Chief Executive Officer and the former Chief Strategy and Technology Officer. In connection with these terminations, the Company incurred $3.4 million of severance related expenses. These expenses were associated with contractually agreed upon salary, bonus and acceleration of vesting of stock-based compensation awards. Also, during the year ended December 31, 2017, the Company terminated the employment of the former President of Edgewater-Ranzal. In connection with this termination, the Company incurred $816 thousand of severance related expenses. These expenses were associated with contractually agreed upon salary, bonus and acceleration of vesting of stock-based compensation awards. No such expenses were incurred in the year ended December 31, 2016.

Contract Termination Expense. In the year ended December 31, 2017 the Company paid $1.1 million in connection with the termination of a professional services agreement for advisory services initially entered into during our publicly announced strategic alternative process. No further expense will be incurred in connection with this agreement.

Consent Solicitation Expense. During the year ended December 31, 2017, we incurred $666 thousand of legal and advisory expenses in connection with defense against a consent solicitation. During the year ended December 31, 2016, we incurred $187 thousand of legal and advisory expenses in connection with defense against a consent solicitation.

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, 2017, the Company recorded changes in fair value of the estimated earnout consideration achieved which resulted in the reversal of $(252) thousand. The 2017 change in fair value consisted of the recorded increase of $651 thousand related to the M2 Dynamics contingent earnout as well as a reversal of $(47) thousand related to the Zero2Ten contingent earnout and a reversal of $(856) thousand related to Branchbird as a result of lower than expected service revenue and EBITDA performance. 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. The 2016 change in fair value consisted of reversals of $(1.0) million related to the Branchbird contingent earnout, $(368) thousand related to the Zero2Ten contingent earnout recorded, partially offset by an increase of $662 thousand related to M2 Dynamics.

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. No such expenses were incurred during the year ended December 31, 2017.

Depreciation and Amortization Expense. Depreciation and amortization expense decreased by $(863) thousand, or (21.5)%, to $3.2 million in 2017, as compared to $4.0 million in 2016. Amortization expense decreased to $2.8 million in 2017, as compared to $3.4 million in 2016. Amortization expense recognized during 2017 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 2017 operating income decreased by $(13.7) million, to $(9.2) million, compared to $4.5 million in 2016. The 2017 decrease in operating income was primarily attributable to the executive officer severance, the contract termination expenses, the strategic investment in sales and marketing activities, and the proxy consent related expenses.

Other Expense, Net. Other expense, net totaled $302 thousand during 2017 compared to $2.3 million in 2016. 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 $19.6 million and $5.0 million during the years ended December 31, 2017 and 2016, respectively. Our 2017 and 2016 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), interest and penalties and the impacts from our adoption of the 2017

Tax Cuts and Jobs Act.

The Company s effective income tax rates were 206.0% and 229.1% for the years ended December 31, 2017 and 2016, respectively. Our 2017 effective income tax rate includes $13.5 million in non-cash charges associated with an increase to the valuation allowance applied against the carrying value of our deferred tax attributes, combined with a $10.9 million non-cash charge necessary to present our deferred tax attributes at a level reflecting the anticipated future economic benefit we expect to receive upon their reversal. Similarly, 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.

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 (recent and historical financial performance for example) as it relates to evaluating the future recoverability of our deferred tax assets.

During both the second and fourth quarter of 2017, in connection with our periodic review of the carrying value of our net deferred tax assets, we recorded non-cash charges of $1.1 million and $12.4 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. Subsequent to these adjustments, the recorded valuation allowance represents a full valuation reserve against the total gross carrying value of our net deferred tax assets.

The establishment of a full valuation allowance against the gross carrying value of our net deferred tax assets does not prohibit or limit the Company s ability to realize a tax benefit in future periods. All existing deferred tax assets, net operating loss carryforwards and credits will be fully available to reduce certain future federal and state income tax obligations.

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.

On December 22, 2017, the Tax Cuts and Jobs Act the (Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from a graduated rate of 35% to a flat rate of 21%. Accordingly, in connection with the reduction in the U.S. federal corporate tax rate, we recorded a $10.9 million non-cash charge in order to present our deferred tax attributes at a level reflecting the anticipated future economic benefit we expect to receive upon their reversal.

Additionally, the Act requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. In December 2017, the Securities and Exchange Commission (SEC) issued guidance under Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (SAB 118) directing taxpayers to consider the impact of the U.S. legislation as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. As of December 31, 2017, the Company has not yet completed its accounting for all of the tax effects of the enactment of the Act, however, the Company has made a reasonable estimate of the effects on our existing deferred tax balances and one-time transition tax. For the year ended December 31, 2017, we recognized an additional $266 thousand in taxable income associated with one-time transition tax.

The current year income tax-related changes impacting our reported income tax expense are more fully described elsewhere herein, including Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Income Taxes and Valuation of Deferred Tax Assets and Item 8 Financial Statements and Supplementary Data Notes to Consolidated Financial Statements Note 9 Income Taxes.

Net Loss. Net loss in 2017 totaled $(29.1) million as compared to net loss of $(2.8) million in 2016. The net loss in 2017 was primarily driven by the increase in deferred tax asset valuation allowance and, to a lesser extent, the executive severance expense, the contract termination expense, the investments in sales and marketing initiatives and the consent solicitation expenses. The net loss in 2016 was driven by the increases to the valuation allowance associated with the deferred tax assets.

Operating Segments. Total revenue within our EPM operating segment decreased $(14.8) million, or (22.9)%, to $49.9 million in the year ended December 31, 2017 compared to $64.7 million in the year ended December 31, 2016. The decrease in EPM total revenue was driven by the market hesitation of our customers to move to cloud based solutions. Total revenue within our ERP operating segment increased by $6.2 million, or 13.5%, to $51.9 million in the year ended December 31, 2017 compared to $45.7 million in the year ended December 31, 2016. The increase in ERP revenue was driven by the strong performance across both the CRM and Dynamics AX related pieces of the business. Total revenue within our Classic Consulting segment decreased $(6.1) million, or (38.1)%, to $10.0 million in the year ended December 31, 2017 compared to $16.1 million in the year ended December 31, 2016.

Operating income within our EPM operating segment decreased $(7.3) million, or (82.8)%, to $1.5 million in the year ended December 31, 2017 compared to $8.8 million in the year ended December 31, 2016. The decrease in operating income was driven by the decrease in total revenue. Operating income within our ERP operating segment increased by $1.3 million, or 30.9%, to $5.6 million in the year ended December 31, 2017 compared to $4.3 million in the year ended December 31, 2016. The increase in operating income was driven by the improvement in billable consultant utilization rate (which yields improved operating performance on a slightly higher revenue base). Operating income within our Classic Consulting operating segment decreased by $(3.4) million, or (169.3)%, to $(1.4) million in the year ended December 31, 2017 compared to $2.0 million in the year ended December 31, 2016. The decrease in operating income was driven by the transition of certain billable resources to other reporting units and the closing down of the units insurance related practice.

