

INTERNET GOLD GOLDEN LINES LTD
Form 6-K
October 21, 2013

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

F O R M 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16
UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of October 2013

INTERNET GOLD-GOLDEN LINES LTD.
(Name of Registrant)

2 Dov Friedman Street, Ramat Gan 52503, Israel
(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F T

Form 40-F o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): o

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): o

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes o

No T

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

INTERNET GOLD-GOLDEN LINES LTD.

The following exhibit is attached:

99.1 Form of the Immediate Report of Bezeq - The Israel Telecommunication Corp. Ltd. ("Bezeq"), a controlled subsidiary of B Communications Ltd., the Registrant's controlled subsidiary, filed with the Israel Securities Authority and the Tel Aviv Stock Exchange, with respect to a, with respect to a final dismissal of a class action claim that was previously filed against Bezeq International.

SIGNATURE

Pursuant to the requirements 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.

Internet Gold-Golden Lines Ltd.
(Registrant)

By: /s/ Doron Turgeman
Doron Turgeman
Chief Executive Officer

Date: October 21, 2013

EXHIBIT INDEX

EXHIBIT DESCRIPTION

NO.	DESCRIPTION
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on. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of Tier1's operations have been included in the Company's consolidated financial statements since June 25, 2007.

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

Intangibles:

Customer relationships	\$ 0.9
Customer backlog	0.4
Non-compete agreements	0.1
Internally developed software	0.2
Goodwill	11.9
Tangible assets and liabilities acquired:	
Accounts receivable	2.3
Property and equipment	0.1
Accrued expenses	(0.8)
Net assets acquired	\$ 15.1

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

Acquisition of BoldTech Systems, Inc.

On September 20, 2007, the Company acquired BoldTech Systems, Inc. ("BoldTech"), an information technology consulting firm, for approximately \$20.9 million. The purchase price consists of approximately \$10.0 million in cash,

transaction costs of approximately \$1.0 million, and 449,683 shares of the Company's common stock valued at approximately \$23.69 per share (approximately \$10.6 million worth of the Company's common stock) less the value of those shares subject to a lapse acceleration right of approximately \$723,000 as determined by a third party valuation firm. The total purchase price has been allocated to the assets acquired, including identifiable intangible assets, based on their respective fair values at the date of acquisition. The purchase price was allocated to intangibles based on management's estimate and an independent valuation. Management expects to finalize the purchase price allocation within twelve months of the acquisition date as certain initial accounting estimates are resolved. The results of BoldTech's operations have been included in the Company's consolidated financial statements since September 20, 2007.

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

Intangibles:	
Customer relationships	\$ 3.8
Customer backlog	0.1
Non-compete agreements	0.1
Goodwill	13.0
Tangible assets and liabilities acquired:	
Cash	4.3
Accounts receivable	5.2
Property and equipment	0.7
Other assets	2.4
Accrued expenses	(8.7)
Net assets acquired	\$ 20.9

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

Pro Forma Results of Operations

The following presents the unaudited pro forma combined results of operations of the Company with the inclusion Bay Street, Insolex, EGG, E Tech, Tier1, and BoldTech for the entire three months and nine months ended September 30, 2007 and 2006, after giving effect to certain pro forma adjustments related to the amortization of acquired intangible assets. These unaudited pro forma results are not necessarily indicative of the actual consolidated results of operations had the acquisitions actually occurred on January 1, 2007 and January 1, 2006 or of future results of operations of the consolidated entities (in thousands, except per share information):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Revenues	\$ 58,863	\$ 55,865	\$ 181,692	\$ 162,602
Net income	\$ 4,745	\$ 2,956	\$ 13,468	\$ 7,384
Basic net income per share	\$ 0.17	\$ 0.11	\$ 0.47	\$ 0.28
Diluted net income per share	\$ 0.15	\$ 0.10	\$ 0.44	\$ 0.25

9. Goodwill and Intangible Assets*Goodwill*

The changes in the carrying amount of goodwill for the nine months ended September 30, 2007 are as follows (in thousands):

Balance at December 31, 2006	\$ 69,170
BoldTech Acquisition	13,036
Tier1 Acquisition	11,883
E Tech Acquisition	9,518
Adjustments to preliminary purchase price allocations	(385)
Balance at September 30, 2007	\$ 103,222

Intangible Assets with Definite Lives

Following is a summary of Company's intangible assets that are subject to amortization (in thousands):

	September 30, 2007			December 31, 2006		
	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts	Gross Carrying Amounts	Accumulated Amortization	Net Carrying Amounts
Customer relationships	\$ 20,010	\$ (4,312)	\$ 15,698	\$ 12,860	\$ (2,808)	\$ 10,052
Non-compete agreements	2,599	(1,413)	1,186	2,393	(1,094)	1,299
Customer backlog	980	(554)	426	-	-	-
Internally developed software	1,124	(376)	748	755	(220)	535
Total	\$ 24,713	\$ (6,655)	\$ 18,058	\$ 16,008	\$ (4,122)	\$ 11,886

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

Customer relationships 3 - 8 years

Non-compete agreements	3 - 5 years
Customer backlog	3 months to 10 months
Internally developed software	3 - 5 years

10. Line of Credit and Long-Term Debt

In June 2006, the Company entered into an Amended and Restated Loan and Security Agreement with Silicon Valley Bank and Key Bank National Association. The amended agreement increased the total size of the Company's senior bank credit facilities from \$28.5 million to \$50 million by increasing the accounts receivable line of credit from \$15 million to \$25 million and increasing the acquisition term line of credit from \$13.5 million to \$25 million.

