

MAGICJACK VOCALTEC LTD
Form 10-Q
May 10, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended March 31, 2018

OR

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

For transition period from _____ to _____

Commission file number: 000-27648

MAGICJACK VOCALTEC LTD.
(Exact name or Registrant as specified in its charter)

STATE OF ISRAEL
(State or Other Jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

12 HAOMANUT STREET, 2ND FLOOR
POLEG INDUSTRIAL ZONE, NETANYA, ISRAEL 4250445
(Address of principal executive offices, including zip code)

(561) 749-2255
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and

post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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.

	Non-accelerated filer		
Large accelerated filer	Accelerated filer (Do not check if 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 Exchange Act).

Yes No

There were 16,205,426 ordinary shares with no par value outstanding at April 30, 2018.

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DEFINITIONS

In this quarterly report on Form 10-Q, unless the context otherwise requires:

references to “magicJack VocalTec,” the “Company,” “we,” “us” or “our” are to magicJack VocalTec Ltd., a company organized under the laws of the State of Israel (the “Registrant”), and its subsidiaries;

references to “common shares,” “ordinary shares,” “our shares” and similar expressions refer to the Registrant’s Ordinary Shares, no par value;

references to “\$” or “dollars” are to U.S. dollars. All references to “NIS” are to New Israeli Shekels and “PLN” are to Polish Zloty. Except as otherwise indicated, financial statements of, and information regarding, magicJack VocalTec are presented in U.S. dollars; and

references to the “magicJack devices” are to the original magicJack[®], the magicJack PLUS[™], the New magicJack PLUS[™], the magicJackGO and the magicJackEXPRESS[™].

PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

MAGICJACK VOCALTEC LTD. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands)

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 53,850	\$52,638
Investments, at fair value	369	369
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of \$213 and \$234, respectively	2,037	2,428
Inventories	1,700	1,880
Deferred costs	-	1,936
Contract costs, current portion	258	-
Prepaid income taxes	1,328	2,016
Deposits and other current assets	1,840	1,874
Total current assets	61,382	63,141
Property and equipment, net	2,521	2,772
Intangible assets, net	9,371	10,190
Goodwill	32,304	32,304
Deferred tax assets	31,496	31,726
Contract costs, net of current portion	523	-
Deposits and other non-current assets	825	909
Total assets	\$ 138,422	\$141,042
LIABILITIES AND CAPITAL EQUITY		
Current liabilities:		
Accounts payable	\$ 1,426	\$3,199
Accrued expenses and other current liabilities	4,722	6,454
Deferred revenue, current portion	-	42,243
Contract liabilities, current portion	39,957	-
Total current liabilities	46,105	51,896
Deferred revenue, net of current portion	-	38,797
Contract liabilities, net of current portion	37,915	-
Other non-current liabilities	14,164	13,787
Total liabilities	98,184	104,480
Commitments and contingencies (Note 9)		
Capital equity		
Ordinary shares, No par value; 100,000 shares authorized; 25,072 shares issued at March 31, 2018 and December 31, 2017	112,038	112,038
Additional paid-in capital	14,672	13,848

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Treasury stock (8,866 and 8,882 shares at March 31, 2018 and December 31, 2017, respectively)	(117,930)	(118,146)
Retained earnings	31,458	28,822
Total capital equity	40,238	36,562
Total liabilities and capital equity	\$ 138,422	\$ 141,042

See accompanying notes to condensed consolidated financial statements.

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MAGICJACK VOCALTEC LTD. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share information)

	For the Three Months Ended March 31,	
	2018	2017
Revenues	\$20,015	\$23,197
Cost of revenues	7,163	9,451
Gross profit	12,852	13,746
Operating expenses:		
Marketing	1,192	2,407
General and administrative	7,502	12,825
Impairment of intangible assets and goodwill	131	31,527
Research and development	1,457	1,499
Total operating expenses	10,282	48,258
Operating income (loss)	2,570	(34,512)
Other income (expense):		
Interest and dividend income	93	6
Other expense, net	(2)	(17)
Total other income (expense)	91	(11)
Income (loss) before income taxes	2,661	(34,523)
Income tax expense (benefit)	695	(11,355)
Net income (loss)	1,966	(23,168)
Net loss attributable to noncontrolling interest	-	67
Net income (loss) attributable to magicJack VocalTec Ltd. common shareholders	\$1,966	\$(23,101)
Income (loss) per share attributable to magicJack VocalTec Ltd. common shareholders:		
Basic	\$0.12	\$(1.44)
Diluted	\$0.12	\$(1.44)
Weighted average common shares outstanding:		
Basic	16,192	16,034
Diluted	16,211	16,034

See accompanying notes to condensed consolidated financial statements.

MAGICJACK VOCALTEC LTD. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CAPITAL EQUITY
 (in thousands)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Retained Earnings	Total Capital Equity
	Number	Amount		Number	Amount		
Balance at December 31, 2017, as previously reported	25,072	\$ 112,038	\$ 13,848	(8,882)	\$(118,146)	\$ 28,822	\$ 36,562
Impact of change in accounting policy*	-	-	-	-	-	670	670
Adjusted balance at January 1, 2018	25,072	\$ 112,038	\$ 13,848	(8,882)	\$(118,146)	\$ 29,492	\$ 37,232
Share-based compensation	-	-	1,093	-	-	-	1,093
Issuance of ordinary shares	-	-	(269)	22	269	-	-
Purchase of treasury stock	-	-	-	(6)	(53)	-	(53)
Net income	-	-	-	-	-	1,966	1,966
Balance at March 31, 2018 (unaudited)	25,072	\$ 112,038	\$ 14,672	(8,866)	\$(117,930)	\$ 31,458	\$ 40,238

* The net impact of changes in accounting policy were comprised of (i) \$1.300 million cumulative effect of initial application of Topic 606, "Revenue from Contracts with Customers," (ASC 606) to beginning balance of retained earnings, (ii) (\$0.407 million) tax impact of initial application of ASC 606, and (iii) (\$0.223 million) tax impact of adoption of ASU 2016-16, "Intra-Entity Transfers of Assets Other than Inventory" (ASU 2016-16).

See accompanying notes to condensed consolidated financial statements.

MAGICJACK VOCALTEC LTD. AND SUBSIDIARIES
 UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (in thousands)

	For the Three Months Ended March 31, 2018 2017	
Cash flows from operating activities:		
Net income (loss)	\$1,966	\$(23,168)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts and billing adjustments	1	54
Share-based compensation	1,093	736
Depreciation and amortization	959	1,525
Impairment of goodwill and intangible assets	131	31,527
Increase of uncertain tax positions	112	1,427
Deferred income tax provision	79	(10,911)
Change in operating assets and liabilities		
Accounts receivable	390	430
Inventories	180	1,134
Deferred costs/Contract costs	(95)	100
Prepaid income taxes	465	(4,896)
Deposits and other current assets	34	239
Other non-current assets	84	(54)
Accounts payable	(1,779)	(44)
Income taxes payable	-	38
Accrued expenses and other current liabilities	(1,732)	265
Deferred revenue/Contract liabilities	(618)	(2,103)
Other non-current liabilities	9	(110)
Net cash provided by (used in) operating activities	1,279	(3,811)
Cash flows from investing activities:		
Purchases of property and equipment	(14)	(225)
Acquisition of intangible assets	-	(48)
Net cash used in investing activities	(14)	(273)
Cash flows from financing activities:		
Repurchase of shares to settle withholding liability		