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.

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.

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.

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).

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.

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 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

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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.

Liquidity and Capital Resources

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

	Year Ended December 31		
	2017	2016	2015
	(In Thousands)		
Cash flows provided by (used in):			
Operating activities	$ (2,966)	$ 5,702	$ 3,261
Investing activities	(176)	(470)	(24,467)

Financing activities	(1,256)	2,482	6,451
Effects of exchange rates	103	(2)	(32)
Total cash provided by (used in):	$ (4,295)	$ 7,712	$ (14,787)

As of December 31, 2017, we had cash and cash equivalents of $15.4 million, a $(4.3) million decrease from the December 31, 2016 balance of $19.7 million. The primary drivers of the decrease in cash during 2017 are the contingent earnout consideration payments related to the M2 Dynamics and Zero2Ten Acquisition, severance payments to three former members of executive management, bonus and commission payments related to the Company s 2016 performance-based incentive programs and premium payments associated with the renewal of annual insurance policies. The Company partially offset these cash outflows through the recurring collection of customer receivables. There was no change in the outstanding principal balance of our line of credit during 2017 (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 have been completed and there will be no further cash consideration paid subsequent to December 31, 2017.

Working capital, which is defined as current assets less current liabilities, decreased $(5.7) million, to $16.8 million, as of December 31, 2017, as compared to $22.5 million as of December 31, 2016.

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 continue 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 used in operating activities was $(3.0) million in 2017, as compared to net cash provided by operating activities of $5.7 million in 2016 and net cash provided by operating activities of $3.3 million in 2015. The primary components of operating cash flows during 2017 were associated with the payment of executive officer severance, contract termination expenses, and consent solicitation related expenses, combined with the impact of non-cash charges of $24.7 million (primarily the change in deferred tax assets). 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).

For the year ended December 31, 2017, net cash used in investing activities was $(176) thousand compared to net cash used in investing activities of $(470) thousand in 2016 and $(24.5) million in 2015. Cash used in investing activities in the year ended December 31, 2017 consisted of purchases of property and equipment. 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.

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

Net cash (used in) provided by financing activities was $(1.3) million in 2017, $2.5 million in 2016 and $6.5 million in 2015. Net cash provided by financing activities in 2017 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 and M2 Dynamics Acquisitions. 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.

As a result of the above, our combined cash and cash equivalents (decreased) increased by $(4.3) million, $7.7 million, and $(14.8) million in 2017, 2016, and 2015, respectively. The aggregate of our cash, cash equivalents and marketable securities was $15.4 million, $19.7 million, and $12.0 million as of December 31, 2017, 2016, and 2015, 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, 2017. The Company was not in compliance with one of its loan covenants as of December 31, 2017. Subsequent to year-end, the Company has received a waiver of compliance for the period ending December 31, 2017 related to the failure to meet the Minimum Interest Coverage covenant. In connection with this waiver, the Company also agreed to maintain at all times cash and cash equivalents of not less than the greater of: (i) the outstanding amount of Aggregate Revolving Advances at such time, and (ii) Five Million and 00/100 Dollars ($5,000,000.00).

The Company is not dependent on its revolving line of credit to fund its operations for the foreseeable future and has sufficient cash balances to pay the outstanding balance on the revolving line of credit should it become due at any time prior to and up to its maturity date of December 21, 2018.

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 $952 thousand, $1.8 million and $2.1 million for the years ended December 31, 2017, 2016 and 2015, 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)			
Line of credit	$ 5,000	$ 5,000	$ -	$ -	$ -
Operating leases	$ 1,145	$ 723	$ 422	$ -	$ -
Total	$ 6,145	$ 5,723	$ 422	$ -	$ -

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 2017 or 2016. 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.

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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

Shareholders and Board of Directors

Edgewater Technology, Inc.

Wakefield, Massachusetts

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Edgewater Technology, Inc. (the Company) and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of comprehensive loss, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, 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) (PCAOB), the Company s internal control over financial reporting as of December 31, 2017, 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 16, 2018 expressed an unqualified opinion thereon.

Change in Accounting Method Related to Stock-Based Compensation

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method for accounting for excess tax benefits related to employee share-based compensation in 2017 due to the prospective adoption of Accounting Standards Updates (ASU) No. 2016-09, Improvements to Employee Share-Based Payment Accounting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the Company s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company s auditor since 2011.

Boston, Massachusetts

March 16, 2018

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Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Edgewater Technology, Inc.

Wakefield, MA

Opinion on Internal Control over Financial Reporting

We have audited Edgewater Technology Inc. and subsidiaries (the Company s) internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of comprehensive loss, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated March 16, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company 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, Management s Report on Internal Control over Financial Reporting . Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ BDO USA, LLP

Boston, Massachusetts

March 16, 2018

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EDGEWATER TECHNOLOGY, INC.

Consolidated Balance Sheets

(In Thousands, Except Per Share Data)

	December 31, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,398	$ 19,693
Accounts receivable, net of allowance of $150	22,218	25,661
Prepaid expenses and other current assets	2,075	1,208
Total current assets	39,691	46,562
Property and equipment, net	409	623
Intangible assets, net	5,575	8,378
Goodwill	29,983	29,983
Deferred tax assets, net	-	19,031
Other assets	216	228
Total assets	$ 75,874	$ 104,805
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 767	$ 634
Accrued liabilities	14,984	13,497
Short-term portion of contingent earnout consideration	-	8,089
Deferred revenue	2,140	1,811
Revolving credit facility	5,000	-
Total current liabilities	22,891	24,031
Revolving credit facility	-	5,000
Total liabilities	22,891	29,031
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 14,046 and 12,878 shares outstanding as of December 31, 2017 and 2016, respectively	297	297
Paid-in capital	202,749	207,445
Treasury stock, at cost, 15,690 and 16,858 shares at December 31, 2017 and 2016, respectively	(98,684)	(108,335)

Accumulated other comprehensive loss	(582)	(580)
Accumulated deficit	(50,797)	(23,053)
Total stockholders equity	52,983	75,774
Total liabilities and stockholders equity	$ 75,874	$ 104,805

See notes to consolidated financial statements.