The accounts receivable line of credit, which expires in October 2009, provides for a borrowing capacity equal to all eligible accounts receivable, including 80% of unbilled revenues, subject to certain borrowing base calculations as defined in the agreement, but in no event more than \$25 million. Borrowings under this line of credit bear interest at the bank's prime rate (7.75% on September 30, 2007). As of September 30, 2007, there were no amounts outstanding under the accounts receivable line of credit and \$24.8 million of available borrowing capacity due to an outstanding letter of credit to secure an office lease.

The Company's \$25 million term acquisition line of credit provides an additional source of financing for certain qualified acquisitions. As of September 30, 2007, there were no amounts outstanding under this acquisition line of credit. Borrowings under this acquisition line of credit bear interest equal to the four year U.S. Treasury note yield plus 3% based on the spot rate on the day the draw is processed (7.2% on September 30, 2007). Draws under this acquisition line may be made through June 29, 2008. The Company currently has \$25 million of available borrowing capacity under this acquisition line of credit.

The Company is required to comply with various financial covenants under the \$50 million credit facility. Specifically, the Company is required to maintain a ratio of after tax earnings before interest, depreciation and amortization, and other non-cash charges, including but not limited to stock and stock option compensation expense on trailing three months annualized, to current maturities of long-term debt and capital leases plus interest of at least 1.50 to 1.00, a ratio of cash plus eligible accounts receivable including 80% of unbilled revenues less principal amount of all outstanding advances on the accounts receivable line of credit to advances under the term acquisition line of credit of at least 0.75 to 1.00, and a maximum ratio of all outstanding advances under the entire credit facility to earnings before taxes, interest, depreciation, amortization and other non-cash charges, including but not limited to, stock and stock option compensation expense including pro forma adjustments for acquisitions on a trailing twelve month basis of no more than 2.50 to 1.00. As of September 30, 2007, the Company was in compliance with all covenants under this facility. This credit facility is secured by substantially all of the assets of the Company.

11. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. The Internal Revenue Service (IRS) has completed examinations of the Company's U.S. income tax returns for 2002, 2003 and 2004. The IRS proposed no significant adjustments to any of the Company's tax positions.

The Company adopted the provisions of the Financial Accounting Standards Board (the "FASB") Interpretation ("FIN") No. 48, *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109* ("FIN 48"), on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized no increases or decreases in the total amount of previously unrecognized tax benefits. The Company had no unrecognized tax benefits as of January 1, 2007 or September 30, 2007.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in its provision for income tax. The Company had no amounts accrued for the payment of interest or penalties at January 1, 2007 or September 30, 2007.

The Company's effective tax rate was 40.6% and 41.9% for the three and nine months ended September 30, 2007 compared to 39.4% and 41.5% for the three and nine months ended September 30, 2006. The difference between the Company's federal statutory rate of 35% and effective tax rate relates primarily to state income taxes, net of the federal benefit, and non-deductible stock compensation partially offset by the tax benefits of certain dispositions of incentive stock options by holders. The Company has deferred tax assets resulting from net operating losses and capital loss carry forwards of acquired companies amounting to approximately \$2.3 million, for which a valuation allowance of \$1.8 million is recorded. Additionally, the Company has deferred tax assets of \$2.8 million related to stock compensation, reserves and accruals. At September 30, 2007, deferred tax assets net of the valuation allowance

total \$3.3 million and are offset by deferred tax liabilities of \$5.4 million related to identifiable intangibles and cash to accrual adjustments from current and prior acquisitions. Any reversal of the valuation allowance on the deferred tax assets will be adjusted against goodwill and will not have an impact on our statement of operations. All of the net operating losses and capital loss carry forwards relate to acquired entities, and as such are subject to annual limitations on usage under the "ownership change" provisions of the Internal Revenue Code.

12. Recent Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of SFAS No. 115* ("SFAS 159"). SFAS 159 permits companies to choose to measure many financial instruments and certain other items at fair value. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS 159 and does not expect that the pronouncement will have a material impact on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. SFAS 157 will be applied prospectively and will be effective for periods beginning after November 15, 2007. The Company is currently evaluating the effect, if any, of SFAS 157 and does not expect that the pronouncement will have a material impact on its consolidated financial statements.

In June 2006, the FASB issued FIN 48, *Accounting for Uncertainty in Income Taxes* – an interpretation of FASB Statement No. 109, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. The Company adopted the provisions of FIN 48 on January 1, 2007 as required and discussed in Note 11, *Income Taxes*.

