

MAGICJACK VOCALTEC LTD  
Form 10-Q  
October 29, 2012

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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 September 30, 2012

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 this charter)

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

12 BENNY GAON STREET, BUILDING 2B  
POLEG INDUSTRIAL AREA, NETANYA, ISRAEL 42504  
(Address of principal executive offices, including zip code)

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

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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,

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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, or a smaller reporting company. See definition of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large Accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

There were 19,067,818 shares of ordinary shares with no par value outstanding at October 26, 2012.

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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 “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 and all references to “NIS” are to New Israeli Shekels. Except as otherwise indicated, financial statements of, and information regarding, magicJack VocalTec are presented in U.S. dollars;
    - references to the “Exchange Act” are to the Securities Exchange Act of 1934, as amended;
    - references to “NASDAQ” are to the NASDAQ Global Stock Market; and
    - references to the “SEC” are to the United States Securities and Exchange Commission.
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## PART I – FINANCIAL INFORMATION

## ITEM 1. Consolidated Financial Statements

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

	September 30, 2012	December 31, 2011
ASSETS		
(Unaudited)		
Current assets:		
Cash and cash equivalents	\$25,383	\$12,961
Marketable securities, at fair value	8,961	22,135
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of \$30,802 and \$24,813, respectively	6,341	8,786
Inventories	6,651	8,676
Deferred costs	8,610	8,550
Deposits and other current assets	2,461	1,796
Total current assets	58,407	62,904
Property and equipment, net	2,481	2,669
Intangible assets, net	17,148	11,494
Goodwill	32,304	32,304
Deposits and other non-current assets	1,172	1,259
Total assets	\$111,512	\$110,630
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$4,249	\$6,845
Accrued expenses and other current liabilities	11,753	8,109
Deferred revenue, current portion	72,823	71,691
Total current liabilities	88,825	86,645
Deferred revenue, net of current portion	54,438	46,143
Other non-current liabilities	3,071	4,219
Total liabilities	146,334	137,007
Commitments and contingencies (Note 10)		
Stockholders' deficit:		
Ordinary shares, No par value; 100,000 shares authorized; 24,726 and 24,344 shares issued and outstanding, respectively	108,028	104,630
Additional paid-in capital	1,645	497
Accumulated other comprehensive loss	(601 )	(783 )
Treasury stock, at cost (5,458 and 3,170 shares, respectively)	(82,113 )	(35,358 )
Accumulated deficit	(61,781 )	(95,363 )
Total stockholders' deficit	(34,822 )	(26,377 )
Total liabilities and stockholders' deficit	\$111,512	\$110,630

See accompanying notes to condensed consolidated financial statements.

MAGICJACK VOCALTEC LTD. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except per share information)

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2012 (Unaudited)	2011 (Unaudited)	September 30, 2012 (Unaudited)	2011 (Unaudited)
Net revenues	\$40,789	\$24,912	\$116,935	\$83,816
Cost of revenues	16,746	12,505	47,365	37,594
Gross profit	24,043	12,407	69,570	46,222
Operating expenses:				
Advertising	4,892	7,301	19,336	20,812
General and administrative	7,373	7,420	21,079	22,073
Research and development	592	647	1,820	1,973
Total operating expenses	12,857	15,368	42,235	44,858
Operating income (loss)	11,186	(2,961 )	27,335	1,364
Other income (expense):				
Gains on investments	508	1,257	1,340	500
Interest and dividend income	86	210	538	592
Interest expense	(94 )	(118 )	(318 )	(158 )
Fair value gain on common equity put options	3,449	670	4,734	1,572
Other income, net	10	4	31	26
Total other income	3,959	2,023	6,325	2,532
Income (loss) before income taxes	15,145	(938 )	33,660	3,896
Income tax expense	29	23	78	75
Net income (loss)	\$15,116	\$(961 )	\$33,582	\$3,821
Income (loss) per ordinary share:				
Basic	\$0.78	\$(0.04 )	\$1.66	\$0.17
Diluted	\$0.77	\$(0.04 )	\$1.64	\$0.16
Weighted average ordinary shares outstanding:				
Basic	19,407	22,463	20,234	22,933
Diluted	19,507	22,463	20,447	23,433

See accompanying notes to condensed consolidated financial statements.

MAGICJACK VOCALTEC LTD. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
 (in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Net income (loss)	\$15,116	\$(961)	\$33,582	\$3,821
Other comprehensive (loss) income:				
Net unrealized (loss) gain on marketable securities	(114)	(2,834)	182	(2,020)
Comprehensive income (loss)	\$15,002	\$(3,795)	\$33,764	\$1,801

See accompanying notes to condensed consolidated financial statements.



MAGICJACK VOCALTEC LTD. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIT  
 (in thousands)

	Common Stock		Accumulated		Treasury Stock		Accumulated Deficit	Total Stockholders' Deficit
	Number	Amount	Additional Paid-in Capital	Other Comprehensive Loss	Number	Amount		
Balance, January 1, 2012	24,344	\$ 104,630	\$ 497	\$ (783 )	(3,170)	\$ (35,358)	\$ (95,363 )	\$ (26,377 )
Exercise of ordinary share options	268	1,210	-	-	-	-	-	1,210
Share based compensation	29	531	203	-	75	1,519	-	2,253
Ordinary shares issued for purchase of intangible assets	85	1,657	-	-	-	-	-	-