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EDGEWATER TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In Thousands, Except Per Share Data)

	Year Ended December 31, 2017	2016	2015
Revenue:			
Service revenue	$ 94,408	$ 109,459	$ 98,827
Software revenue	11,784	10,476	10,859
Reimbursable expenses	5,561	6,587	7,018
Total revenue	111,753	126,522	116,704
Cost of revenue:			
Project and personnel costs	59,976	67,580	64,258
Software costs	6,518	6,173	5,838
Reimbursable expenses	5,561	6,587	7,018
Total cost of revenue	72,055	80,340	77,114
Gross profit	39,698	46,182	39,590
Operating expenses:			
Selling, general and administrative	40,034	37,747	34,592
Executive severance expenses	4,187	-	-
Contract termination expense	1,125	-	-
Change in fair value of contingent earnout consideration	(252)	(725)	-
Direct acquisition costs	-	430	1,754
Consent solicitation expenses	666	187	495
Fullscope embezzlement loss recovery	-	-	(250)
Depreciation and amortization	3,157	4,020	1,517
Total operating expenses	48,917	41,659	38,108
Operating (loss) income	(9,219)	4,523	1,482
Other expense, net	302	2,327	2,013
(Loss) income before income taxes	(9,521)	2,196	(531)
Tax provision	19,615	5,030	3,529
Net loss	$ (29,136)	$ (2,834)	$ (4,060)
Comprehensive loss:			
Currency translation adjustment	(2)	(26)	(334)

Total comprehensive loss	$	(29,138)	$	(2,860)	$	(4,394)
Loss per share:						
Basic net loss per share of common stock	$	(2.14)	$	(0.23)	$	(0.35)
Diluted net loss per share of common stock	$	(2.14)	$	(0.23)	$	(0.35)
Shares used in computing basic net loss per share of common stock		13,623		12,150		11,505
Shares used in computing diluted net loss per share of common stock		13,623		12,150		11,505

See notes to consolidated financial statements.

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EDGEWATER TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In Thousands)

	Common Stock Shares	Common Stock Amount	Paid-in Capital	Treasury Stock Shares	Treasury Stock Amount	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders Equity
BALANCE, January 1, 2015	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
Issuance of common stock related to employee stock plans	-	-	(5,718)	1,367	10,937	-	-	5,219
Share-based compensation expense	-	-	1,022	-	-	-	-	1,022
Repurchases of common stock	-	-	-	(199)	(1,286)	-	-	(1,286)
Impact of adoption of Stock compensation Improvements to	-	-	-	-	-	-	1,392	1,392

employee share-based payment accounting													
Currency translation adjustment	-		-		-	-		-		(2)		-	(2)
Net loss												(29,136)	(29,136)
BALANCE, December 31, 2017	29,736	$	297	$	202,749	(15,690)	$	(98,684)	$	(582)	$	(50,797)	$ 52,983

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EDGEWATER TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (29,136)	$ (2,834)	$ (4,060)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	3,164	4,202	1,708
Provision for doubtful accounts	-	104	67
Deferred income taxes	20,423	5,001	3,137
Share-based compensation	1,022	1,286	1,593
Excess tax benefits from stock options	-	(732)	(295)
(Gain) loss on disposal of fixed assets	30	(13)	(10)
Accretion of contingent earnout consideration	295	2,182	1,710
Change in fair value of contingent earnout consideration	(252)	(725)	-
Changes in operating accounts, net of acquisitions:			
Accounts receivable	3,337	1,960	1,548
Prepaid expenses and other current assets	(867)	(504)	(286)
Other assets	11	3	(8)
Accounts payable	133	48	100
Accrued liabilities	(1,455)	(3,659)	(1,697)
Deferred revenue	329	(617)	(246)
Net cash (used in) provided by operating activities	(2,966)	5,702	3,261
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)
Purchases of property and equipment	(176)	(377)	(333)
Net cash used in investing activities	(176)	(470)	(24,467)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from employee stock purchase plans and stock option exercises	5,219	3,964	1,488
Payment of contingent earnout consideration	(5,189)	(2,214)	-
Borrowings under revolving credit facility	-	-	5,000
Excess tax benefits from stock options	-	732	295
Purchases of treasury stock	(1,286)	-	(332)
Net cash (used in) provided by financing activities	(1,256)	2,482	6,451

Effects of exchange rates on cash	103	(2)	(32)
Change in cash and cash equivalents	(4,295)	7,712	(14,787)
CASH AND CASH EQUIVALENTS, beginning of period	19,693	11,981	26,768
CASH AND CASH EQUIVALENTS, end of period	$ 15,398	$ 19,693	$ 11,981
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Cash paid for interest	$ 142	$ 102	$ 18
Cash paid for income taxes	$ 606	$ 220	$ 208
NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Issuance of restricted stock awards	$ 108	$ -	$ 728

See notes to consolidated financial statements.

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND BASIS OF PRESENTATION:

Edgewater Technology, Inc. (the Company or Edgewater) 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.

The Company has reclassified $1.0 million in payments associated with the Zero2Ten contingent earnout arrangement from cash flows from financing activities to cash flows from operating activities in the year ended December 31, 2016, in order to conform to current period presentation.

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.

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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, 2017 or 2016. Amortization expense of $7 thousand, $188 thousand and $191 thousand has been recorded (within software costs on the consolidated statements of comprehensive loss) during the years ended December 31, 2017, 2016 and 2015, 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 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.

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

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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 2017 analysis confirmed that fair values substantially exceeded carrying values, and therefore no impairment existed, and accordingly, a second step analysis was not deemed necessary. However, it is reasonably possible that future events could impact estimates used in the Income Approach and the Market Approach which could impact future impairment analyses.

Revenue Recognition

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

The Company recognizes 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.

The Company considers 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. The Company establishes billing terms at the time at which the project deliverables and milestones are agreed. The Company s 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. The Company routinely evaluates whether revenue and profitability should be recognized in the current period. The Company estimates the proportional performance on the 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 the Company does 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 the 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.

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

If the 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, 2017, 2016 or 2015.

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.

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 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

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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.

Other Expense, Net

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

	Year Ended December 31,		
	2017	2016	2015
	(In Thousands)		
Interest expense, net	$ 123	$ 100	$ 18
Accretion of contingent earnout consideration	$ 295	$ 2,180	$ 1,710
Loss on foreign exchange transactions	$ (116)	$ 47	$ 285
Other expense, net	$ 302	$ 2,327	$ 2,013

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.

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

On December 22, 2017, the Tax Cuts and Jobs Act (the Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from 34% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. In December 2017, the Securities and Exchange Commission (SEC) issued guidance under Staff Accounting Bulletin No. 118, Income Tax Accounting Implications if the Tax Cuts and Jobs Act (SAB 118) directing taxpayers to consider the impact of the U.S. legislation as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. As of December 31, 2017, the Company has not yet completed its accounting for all of the tax effects of the enactment of the Act, however, the Company has made a reasonable estimate of the effects on our existing deferred tax balances and one-time transition tax. For the year ended December 31, 2017, we recognized an additional $266 thousand in taxable income associated with one-time transition tax.