In June 2006, the EITF ratified EITF Issue No. 06-3, *How Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation)* (“EITF 06-3”). A consensus was reached that entities may adopt a policy of presenting taxes in the income statement on either a gross or net basis. An entity should disclose its policy of presenting taxes and the amount of any taxes presented on a gross basis should be disclosed, if significant. The Company adopted EITF 06-3 on January 1, 2007. There was no effect of the adoption on the condensed consolidated financial statements as of September 30, 2007. The Company presents revenues net of taxes as disclosed in Note 3, *Summary of Significant Accounting Policies*.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Statements made in this Quarterly Report on Form 10-Q, including without limitation this Management's Discussion and Analysis of Financial Condition and Operations, other than statements of historical information, are forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may sometimes be identified by such words as "may," "will," "expect," "anticipate," "believe," "estimate" and "continue" or similar words. We believe that it is important to communicate our future expectations to investors. However, these forward-looking statements involve many risks and uncertainties. Our actual results could differ materially from those indicated in such forward-looking statements as a result of certain factors, including but not limited to, those set forth under Risk Factors in our Annual Report on Form 10-K previously filed with the Securities and Exchange Commission and elsewhere in this Quarterly Report on Form 10-Q. We are under no duty to update any of the forward-looking statements after the date of this Quarterly Report on Form 10-Q to conform these statements to actual results.

Overview

We are an information technology consulting firm serving Global 2000 and large enterprise companies throughout the United States and Canada. We help clients gain competitive advantage by using Internet-based technologies to make their businesses more responsive to market opportunities and threats, strengthen relationships with customers, suppliers and partners, improve productivity and reduce information technology costs. Our solutions enable these benefits by integrating, automating and extending business processes, technology infrastructure and software applications end-to-end within an organization and with key partners, suppliers and customers. This provides real-time access to critical business applications and information and a scalable, reliable, secure and cost-effective technology infrastructure.

Services Revenues

Services revenues are derived from professional services performed developing, implementing, integrating, automating and extending business processes, technology infrastructure and software applications. The majority of our projects are performed on a time and materials basis, and a smaller amount of revenues is derived from projects performed on a fixed fee basis. Fixed fee engagements represented approximately 9% and 13% of our services revenues for the three and nine months ended September 30, 2007, respectively, compared to approximately 10% and 4% of our services revenues for the three and nine months ended September 30, 2006, respectively. For time and material projects, revenues are recognized and billed by multiplying the number of hours our professionals expend in the performance of the project by the established billing rates. For fixed fee projects, revenues are generally recognized using the proportionate performance method. Amounts invoiced to clients in excess of revenues recognized are classified as deferred revenues. On most projects, we are also reimbursed for out-of-pocket expenses such as airfare, lodging and meals. These reimbursements are included as a component of revenues. 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 clients provide for the reimbursement of travel and other project-related expenses.

Software Revenues

Software revenues are derived from sales of third-party software. Revenues from sales of third-party software are recorded on a gross basis provided we act as a principal in the transaction. In the event we do not meet the requirements to be considered a principal in the software sale transaction and act as an agent, the revenues are recorded on a net basis. Software revenues are expected to fluctuate from quarter-to-quarter depending on our customers' demand for software products.

If we enter into contracts for the sale of services and software, Company management evaluates whether the services are essential to the functionality of the software and whether the Company has objective fair value evidence for each deliverable in the transaction. If management concludes the services to be provided are not essential to the functionality of the software and can determine objective fair value evidence for each deliverable of the transaction, then we account for each deliverable in the transaction separately, based on the relevant revenue recognition policies. Generally, all deliverables of our multiple element arrangements meet these criteria.

Cost of Revenues

Cost of revenues consists primarily of compensation and benefits associated with our technology professionals and subcontractors. Cost of revenues also includes third-party software costs, reimbursable expenses and other unreimbursed project related expenses. Project related expenses will fluctuate generally depending on outside factors including the cost and frequency of travel and the location of our customers. Cost of revenues does not include depreciation or amortization of assets used in the production of revenues.

Gross Margins

Our gross margins for services are affected by the utilization rates of our professionals, defined as the percentage of our professionals' time billed to customers divided by the total available hours in the respective period, the salaries we pay our consulting professionals and the average billing rate we receive from our customers. If a project ends earlier than scheduled, we retain professionals in advance of receiving project assignments, or if demand for our services declines, our utilization rate will decline and adversely affect our gross margins. Subject to fluctuations resulting from our acquisitions, we expect these key metrics of our services business to remain relatively constant for the foreseeable future assuming there are no significant fluctuations in the demand for information technology software and services. Gross margin percentages of third party software sales are typically lower than gross margin percentages for services and the mix of services and software for a particular period can significantly impact total combined gross margin percentage for such period. In addition, gross margin for software sales can fluctuate due to pricing and other competitive pressures.

Selling, General and Administrative Expenses

Selling, general and administrative expenses ("SG&A") consist of salaries, bonuses, non-cash compensation related to equity awards, office costs, recruiting, professional fees, sales and marketing activities, training, and other miscellaneous expenses. We work to minimize selling costs by focusing on repeat business with existing customers and by accessing sales leads generated by our software business partners, most notably International Business Machines Corporation, or IBM, whose products we use to design and implement solutions for our clients. These partnerships enable us to reduce our selling costs and sales cycle times and increase win rates through leveraging our partners' marketing efforts and endorsements. We expect SG&A costs as a percentage of revenue to decline for the full year of 2007 compared to 2006 as we continue to increase revenues.

Plans for Growth and Acquisitions

Our goal is to continue to build one of the leading independent information technology consulting firms by expanding our relationships with existing and new clients, leveraging our operations to expand and continuing to make disciplined acquisitions. We believe the United States represents an attractive market for growth. As demand for our services grows, we anticipate increasing the number of professionals in our 18 North American offices and adding new offices throughout the United States, both organically and through acquisitions. We recently added a Software Engineering Institute (SEI) CMMI Level 4 certified global development center in Hangzhou, China in connection with our acquisition of BoldTech Systems, Inc. We also have an agreement with a third party offshore facility in Eastern Europe that is operated for our benefit. We believe that these offshore capabilities, combined with the leadership of our United States based consulting staff, enable us to field an agile, cost effective and world-class business and technology consulting team to serve our clients. In addition, we believe our track record for identifying acquisitions and our ability to integrate acquired businesses helps us complete acquisitions efficiently and productively, while continuing to offer quality services to our clients, including new clients resulting from the acquisitions.

Consistent with our strategy of growth through disciplined acquisitions, we consummated eight acquisitions since January 1, 2005, including three in 2007.

Results of Operations***Three months ended September 30, 2007 compared to three months ended September 30, 2006***

Revenues. Total revenues increased 19.8% to \$53.1 million for the three months ended September 30, 2007 from \$44.3 million for the three months ended September 30, 2006.

	Financial Results (in thousands)			Explanation for Increases Over Prior Year Period (in thousands)			
	For the Three Months Ended September 30, 2007	For the Three Months Ended September 30, 2006	Total Increase Over Prior Year Period	Revenue Attributable to Acquired Companies	Revenue Attributable to Base Business*	% of Increase/ (Decrease) in Total Revenue Attributable to Base Business	Total Increase Over Prior Year Period
Services							
Revenues	\$ 48,387	\$ 40,219	\$ 8,168	\$ 8,103	\$ 65	1 %	\$ 8,168
Software							
Revenues	1,582	1,532	50	257	(207)	(414)%	50
Reimbursable							
Expenses	3,115	2,543	572	552	20	4 %	572
Total Revenues	\$ 53,084	\$ 44,294	\$ 8,790	\$ 8,912	\$ (122)	(1)%	\$ 8,790

*Defined as businesses owned as of January 1, 2006

Services revenues increased 20.3% to \$48.4 million for the three months ended September 30, 2007 from \$40.2 million for the three months ended September 30, 2006. Base business accounted for 1% of the increase in services revenues for the three months ended September 30, 2007 compared to the three months ended September 30, 2006. The remaining 99% of the increase is attributable to revenues generated from the three companies acquired during 2007.

Software revenues increased 3.3% to \$1.6 million for the three months ended September 30, 2007 from \$1.5 million for the three months ended September 30, 2006 due mainly to increased customer demand and acquisitions. Software revenues attributable to our base business decreased \$207,000 while software revenues attributable to acquired companies increased \$257,000, resulting in a net increase of \$50,000. Reimbursable expenses increased 22.5% to \$3.1 million for the three months ended September 30, 2007 from \$2.5 million for the three months ended September 30, 2006. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 19.7% to \$34.0 million for the three months ended September 30, 2007 from \$28.4 million for the three months ended September 30, 2006. Base business accounted for 9% of the \$5.6 million increase in cost of revenues for the three months ended September 30, 2007 compared to the three months ended September 30, 2006. The remaining increase in cost of revenues is attributable to acquired companies and an increase in the average number of professionals performing services. The average number of professionals performing services, including subcontractors, increased to 973 for the three months ended September 30, 2007 from 820 for the three months ended September 30, 2006.

Costs associated with software sales decreased 8.0% to \$1.1 million for the three months ended September 30, 2007 from \$1.2 million for the three months ended September 30, 2006 due to an increase in sales of our higher

margin internally developed software. Costs associated with software sales attributable to our base business decreased \$319,000, while costs associated with software sales attributable to acquired companies increased \$218,000, resulting in a net decrease of \$101,000.

Gross Margin. Gross margin increased 20.1% to \$19.1 million for the three months ended September 30, 2007 from \$15.9 million for the three months ended September 30, 2006. Gross margin as a percentage of revenues increased slightly to 35.9% for the three months ended September 30, 2007 from 35.8% for the three months ended September 30, 2006 due to an increase in software gross margin offset by a slight decrease in margin from services. Services gross margin, excluding reimbursable expenses, decreased minimally to 38.5% for the three months ended September 30, 2007 from 38.7% for the three months ended September 30, 2006. The average utilization rate of our professionals, excluding subcontractors, decreased to 82% for the three months ended September 30, 2007 compared to 84% for the three months ended September 30, 2006. Average billing rates were \$115 for the three months ended September 30, 2006 and for the three months ended September 30, 2007. Software gross margin increased to 27.5% for the three months ended September 30, 2007 from 18.6% for the three months ended September 30, 2006, primarily due to an increase in sales of our higher margin internally developed software.