Earnings Per Share

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

	Year Ended December 31,		
	2017	**2016**	**2015**
	(In Thousands, Except Per Share Data)		
Basic net loss per share:			
Net loss applicable to common shares	$ (29,136)	$ (2,834)	$ (4,060)
Weighted average common shares outstanding	13,623	12,150	11,505
Basic net loss per share of common stock	$ (2.14)	$ (0.23)	$ (0.35)
Diluted net loss per share:			
Net loss applicable to common shares	$ (29,136)	$ (2,834)	$ (4,060)
Weighted average common shares outstanding	13,623	12,150	11,505
Dilutive effects of stock options and restricted stock awards	-	-	-
Weighted average common shares, assuming dilutive effect of stock options	13,623	12,150	11,505

Diluted net loss per share of common stock	$ (2.14)	$ (0.23)	$ (0.35)

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 602 thousand and 63 thousand in the years ended December 31, 2017 and 2015, respectively. No such shares were excluded in the year ended December 31, 2016. As of December 31, 2017 and 2016, there were approximately 1.5 million and 2.9 million share-based awards outstanding under the Company s equity plans, respectively. The Company excluded 662 thousand, 2.0 million and 1.9 million shares from the dilutive calculations during the years ended December 31, 2017, 2016 and 2015, respectively, as a result of the net loss position.

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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, 2017 or 2016.

For the years ended December 31, 2017, 2016 and 2015, no customer represented 10% or more of the Company s total revenue or total service revenue. For the years ended December 31, 2017, 2016 and 2015, our five largest customers represented 13.9%, 15.2% and 11.8% of our service revenue in the aggregate, respectively.

Comprehensive Loss

Other comprehensive 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, 2017, 2016, and 2015 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.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment* Accounting ASU 2016-09). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeiture rates, and classification on the statement of cash flows. ASU 2016-09 was effective for fiscal years beginning after December 15, 2016. As a result of adopting FASB ASU 2016-09 in the first quarter of 2017, the Company recorded a cumulative-effect adjustment to retained earnings of $1.4 million to record a net deferred tax asset related to excess equity-based compensation tax deductions relative to these tax attribute carryforwards.

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 loss. Realized net gains (losses) on foreign currency transactions are immaterial and are reflected in earnings.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), or ASU 2014-09, which superseded nearly all existing revenue recognition guidance under U.S. GAAP. Since then, the FASB has also issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606), Principals versus Agent Considerations and ASU 2016-10, Revenue from Contracts with Customers (Topic 606), Identifying Performance Obligations and Licensing, which further elaborate on the original ASU No. 2014-09. The core principle of these updates is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgments and estimates may be required within the revenue recognition process than are required under existing standards.

U.S. GAAP. In July 2015, the FASB approved a one-year deferral of the effective date to January 1, 2018, with early adoption to be permitted as of the original effective date of January 1, 2017. Once this standard becomes effective, companies may use either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures).

The Company will adopt the guidance effective January 1, 2018 using the modified retrospective approach. The Company has performed an assessment of its revenue streams and customer classes. The Company is in the final stages of completing its implementation plan, which includes contract reviews and detailed policy drafting. The Company expects to complete its implementation plan during the first quarter of 2018. The Company is currently finalizing its assessment of allocation of transaction price related to bundled software sales that will be recorded net under the new guidance. The final assessment will determine whether any cumulative effect adjustment is required upon adoption.

The Company will change the presentation method of its software revenue (with the exception of internally developed software for which the Company performs the ongoing maintenance) from gross reporting to net reporting based on the revised criteria for determining principal or agent status, however this change has no impact on gross margin. The Company has also identified instances of variable revenue within its services contracts as well as within reimbursable expense revenue, however the application of the new revenue guidance is not expected to result in a difference in the

Company s revenue recognition. The analysis completed to date of contracts under the new revenue recognition standard supports the recognition of revenue at a point in time for product sales and over time for service contracts, which is consistent with the Company s current revenue recognition model.

For professional service contracts entered into with customers on a time and materials basis, an input-based measure of progress based on the number of days incurred or hours expended continues to best depict progress toward complete satisfaction of the performance obligation. For performance obligations where the transfer of control occurs over-time, a time-based measure of progress (proportional performance method)

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

continues to best depict the transfer of control of services to the customer for fixed fee service contracts and source agreements that represent stand-ready obligations to make goods or services available for the customer to use as and when the customer decides. In addition, the number of performance obligations under the new standard is not materially different from the Company s contract deliverables under the existing standard.

The Company also does not expect the standard to have a material impact on its consolidated balance sheet.

Adoption of the standard would have resulted in a reduction in software revenue and software expense of approximately $6.5 million in fiscal year 2017, due to the impact of the change in presentation from gross to net reporting of software revenue. This change would have had no net impact on gross margin.

The Company is in the process of evaluating the ongoing disclosure requirements of the new standard.

There are also certain considerations related to internal control over financial reporting that are associated with implementing Topic 606. The Company has evaluated its internal control framework over revenue recognition and designed and implemented the appropriate internal controls to enable the preparation of financial information and obtain and disclose the information required under Topic 606. This evaluation did not result in any material changes to the Company s existing internal control framework over revenue recognition.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which requires lessees to record most leases on their balance sheets, recognizing a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance in ASU 2016-02 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We currently expect that most of our operating lease commitments will be subject to the update and recognized as operating lease liabilities and right-of-use assets upon adoption.

However, the Company is currently evaluating the effect that implementation of this update will have upon adoption on its consolidated financial position and results of operations.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, Leases (Topic 842) (ASU 2016-02), which requires lessees to record most leases on their balance sheets, recognizing a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. The guidance in ASU 2016-02 is required for annual reporting periods beginning after December 15, 2018, with early adoption permitted. We currently expect that most of our operating lease commitments will be subject to the update and recognized as operating lease liabilities and right-of-use assets upon adoption. However, we are currently evaluating the effect that implementation of this update will have upon adoption on our consolidated financial position and results of operations.

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.

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

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.

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 was based upon the achievement of certain performance measures (and was not impacted by continued employment status of M2 Dynamics owners) over a one-year earnout period, which concluded on December 21, 2016. The maximum amount of contingent earnout consideration that could have been earned by M2 Dynamics was capped at $6.6 million. The Company continually examined actual results in comparison to financial metrics utilized in the earnout calculation and assessed the carrying value of the contingent earnout consideration. During the three-month periods ended March 31, 2017 and December 31, 2016, the Company recorded changes in fair value of the estimated earnout consideration to be achieved (as a result of better than forecasted financial performance). These changes in estimate resulted in an expense of $651 thousand and $662 thousand, respectively (which were recorded as components of changes in fair value of contingent earnout consideration in the accompanying condensed consolidated statements of comprehensive loss).

In December 2016, M2 Dynamics completed its twelve-month earnout period, during which certain performance measurements were achieved. Accordingly, M2 Dynamics received additional contingent consideration related to the earnout period in the amount of $5.1 million. This additional contingent consideration was paid during the second quarter of 2017.