Selling, General and Administrative. Selling, general and administrative expenses increased 3.0% to \$9.8 million for the three months ended September 30, 2007 from \$9.5 million for the three months ended September 30, 2006 due primarily to fluctuations in expenses as detailed in the following table:

	Increase / (Decrease) (in millions)
<u>Selling, General, and Administrative expense</u>	
Stock compensation expense	\$ 0.6
Sales related costs	0.4
Salary expense	0.2
Technology related costs	0.1
Office related costs	0.1
Bonus expense	(1.2)
Net increase	\$ 0.3

Selling, general and administrative expenses as a percentage of revenues decreased to 18.5% for the three months ended September 30, 2007 from 21.5% for the three months ended September 30, 2006 due mainly to the decrease in bonus costs. Bonus costs, as a percentage of service revenues, excluding reimbursable expenses, decreased to 1.2% for the three months ended September 30, 2007 compared to 4.0% for the three months ended September 30, 2006 due to increasingly challenging growth and profitability targets in 2007. Stock compensation expense, as a percentage of services revenues, excluding reimbursed expenses, increased to 2.3% for the three months ended September 30, 2007 compared to 1.3% for the three months ended September 30, 2006 due primarily to restricted stock awards granted in the fourth quarter of 2006.

Depreciation. Depreciation expense increased 40.5% to \$0.4 million for the three months ended September 30, 2007 from \$0.3 million for the three months ended September 30, 2006. The increase in depreciation expense is due to the addition of software, servers, and other computer equipment to enhance our technology infrastructure and support our growth, both organic and acquisition-related. Depreciation expense as a percentage of services revenue, excluding reimbursable expenses, was 0.8% and 0.7% for the three months ended September 30, 2007 and 2006, respectively.

Intangibles Amortization. Intangibles amortization expense increased 5.5% to \$1.3 million for the three months ended September 30, 2007 from \$1.2 million for the three months ended September 30, 2006. The increase in amortization expense reflects the acquisition of intangibles in 2006 and 2007, as well as the amortization of capitalized costs associated with internal use software. The valuations and estimated useful lives of acquired identifiable intangible assets are outlined in Note 8, *Business Combinations*, of our unaudited condensed consolidated financial statements.

Net Interest Income or Expense. We had interest income of \$79,000, net of interest expense, for the three months ended September 30, 2007, compared to interest expense of \$172,000, net of interest income, for the three months ended September 30, 2006. We repaid all outstanding debt in May 2007 and incurred no debt or interest expense in the third quarter.

Provision for Income Taxes. We provide for federal, state and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate increased to 40.6% for the three months ended September 30, 2007 from 39.4% for the three months ended September 30, 2006 due mainly to an increase in our federal statutory rate and non-deductible stock compensation.

Nine months ended September 30, 2007 compared to nine months ended September 30, 2006

Revenues. Total revenues increased 39.7% to \$155.7 million for the nine months ended September 30, 2007 from \$111.4 million for the nine months ended September 30, 2006.

	Financial Results (in thousands)			Explanation for Increases Over Prior Year Period (in thousands)			
	For the Nine Months Ended September 30, 2007	For the Nine Months Ended September 30, 2006	Total Increase Over Prior Year Period	Revenue Attributable to Acquired Companies	Revenue Attributable to Base Business*	% of Increase in Total Revenue Attributable to Base Business	Total Increase Over Prior Year Period
Services							
Revenues	\$ 137,645	\$ 98,577	\$ 39,068	\$ 31,290	\$ 7,778	20 %	\$ 39,068
Software							
Revenues	9,469	6,800	2,669	810	1,859	70 %	2,669
Reimbursable							
Expenses	8,614	6,071	2,543	1,658	885	35 %	2,543
Total Revenues	\$ 155,728	\$ 111,448	\$ 44,280	\$ 33,758	\$ 10,522	24 %	\$ 44,280

*Defined as businesses owned as of January 1, 2006

Services revenues increased 39.6% to \$137.6 million for the nine months ended September 30, 2007 from \$98.6 million for the nine months ended September 30, 2006. Base business accounted for 20% of the increase in services revenues for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The remaining 80% of the increase is attributable to revenues generated from the companies acquired during 2006 and 2007.

Software revenues increased 39.3% to \$9.5 million for the nine months ended September 30, 2007 from \$6.8 million for the nine months ended September 30, 2006 due mainly to a large software sale to a new client in the first quarter and increased customer demand. Base business accounted for 70% of the \$2.7 million increase in software revenues for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The remaining 30% of the increase in software revenues is attributable to acquired companies. Reimbursable expenses increased 41.9% to \$8.6 million for the nine months ended September 30, 2007 from \$6.1 million for the nine months ended September 30, 2006. We do not realize any profit on reimbursable expenses.

Cost of Revenues. Cost of revenues increased 38.7% to \$101.4 million for the nine months ended September 30, 2007 from \$73.1 million for the nine months ended September 30, 2006. Base business accounted for 28% of the \$28.3 million increase in cost of revenues for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The remaining increase in cost of revenues is attributable to acquired companies. The increase in cost of revenues from both base business and from acquired companies is mainly attributable to an increase in the average number of professionals performing services. The average number of professionals performing services, including subcontractors, increased to 920 for the nine months ended September 30, 2007 from 650 for the nine months ended September 30, 2006.

Costs associated with software sales increased 40.0% to \$7.9 million for the nine months ended September 30, 2007 from \$5.7 million for the nine months ended September 30, 2006 in connection with increased software revenue. Base business accounted for 70% of the \$2.2 million increase in costs associated with software sales for the nine months ended September 30, 2007 compared to the nine months ended September 30, 2006. The remaining 30% increase in costs associated with software sales is attributable to acquired companies.