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 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	

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

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

The Company recorded total revenues of $247 thousand and a net loss of $(118) thousand in its statement of comprehensive 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 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 (In Thousands)
Pro forma revenue	$ 129,522
Pro forma net loss	(2,679)
Pro forma basic net loss per share	$ (0.23)
Pro forma diluted net loss per share	$ (0.23)

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 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 was based upon the achievement of certain performance measures (and was not impacted by continued employment status of Branchbird owners) over two consecutive one-year earnout periods, which concluded on August 16, 2017. The maximum amount of contingent earnout consideration that could have been earned by Branchbird was capped at $2.4 million. The Company continually examined 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

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

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 loss). Further, 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 loss). Finally, during the three-month period ended September 30, 2017, the Company recorded a change in fair value of the estimated earnout consideration to be achieved (as a result of actual financial performance achieved). This change in estimate resulted in a reversal of expense of $856 thousand (which was recorded as a component of changes in fair value of contingent earnout consideration in the accompanying condensed consolidated statements of comprehensive loss).

In August 2017, Branchbird completed its second twelve-month earnout period, during which certain performance measurements were not achieved. Accordingly, Branchbird did not receive additional contingent consideration related to the earnout period. As of December 31, 2017, the Branchbird earnout period has been completed and no further consideration is owed.

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.

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 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

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

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 loss) during the year ended December 31, 2015.

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

During the three-month periods ended March 31, 2017, December 31, 2016 and June 30, 2016, we reversed $47 thousand, $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 loss) associated with the 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.

In March 2017, Zero2Ten completed its second twelve-month earnout period, during which certain performance measurements were achieved. Accordingly, Zero2Ten received additional contingent consideration related to the second earnout period in the amount of $3.0 million. This additional contingent consideration was paid during the second quarter of 2017.

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

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

3. BUSINESS COMBINATIONS (Continued):

of comprehensive 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, 2017, we have no financial assets or liabilities required to be measured on a recurring basis. As of December 31, 2016, our only financial assets and liabilities required to be measured on a recurring basis were our contingent earnout consideration liabilities.

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

		Basis of Fair Value Measurements		
	Balance	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, 2016:				
Financial liabilities:				
Contingent earnout consideration	$ 8,089	$ -	$ -	$ 8,089

Total financial liabilities	$ 8,089	$ -	$ -	$ 8,089

No financial instruments were transferred into or out of Level 3 classification during the year ended December 31, 2017.

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.

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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, 2017 and 2016 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) (In Thousands)
Balance at January 1, 2016	$ 10,540
Payment of contingent 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)	2,180
Balance at December 31, 2016	8,089
Payment of contingent earnout consideration	(8,132)
Adjustment to estimated fair value of contingent earnout consideration (included within Selling, general and administrative expense)	(252)
Accretion of contingent earnout consideration (included within other expense, net)	295
Ending balance at December 31, 2017	$ -

As of December 31, 2017 and December 31, 2016, 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 $3.4 million and $2.7 million at December 31, 2017 and 2016, 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,		
	2017	2016	2015
	(In Thousands)		
Balance at beginning of year	$ 150	$ 150	$ 150
Provisions for doubtful accounts	30	104	67
Charge-offs, net of recoveries	(30)	(104)	(67)
Balance at end of year	$ 150	$ 150	$ 150

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

6. PROPERTY AND EQUIPMENT:

Components of property and equipment consisted of the following:

	December 31, 2017	December 31, 2016
	(In Thousands)	
Furniture, fixtures and equipment	$ 961	$ 1,000
Computer equipment and software	1,471	1,411
Leasehold improvements	2,844	3,014
	5,276	5,425
Less accumulated depreciation and amortization	(4,867)	(4,802)
Total	$ 409	$ 623

Depreciation expense related to property and equipment for the years ended December 31, 2017, 2016 and 2015 totaled $361 thousand, $590 thousand and $618 thousand, respectively. The Company disposed of $325 thousand, $1.0 million and $238 thousand of equipment that was no longer in use during 2017, 2016 and 2015, respectively. A gain on disposal of property and equipment of $30 thousand, $13 thousand and $10 thousand was recognized in the years ended December 31, 2017, 2016 and 2015.

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, 2016	$ 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
Changes to goodwill in 2017				
Balance at December 31, 2017	$ 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, 2017.

As of December 31, 2017, the net carrying amount of intangible assets consists of amounts related to business combination transactions consummated by the Company in 2015.

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

7. GOODWILL AND INTANGIBLE ASSETS (Continued):

Other net intangibles amounted to $5.6 million and $8.4 million as of December 31, 2017 and 2016, respectively. Below is a summary of the Company s identifiable intangible assets that are subject to amortization:

	December 31, 2017			
	Gross Carrying Amount	Impairment Charges	Accumulated Amortization	Net Carrying Amount
	(In Thousands)			
Identifiable intangibles:				
Customer relationships	22,978	-	17,403	5,575
Capitalized product development costs	1,139	-	1,139	-
	$ 24,117	$ -	$ 18,542	$ 5,575

	December 31, 2016			
	Gross Carrying Amount	Impairment Charges	Accumulated Amortization	Net Carrying Amount
	(In Thousands)			
Identifiable intangibles:				
Customer relationships	22,978	-	14,611	8,367
Capitalized product development costs	1,139	-	1,128	11
	$ 24,117	$ -	$ 15,739	$ 8,378

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

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 3.4 years, 4.4 years and 5.4 years as of December 31, 2017, 2016 and 2015, respectively. Amortization expense related to all intangible assets was $2.8 million, $3.4 million and $899 thousand in 2017, 2016 and 2015, respectively.

Amortization of $7 thousand, $188 thousand and $191 thousand related to capitalized software development costs were included within cost of revenue (specifically within software expense) on the consolidated statements of comprehensive loss for the years ended December 31, 2017, 2016 and 2015, respectively.

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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)
2018	2,240
2019	1,712
2020	1,057
2021	566
Total	$ 5,575

8. ACCRUED EXPENSES AND OTHER LIABILITIES:

Components of accrued expenses consisted of the following:

	December 31, 2017	December 31, 2016
	(In Thousands)	
Accrued bonuses	$ 5,590	$ 3,053
Accrued payroll related liabilities	3,277	2,614
Accrued vacation	2,497	2,243
Accrued commissions	825	2,537
Accrued software expense	675	844
Accrued contractor fees	346	455
Accrued professional service fees	341	344
Deferred rent	64	74
Income tax related accruals	189	166
Other accrued expenses	1,180	1,167
Total	$ 14,984	$ 13,497

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 2016 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, 2017, we recorded an income tax provision of $19.6 million compared to an income tax provision of $5.0 million and $3.5 million in the years ended December 31, 2016 and 2015, respectively. Our 2017 income tax provision includes $13.5 million in non-cash charges associated with increases to the valuation allowance applied against the carrying value of our deferred tax attributes, combined

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

with a $10.9 million non-cash charge necessary to present our deferred tax attributes at a level reflecting the anticipated future economic benefit we expect to receive upon their reversal. The income tax provision recorded during 2016 includes a non-cash charge of $3.7 million 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, 2017, we had gross deferred tax assets of $21.7 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 $21.7 million and $8.2 million against the carrying value of our gross deferred tax attributes as of December 31, 2017 and 2016, 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 2017 periodic assessments 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 assessments, we noted the following positive and negative evidence:

Positive Evidence:

The Company s forecasts of future taxable income indicated that our pre-tax income and taxable income would increase in the future.