Gross Margin. Gross margin increased 41.7% to \$54.3 million for the nine months ended September 30, 2007 from \$38.3 million for the nine months ended September 30, 2006. Gross margin, as a percentage of revenues, increased to 34.9% for the nine months ended September 30, 2007 from 34.4% for the nine months ended September 30, 2006, due to an increase in services gross margin offset by a decrease in margin from software sales. Services gross margin, excluding reimbursable expenses, increased to 38.3% for the nine months ended September 30, 2007 from 37.7% for the nine months ended September 30, 2006 primarily due to lower bonus costs as a percentage of services revenue due to increasingly challenging growth and profitability targets in 2007. The average utilization rate of our professionals, excluding subcontractors, decreased slightly to 82% for the nine months ended September 30, 2007 compared to 84% for the nine months ended September 30, 2006. Average billing rates have decreased from \$116 for the nine months ended September 30, 2006 to \$115 for the nine months ended September 30, 2007. Software gross margin decreased to 16.1% for the nine months ended September 30, 2007 from 16.6% for the nine months ended September 30, 2006, primarily a result of fluctuations in vendor and competitive pricing based on market conditions at the time of the sales.

Selling, General and Administrative. Selling, general and administrative expenses increased 28.4% to \$30.1 million for the nine months ended September 30, 2007 from \$23.4 million for the nine months ended September 30, 2006 due primarily to fluctuations in expenses as detailed in the following table:

	Increase / (Decrease) (in millions)
<u>Selling, General, and Administrative expense</u>	
Sales related costs	\$ 2.6
Stock compensation expense	1.9
Salary expense	1.5
Office related costs	1.0
Marketing related costs	0.6
Technology related costs	0.4
Bad debt expense	0.2
Bonus expense	(1.6)
Net increase	\$ 6.7

Selling, general and administrative expenses as a percentage of revenues decreased to 19.3% for the nine months ended September 30, 2007 from 21.0% for the nine months ended September 30, 2006 due mainly to a decrease in bonus costs. Bonus costs, as a percentage of service revenues, excluding reimbursable expenses, decreased to 1.6% for the nine months ended September 30, 2007 compared to 3.7% for the nine months ended September 30, 2006 due to increasingly challenging growth and profitability targets in 2007. Stock compensation expense, as a percentage of services revenues, excluding reimbursable expenses, increased to 2.5% for the nine months ended September 30, 2007 compared to 1.5% for the nine months ended September 30, 2006 due primarily to restricted stock awards granted in the fourth quarter of 2006.

Depreciation. Depreciation expense increased 65.2% to \$1.1 million for the nine months ended September 30, 2007 from \$0.6 million for the nine months ended September 30, 2006. The increase in depreciation expense is due to the addition of software, servers, and other computer equipment to enhance our technology infrastructure and support our growth, both organic and acquisition-related. Depreciation expense as a percentage of services revenue, excluding reimbursable expenses, was 0.8% and 0.7% for the nine months ended September 30, 2007 and 2006, respectively.

Intangibles Amortization. Intangibles amortization expense increased 32.9% to \$3.1 million for the nine months ended September 30, 2007 from \$2.3 million for the nine months ended September 30, 2006. The increase in amortization expense reflects the acquisition of intangibles acquired in 2006 and 2007, as well as the amortization of capitalized costs associated with internal use software. The valuations and estimated useful lives of acquired identifiable intangible assets are outlined in Note 8, *Business Combinations*.

Net Interest Income or Expense. We had interest income of \$126,000, net of interest expense, for the nine months ended September 30, 2007, compared to interest expense of \$387,000, net of interest income, for the nine months ended September 30, 2006. We repaid all outstanding debt in May 2007, and therefore had a lower average debt amount outstanding for the nine months ended September 30, 2007 as compared to September 30, 2006.

Provision for Income Taxes. We provided for federal, state and foreign income taxes at the applicable statutory rates adjusted for non-deductible expenses. Our effective tax rate increased slightly to 41.9% for the nine months ended September 30, 2007 from 41.5% for the nine months ended September 30, 2006 due mainly to an increase in our federal statutory rate and non-deductible stock compensation.

Liquidity and Capital Resources

In August 2007, certain errors were identified in the previously reported Condensed Consolidated Statements of Cash Flows. Consequently, the Company has restated the presentation of the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2006. This report on Form 10-Q reflects the impact of this restatement of the Condensed Consolidated Statement of Cash Flows for the period described above. The discussion of liquidity and capital resources below is based on the restated Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2006, which are more fully discussed in Note 2, *Restatement of Financial Information*.

Selected measures of liquidity and capital resources are as follows:

	As of September 30, 2007	As of December 31, 2006
	(in millions)	
Cash and cash equivalents	\$ 0.3	\$ 4.5
Working capital	\$ 32.8	\$ 24.9
Amounts available under credit facilities	\$ 49.8	\$ 49.6

Net Cash Provided By Operating Activities.

We expect to fund our operations from cash generated from operations and short-term borrowings as necessary from our credit facility. We believe that these capital resources will be sufficient to meet our needs for at least the next twelve months. Net cash provided by operating activities for the nine months ended September 30, 2007 was \$10.2 million compared to \$4.7 million for the nine months ended September 30, 2006. For the nine months ended September 30, 2007, net income of \$11.7 million plus non-cash charges of \$9.6 million was offset by investments in working capital of \$11.1 million. The primary components of operating cash flows for the nine months ended September 30, 2006, were net income after adding back non-cash expenses of \$11.4 million offset by investments in working capital of \$6.7 million. The Company's days sales outstanding as of September 30, 2007 decreased to 76 days from 77 days at September 30, 2006.