Negative Evidence:

The Company was in a cumulative loss position over the past three fiscal years (largely due to our 2017 operating performance).

The Company did not utilize any of the Company s existing federal and state net operating loss carryforwards in 2017 as originally expected.

Foreign operations are generating a larger portion of the Company s consolidated profit before income taxes.

The majority of the Company s 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 2017

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

- The Company s forecasts continue to have increased risk associated of performance due to prolonged disruption in our sales pipeline attributable to our channel partners pushing customers toward cloud-based service offerings and away from on-premise applications.

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. Additionally, the Company, during its evaluations, placed significant weighting upon being in a cumulative loss position over the past three fiscal years. This fact provided strong objective and verifiable evidence that it was not more likely than not that the Company would be able to realize future economic benefit from its deferred tax attributes. Accordingly, the Company recorded an increase in the valuation allowance applied against the carrying value of its deferred tax assets in both the second quarter (recording a $1.1 million increase to the valuation allowance) and fourth quarter (recording a $12.4 million increase to the valuation allowance) of 2017. The combined effect of these increases results in a full valuation allowance being provided against the deferred tax attributes as of December 31, 2017, reflecting the more likely than not anticipated future economic benefit to be realized from the assets.

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

Positive Evidence:

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

Negative Evidence:

- While the Company generated U.S.-based profit before income taxes during 2016, the Company did not utilize a significant amount of the Company s federal and state net operating loss carryforwards in 2016 as originally expected.
- Foreign operations are generating a larger portion of the Company s consolidated profit before income taxes.

- The majority of the Company s 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.
- The Company s 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.

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

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

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.

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

2017 Tax Cuts and Jobs Act:

On December 22, 2017, the Tax Cuts and Jobs Act the (Act) was enacted in the United States. The Act reduces the U.S. federal corporate tax rate from a graduated rate of 35% to a flat rate of 21%. Accordingly, in connection with the reduction in the U.S. federal corporate tax rate, we recorded a $10.9 million non-cash charge in order to present our deferred tax attributes at a level reflecting the anticipated future economic benefit we expect to receive upon their reversal.

Additionally, the Act requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. In December 2017, the Securities and Exchange Commission (SEC) issued guidance under Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act* (SAB 118) directing taxpayers to consider the impact of the U.S. legislation as provisional when it does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete its accounting for the change in tax law. As of December 31, 2017, the Company has not yet completed its accounting for all of the tax effects of the enactment of the Act, however, the Company has made a reasonable estimate of the effects on our existing deferred tax balances and one-time transition tax. For the year ended December 31, 2017, the Company recognized an additional $266 thousand in taxable income associated with one-time transition tax.

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

Income tax provision:

Significant components of the Company s income tax provision consisted of the following:

	Year Ended December 31,		
	2017	2016	2015
	(In Thousands)		
Current tax expense:			
Federal	$ -	$ -	$ -
State	(42)	185	161
Foreign	347	(9)	264
	305	176	425
Deferred tax expense (benefit):			
Federal	6,825	801	(544)
State	(1,016)	344	476
Foreign	-	9	205
Change in valuation allowance	13,526	3,700	3,000
	19,335	4,854	3,137
Unrecognized tax benefit	(25)	-	(33)
Income tax provision	$ 19,615	$ 5,030	$ 3,529

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

	Year Ended December 31,		
	2017	2016	2015
Domestic	$ (9,971)	$ 399	$ (1,875)
Foreign	450	1,797	1,344
Income (loss) before income taxes	$ (9,521)	$ 2,196	$ (531)

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, 2017 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.

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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 (loss) income result from the following:

	Year Ended December 31,					
	2017		2016		2015	
	Amount	Rate	Amount	Rate	Amount	Rate
	(Dollar Amounts In Thousands)					
Income tax at statutory rate	$ (3,237)	34.0%	$ 747	34.0%	$ (195)	34.0%
Add (deduct):						
State income taxes, net of federal tax benefit	(859)	(39.1)	429	19.6	484	(84.4)
Tax rate difference on foreign income taxes	46	2.1	17	0.8	(36)	6.2
Non-deductible items	162	7.4	126	5.7	155	(27.1)
Increase in valuation allowance against certain deferred tax assets	13,526	615.9	3,700	168.5	3,000	(523.8)
Unrecognized tax benefits	(25)	(1.1)	-	-	(33)	5.8
Income tax reform impact	10,877	495.3	-	-	-	-
Other, net	(875)	(39.9)	11	0.5	154	(27.0)
	$ 19,615	1,074.6%	$ 5,030	229.1%	$ 3,529	(616.3)%

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, 2017 and 2016 are as follows:

	December 31,	
	2017	2016
	(In Thousands)	
Deferred income tax assets:		
Net operating loss carryforwards and credits	$ 14,713	$ 16,090
Acquired intangible assets	4,370	6,561
Reserves and accruals	1,984	2,209
Share-based compensation	1,549	2,837
Depreciation	269	395

Total deferred income tax assets	22,885	28,092
Deferred income tax liabilities:		
Acquired intangible assets	(780)	(549)
Other	(379)	(312)
Total deferred income tax liabilities	(1,159)	(861)
Valuation allowance	(21,726)	(8,200)
Deferred income tax asset, net	$ -	$ 19,031

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

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, 2017, we had gross net operating loss carryforwards for both federal and state income tax purposes of approximately $80.7 million and worker s opportunity credits of approximately $1.0 million, which expire at various intervals through 2037. However, $36.5 million of the Company s gross federal net operating loss carryforwards and the $1.0 million of worker s opportunity tax credits are set to expire in 2020.

In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* ASU 2016-09). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, forfeiture rates, and classification on the statement of cash flows. ASU 2016-09 was effective for fiscal years beginning after December 15, 2016. As a result of adopting FASB ASU 2016-09 in the first quarter of 2017, the Company recorded a cumulative-effect adjustment to retained earnings of $1.4 million to record a net deferred tax asset related to excess equity-based compensation tax deductions relative to these tax attribute carryforwards.

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 $1.6 million which expire at various intervals through 2037.

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

	Year Ended December 31,		
	2017	2016	2015
	(In Thousands)		
Balance, beginning of year	$ 8,200	$ 4,500	$ 1,500
Additions	13,526	3,700	3,000
Balance, end of year	$ 21,726	$ 8,200	$ 4,500

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,		
	2017	2016	2015
	(In Thousands)		
Gross unrecognized tax benefits, beginning of year	$ -	$ -	$ 9
Increase in tax position in current year	-	-	-
Settlement/Expiration of statute	-	-	-
De-recognition through administrative policy	-	-	(9)
Gross unrecognized tax benefits, end of year	$ -	$ -	$ -

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

9. INCOME TAXES (Continued):

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 loss. There was no accrual for interest and penalties as of December 31, 2017, 2016 and 2015.

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 $771 thousand, $776 thousand and $684 thousand for the years ended December 31, 2017, 2016 and 2015, 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 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.

<u>2000 Plan</u>: 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.

<u>2003 Plan</u>: 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.

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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.

2017 Plan: The 2017 Plan provides for a broad range of awards, including stock options and awards of restricted shares of the Company s common stock. The 2017 Plan authorizes the issuance of 1.5 million shares of the Company s common stock. The 2017 Plan became effective on June 14, 2017.

As of December 31, 2017, there are 271,593; 4,702; 60,540; and 1,500,000 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, 2017 and 2016, the Company granted options to purchase 177,000 and 45,000 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.

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

	Year Ended December 31,		
	2017	**2016**	**2015**

	(In Thousands)		
Project and personnel costs	$ 203	$ 202	$ 191
Selling, general and administrative	819	1,084	1,402
Total share-based compensation expense	$ 1,022	$ 1,286	$ 1,593

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

The fair value of each option award granted during 2017, 2016 and 2015, was based upon the following weighted-average assumptions:

	Year Ending December 31,		
	2017	2016	2015
Expected volatility	39.7%	40.8%	46.6%
Expected dividend yield	-%	-%	-%
Expected life (in years)	3.56	3.57	3.63
Risk-free interest rate	1.5%	1.1%	1.1%

The weighted-average grant-date fair value of all options granted (excluding restricted share awards) during the years ended December 31, 2017, 2016 and 2015 was $2.55, $2.38 and $2.50 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, 2016	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
Granted	177,000	6.94		
Exercised	(1,178,617)	3.52		
Forfeited or expired	(386,348)	6.25		
Outstanding at December 31, 2017	1,462,365	$ 4.85	2.51	$ 2,435
Vested and expected to vest at December 31, 2017	1,421,378	$ 4.79	2.46	$ 2,202
Exercisable at December 31, 2017	1,285,060	$ 4.55	2.24	$ 2,435

The total intrinsic value of stock options exercised during 2017, 2016 and 2015 was approximately $3.8 million, $3.1 million and $1.0 million, respectively.

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

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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, 2017, 17 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 year ended December 31, 2017 the Company issued 14 thousand restricted share awards 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 $295 thousand, $420 thousand, and $557 thousand during the years ended December 31, 2017, 2016 and 2015, 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, 2016	168,117	$ 6.36
Granted		
Vested	(92,683)	(5.88)
Non-vested at December 31, 2016	75,434	$ 6.95
Granted	13,500	6.98
Vested	(73,851)	(6.94)
Non-vested at December 31, 2017	15,083	$ 6.98
Expected to vest at December 31, 2017	15,083	$ 6.98

The total fair value of stock awards vested during the years ended December 31, 2017, 2016 and 2015 was $344 thousand, $694 thousand and $422 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.

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, 2017, 2016 and 2015, the Company issued 144,349, 135,849 and 114,431 shares, respectively, to employees under the 2008 ESPP.

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

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

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,		
	2017	2016	2015
Expected volatility	34.1%	30.5%	32.0%
Expected dividend yield	-%	-%	-%
Expected life (in years)	0.25	0.25	0.25
Risk-free interest rate	0.9%	0.3%	0.0%

The weighted-average fair value of the shares issued under the 2008 ESPP in 2017, 2016 and 2015, based upon the assumptions in the preceding table, was $1.55, $1.73 and $1.54, 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 $339 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, 2017 and 2016, and had 2.0 million shares of preferred stock available for issuance as of December 31, 2017 and 2016.

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 Purchase Authorization) and was set to expire on September 22, 2017 (the Repurchase Period). On September 20, 2017, we announced that the

Board had approved an extension of the Repurchase Period to September 21, 2018.

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 repurchased 199,053 shares of common stock at an aggregate price of $1.3 million during the year ended December 31, 2017. The Company did not repurchase any shares of common stock during the year

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

12. CAPITAL STOCK (Continued):

ended December 31, 2016. As of December 31, 2017, the Company had $7.4 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, 2017, were as follows:

Year Ending December 31,	Operating Leases
2018	723
2019	338
2020	84
	$ 1,145

Lease payments under operating leases were $952 thousand, $1.8 million and $2.1 million for the years ended December 31, 2017, 2016 and 2015, 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, 2017 or 2016.

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 not in compliance with one of its loan covenants as of December 31, 2017. Subsequent to year-end, the Company has received a waiver of compliance for the period ending December 31, 2017 related to the failure to meet the Minimum Interest Coverage covenant. In connection with this waiver, the Company also agreed to maintain at all times cash and cash equivalents of not less than the greater of: (i) the outstanding amount of Aggregate Revolving Advances at such time, and (ii) Five Million and 00/100 Dollars ($5,000,000.00). 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, 2017.

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

15. GEOGRAPHIC INFORMATION

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

	For the Years Ending December 31, 2017	2016	2015
United States	$ 98,736	$ 108,200	$ 100,730
Canada	9,522	12,288	11,377
Other International	3,494	6,034	4,598
Total Revenue	$ 111,753	$ 126,522	$ 116,704

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 .

Segment information for the years ended December 31, 2017, 2016 and 2015 is as follows (in thousands):

	EPM	ERP	Classic Consulting	Corporate	Consolidated
			(In Thousands)		
2017					
Total revenue	$ 49,913	$ 51,858	$ 9,982	$ -	$ 111,753
Operating income (loss)	$ 1,519	$ 5,620	$ (1,380)	$ (14,978)	$ (9,219)

Depreciation and amortization expense	$ 2,241	$ 790	$ -	$ 133	$ 3,164
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

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EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

16. SEGMENT INFORMATION (Continued)

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, 2017 and 2016. The quarterly operating results are not necessarily indicative of future results of operations.

	2017				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
	(In Thousands, Except Per Share Data)				
Total revenue	$ 29,130	$ 30,305	$ 27,361	$ 24,957	$ 111,753
Gross profit	$ 9,988	$ 11,509	$ 10,321	$ 7,880	$ 39,698
Net loss	$ (2,687)	$ (860)	$ (172)	$ (25,417)(1)	$ (29,136)
Basic loss per share	$ (0.21)	$ (0.06)	$ (0.01)	$ (1.82)	$ (2.14)
Diluted loss per share	$ (0.21)	$ (0.06)	$ (0.01)	$ (1.82)	$ (2.14)

	2016				
	1st Quarter	2nd Quarter	3rd Quarter	4th 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)

(1) The Company s fourth quarter 2017 and 2016 net loss includes $22.0 million and $3.7 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.