Net Cash Used in Investing Activities

For the nine months ended September 30, 2007, we used \$20.9 million in cash, net of cash acquired, primarily to acquire e tech solutions, Inc., Tier1 Innovation, LLC, and BoldTech Systems, Inc. In addition, we used approximately \$1.5 million during the nine months ended September 30, 2007 to purchase equipment and develop certain software. For the nine months ended September 30, 2006, we used \$16.3 million in cash, net of cash acquired, primarily to acquire Bay Street Solutions, Inc., Insolexen Corp., and the Energy, Government and General Business ("EGG") division of Digital Consulting & Software Services, Inc., \$1.1 million to purchase property and equipment and develop certain software, and \$250,000 to repay the promissory notes related to our acquisition of Javelin Solutions, Inc. in April 2002.

Net Cash Provided By Financing Activities

During the nine months ended September 30, 2007, our financing activities consisted of \$1.3 million of payments on long-term debt. Also, we received proceeds of \$3.2 million from exercises of stock options and sales of stock through the Company's Employee Stock Purchase Program and we realized tax benefits related to stock option exercises of \$6.2 million during the nine month period ended September 30, 2007. For the nine months ended September 30, 2006, our financing activities consisted of net draws totaling \$1.2 million from our accounts receivable line of credit and \$1.0 million of payments on long term debt. We received \$3.3 million from exercises of stock options, sales of stock through the Company's Employee Stock Purchase Program, and exercises of warrants, and we realized tax benefits related to stock option exercises of \$4.4 million during the nine month period ended September 30, 2006.

Availability of Funds from Bank Line of Credit Facility

We have a \$50 million credit facility with Silicon Valley Bank and Key Bank National Association ("Key Bank") comprising a \$25 million accounts receivable line of credit and a \$25 million acquisition line of credit. Borrowings under the accounts receivable line of credit bear interest at the bank's prime rate (7.75% on September 30, 2007). As

of September 30, 2007, there was no outstanding balance under the accounts receivable line of credit and \$24.8 million of available borrowing capacity due to an outstanding letter of credit to secure an office lease.

Our \$25 million term acquisition line of credit with Silicon Valley Bank and Key Bank provides an additional source of financing for certain qualified acquisitions. As of September 30, 2007, there was no balance outstanding under this acquisition line of credit. Borrowings under this acquisition line of credit bear interest equal to the four year U.S. Treasury note yield plus 3% based on the spot rate on the day the draw is processed (7.2% on September 30, 2007). Draws under this acquisition line may be made through June 29, 2008. We currently have \$25 million of available borrowing capacity under this acquisition line of credit.

As of September 30, 2007, we were in compliance with all covenants under our credit facility and we expect to be in compliance during the next twelve months. Substantially all of our assets are pledged to secure the credit facility.

Lease Obligations

There were no material changes outside the ordinary course of our business in lease obligations or other contractual obligations in the first nine months of 2007. We believe that the current available funds, access to capital from our credit facilities, possible capital from registered placements of equity through the shelf registration, and cash flows generated from operations will be sufficient to meet our working capital requirements and meet our capital needs to finance acquisitions for the next twelve months.

Shelf Registration Statement

We have filed a shelf registration statement with the Securities and Exchange Commission to allow for offers and sales of our common stock from time to time. Approximately 5 million shares of common stock may be sold under this registration statement if we choose to do so.

Critical Accounting Policies

Our accounting policies are fully described in Note 3 to our Condensed Consolidated Financial Statements. The following describes the general application of accounting principles that impact our unaudited condensed consolidated financial statements.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Exchange Rate Sensitivity

During the nine months ended September 30, 2007, \$687,000 of our total revenues was attributable to our Canadian operations and \$46,000 of our total revenues was attributable to our Chinese operations. Our exposure to changes in foreign currency rates primarily arises from short-term intercompany transactions with our Canadian and Chinese subsidiary and from client receivables denominated in the Canadian Dollar. Our foreign subsidiaries incur a significant portion of their expenses in their applicable currency as well, which helps minimize our risk of exchange rate fluctuations. Based on the amount of revenues attributed to Canada and China during the nine months ended September 30, 2007, this exchange rate risk will not have a material impact on our financial position or results of operations.

Interest Rate Sensitivity

We had unrestricted cash and cash equivalents totaling \$0.3 million and \$4.5 million at September 30, 2007 and December 31, 2006, respectively. These amounts were invested primarily in money market funds. The unrestricted cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we believe that we do not have any material exposure to changes in the fair value of our investment portfolio as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports that it files or submits under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective.

Prior to the issuance of the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007, the Company determined that its Consolidated Statements of Cash Flows included in its Annual Report on Form 10-K for the year ended December 31, 2006 and Unaudited Condensed Consolidated Statements of Cash Flows included in its Quarterly Report on Form 10-Q for the period ended March 31, 2007 should be restated. The restatement resulted from an error regarding certain previously reported payments associated with acquisitions that were incorrectly included as a component of cash flows provided by operating activities in the Company's Consolidated Statements of Cash Flows. These errors resulted from a significant deficiency in the procedures and controls to reconcile and review the impact of acquisitions on the Consolidated Statements of Cash Flows. The controls in place regarding reconciliation and review of cash flows related to acquisition activity represent a very narrow subset of the Company's financial disclosure controls and an even narrower element of the Company's overall financial control structure. The Company does not believe that this restatement resulted from a breakdown in its general controls; rather this was an isolated error for specific types of acquisition payments.

In connection with implementing the Company's remediation plan to address this internal control deficiency, the Company has instituted enhanced controls and procedures to ensure the proper reconciliation and review of the impact of certain acquisition payments on the Consolidated Statements of Cash Flows. The Company plans to continue to enhance its controls in the area and monitor the effectiveness of these controls.

Except as described above, there have been no significant changes in the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1A. Risk Factors

As of the date of this filing, there has been a material change from the risk factors previously disclosed as "Risk Factors" in Item 1A. of our Annual Report on Form 10-K for the year ended December 31, 2006, as amended, and the additional risk factor has been included below.

International operations subject us to additional political and economic risks that could have an adverse impact on our business.

In connection with our acquisition of BoldTech Systems, Inc., we acquired a development center in Hangzhou, China. We also have an agreement with a third party offshore facility in Eastern Europe that is operated for our benefit. Because of our limited experience with facilities outside of the United States, we are subject to certain risks related to expanding our presence into non-U.S. regions, including risks related to complying with a wide variety of national and local laws, restrictions on the import and export of certain technologies and multiple and possibly overlapping tax structures. In addition, we may face competition from companies that may have more experience with operations in such countries or with international operations generally. We may also face difficulties integrating new facilities in different countries into our existing operations, as well as integrating employees that we hire in different countries into our existing corporate culture.

Furthermore, there are risks inherent in expanding into non-U.S. regions, including, but not limited to:

- political and economic instability;
- global health conditions and potential natural disasters;

- unexpected changes in regulatory requirements;
- international currency controls and exchange rate fluctuations;
- reduced protection for intellectual property rights in some countries; and
- additional vulnerability from terrorist groups targeting American interests abroad.

Any one or more of the factors set forth above could have a material adverse effect on our international operations, and, consequently, on our business, financial condition and operating results.

Item 6. Exhibits

The exhibits filed as part of this Report on Form 10-Q are listed in the Exhibit Index immediately preceding the exhibits.

SIGNATURES

Pursuant to the requirements 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.

PERFICIENT, INC.

Date: November 8, 2007

By:

/s/ John T. McDonald

John T. McDonald

Chief Executive Officer(*Principal Executive Officer*)

Date: November 8, 2007

By:

/s/ Paul E. Martin

Paul E. Martin

Chief Financial Officer(*Principal Financial Officer*)

Date: November 8, 2007

By:

/s/ Richard T. Kalbfleish

Richard T. Kalbfleish

Vice President of Finance and
Administration(*Principal Accounting Officer*)

EXHIBITS INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger, dated as of February 20, 2007, by and among Perficient, Inc., PFT MergeCo III, Inc., e tech solutions, Inc., each of the Principals of e tech solutions, Inc., and Gary Rawding, as Representative, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on February 23, 2007 and incorporated herein by reference
2.2	Asset Purchase Agreement, dated as of June 25, 2007, by and among Perficient, Inc., Tier1 Innovation, LLC, and Mark Johnston and Jay Johnson, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on June 28, 2007 and incorporated herein by reference
2.3	Agreement and Plan of Merger, dated as of September 20, 2007, by and among Perficient, Inc., PFT MergeCo IV, Inc., BoldTech Systems, Inc., a Colorado corporation, BoldTech Systems, Inc., a Delaware corporation, each of the Principals (as defined therein) and the Representative (as defined therein), previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed September 21, 2007 and incorporated herein by reference
3.1	Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
3.2	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Form 8-A filed with the Securities and Exchange Commission pursuant to Section 12(g) of the Securities Exchange Act of 1934 on February 15, 2005 and incorporated herein by reference
3.3	Certificate of Amendment to Certificate of Incorporation of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on form S-8 (File No. 333-130624) filed on December 22, 2005 and incorporated herein by reference
3.4	Bylaws of Perficient, Inc., previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
4.1	Specimen Certificate for shares of common stock, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
4.2	Warrant granted to Gilford Securities Incorporated, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form SB-2 (File No. 333-78337) declared effective on July 28, 1999 by the Securities and Exchange Commission and incorporated herein by reference
4.3	Form of Common Stock Purchase Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Current Report on Form 8-K filed on January 17, 2002 and incorporated herein by reference
4.4	Form of Common Stock Purchase Warrant, previously filed with the Securities and Exchange Commission as an Exhibit to our Registration Statement on Form S-3 (File No. 333-117216) filed on July 8, 2004 and incorporated herein by reference
4.5	Form of Perficient, Inc. Performance Award Letter issued under the Perficient, Inc. Omnibus Incentive Plan as on Exhibit to our Quarterly Report on Form 10-Q filed on August 14, 2007 and incorporated herein by reference

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- 31.1* Certification by the Chief Executive Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2* Certification by the Chief Financial Officer of Perficient, Inc. as required by Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1** Certification by the Chief Executive Officer and Chief Financial Officer of Perficient, Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* Filed herewith.

** Included but not to be considered “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that section.