18. SUBSEQUENT EVENTS FOOTNOTE:

On March 15, 2018, Edgewater Technology, Inc. (the Company) entered into an Arrangement Agreement (the Arrangement Agreement) with 9374-8572 Québec Inc., a newly-formed Québec corporation (CanCo Parent), Alithya Group Inc., a Québec private corporation (Alithya), which now conducts a digital technology and consulting business, and 9374-8572 Delaware Inc., a newly-formed wholly-owned Delaware subsidiary of CanCo Parent (U.S. Merger Sub). Under the terms of the Arrangement Agreement, (a) CanCo Parent will acquire Alithya pursuant to a plan of arrangement under the laws of Québec, Canada, and (b) U.S. Merger Sub will merge with and into the Company (the Merger), with the Company as the surviving corporation (together, the Arrangement). As a result of the Arrangement, both the Company and Alithya will become wholly-owned subsidiaries of CanCo Parent.

The Arrangement Agreement is subject to approval by the respective shareholders of the Company and Alithya. In order to solicit such approval, the Company and Alithya will jointly prepare a management proxy circular and other documents required by applicable laws for the Alithya shareholders and a prospectus/proxy statement for the Company shareholders. That prospectus/proxy statement will be included in a registration statement on Form F-4 (the CanCo Parent Registration Statement) to be filed by CanCo Parent with the Securities and Exchange Commission (the SEC) under which, as described below, CanCo Parent will offer to the shareholders of the Company and Alithya, in exchange for all of their common shares in the Company and

EDGEWATER TECHNOLOGY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

18. SUBSEQUENT EVENTS FOOTNOTE (Continued):

Alithya, common shares of CanCo Parent (CanCo Parent Shares) and, to those Alithya shareholders which now hold Alithya multiple voting shares, multiple voting shares of CanCo Parent (CanCo Parent Multiple Voting Shares). CanCo Parent will also apply to have the CanCo Parent Shares listed, subject to official notice of issuance, for trading on NASDAQ and the Toronto Stock Exchange.

The closing of the Arrangement (the Closing) is now expected to occur in the third quarter of 2018. However, the Company cannot predict with certainty when, or if, the Arrangement will close because such closing is subject to conditions beyond the Company s control.

The Arrangement Agreement provides that, upon the terms and subject to the conditions set forth therein, the following will occur on or prior to the effective time of the Arrangement (the Effective Time):

(i) in connection with the Merger, CanCo Parent will issue CanCo Parent Shares to the Company s shareholders based upon an exchange ratio of 1.3118 CanCo Parent Share for each Company common share, but subject to potential adjustment if the volume weighted average trading price of the Company s common shares on NASDAQ during the 10 consecutive trading days preceding the Closing (the VWAP) shall be less than U.S.$5.25;

(ii) in connection with the acquisition of Alithya, CanCo Parent will issue CanCo Parent Shares to those shareholders of Alithya which now hold Alithya common shares and, to those Alithya shareholders which now hold Alithya multiple voting shares, equivalent CanCo Parent Multiple Voting Shares, based upon an exchange ratio of one CanCo Parent Share or one CanCo Parent Multiple Voting Share for each Alithya common share or Alithya multiple voting share, respectively;

(iii) CanCo Parent will change its name to Alithya Group, Inc. and its headquarters to the current headquarters of Alithya in Montreal, Québec;

(iv) CanCo Parent s board of directors will consist of nine directors, of whom six will be nominated by Alithya s current board and three by the Company s current board, and Paul Raymond (Alithya s current chief executive officer), Claude Rousseau (Alithya s current chief operating officer), and Mathieu Lupien (Alithya s current chief financial officer) will become, respectively, CanCo Parent s chief executive officer, chief operating officer and chief financial officer; and in addition to the right of the Company shareholders to receive CanCo Parent Shares, the Company will pay, immediately prior to the Closing, to the Company s shareholders and option holders a special dividend equal to U.S.$20.5 million (approximately $1.54 per currently outstanding Company share), provided that (i) the total amount of such dividend shall proportionately increase or decrease to the extent, if any, the Company s Net Cash (as defined in the Arrangement Agreement) shall then be greater or less than U.S.$8.5 million and (ii) such dividend shall be payable either in cash (for the Company s shareholders) or an adjustment (for the Company s option holders) to the exercise price of such options.

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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, 2017.

The attestation report concerning the effectiveness of our internal control over financial reporting as of December 31, 2017 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, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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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 April 30, 2018. 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.

(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.

(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.

(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.

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.

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.

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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.

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.

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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.

(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).
2.7	Arrangement Agreement among Alithya Group, Inc., 9374-8572 Québec Inc., 9374-8572 Delaware Inc. and the Company dated March 15, 2018* (Incorporated by reference from Exhibit 2.1 to the Company s Form 8-K filed with the SEC on March 16, 2018).
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 (Incorporated by reference from Exhibit 3.2 to the Company s Form 10-K for the year ended December 31, 2016).
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)
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)

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(a) 3. Exhibits-(Continued)

EXHIBIT INDEX

Exhibit Number	Description
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).
10.28	Edgewater Technology, Inc. 2017 Omnibus Incentive Plan (Incorporated by reference from Exhibit 99 to the Company s Registration Statement on Form S-8 filed with the SEC on July 6, 2017).
10.29	Separation Agreement and General Release between the Company and Robin Ranzal-Knowles (Incorporated by reference from Exhibit 10.1 to the Company s Form 8-K filed with the SEC on September 27, 2017).
10.30	Stay Bonus Agreement, dated as of December 22, 2017, between the Company and Russell Smith (Incorporated by reference from Exhibit 10.1 to the Company s Form 8-K filed with the SEC on December 27, 2017).
10.31	Support Agreements dated as of March 15, 2018, among Alithya Group, Inc., the Company and the directors, senior officers and the shareholders of Alithya named therein (Incorporated by reference from Exhibit 10.3 to the Company s Form 8-K filed with the SEC on March 16, 2018).
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, 2017 and 2016, (ii) Consolidated Statements of Comprehensive Loss for the years ended December 31, 2017, 2016 and 2015, (iii) Consolidated Statements of Stockholders Equity for the years ended December 31, 2017, 2016 and 2015, (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2017, 2016 and 2015 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.

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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 16, 2018.

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	Chairman, Interim President and Interim Chief Executive Officer *(Principal Executive Officer)*	March 16, 2018
Jeffrey L. Rutherford		
/s/ TIMOTHY R. OAKES	Chief Financial Officer	March 16, 2018
Timothy R. Oakes	*(Principal Financial Officer)*	
/s/ PAUL MCNEICE	Chief Accounting Officer	March 16, 2018
Paul McNeice	*(Principal Accounting Officer)*	
/s/ STEPHEN BOVA	Director	March 16, 2018
Stephen Bova		
/s/ MATTHEW CARPENTER	Director	March 16, 2018
Matthew Carpenter		

/s/ FREDERICK DISANTO Frederick DiSanto	Director	March 16, 2018
/s/ TIMOTHY WHELAN Timothy Whelan	Director	March 16, 2018
/s/ KURTIS J. WOLF Kurtis J. Wolf	Director	March 16, 2018