MAGICJACK VOCALTEC LTD
Form 10-Q
November 09, 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 September 30, 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.

Large accelerated filer	Accelerated filer	Non-accelerated filer	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 16,248,299 ordinary shares with no par value outstanding at October 31, 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™.

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PART I – FINANCIAL INFORMATION

ITEM 1. Financial Statements

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

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 62,108	$ 52,638
Investments, at fair value	369	369
Accounts receivable, net of allowance for doubtful accounts and billing adjustments of $235 and $234, respectively	2,240	2,428
Inventories	2,018	1,880
Deferred costs	-	1,936
Contract costs, current portion	334	-
Prepaid income taxes	646	2,016
Deposits and other current assets	1,399	1,874
Total current assets	69,114	63,141
Property and equipment, net	1,997	2,772
Intangible assets, net	8,284	10,190
Goodwill	32,304	32,304
Deferred tax assets	31,270	31,726
Contract costs, net of current portion	519	-
Deposits and other non-current assets	788	909
Total assets	$ 144,276	$ 141,042
LIABILITIES AND CAPITAL EQUITY		
Current liabilities:		
Accounts payable	$ 2,866	$ 3,199
Accrued expenses and other current liabilities	5,272	6,454
Deferred revenue, current portion	-	42,243
Contract liabilities, current portion	37,649	-
Total current liabilities	45,787	51,896
Deferred revenue, net of current portion	-	38,797
Contract liabilities, net of current portion	35,095	-
Other non-current liabilities	14,183	13,787
Total liabilities	95,065	104,480
Commitments and contingencies (Note 9)		
Capital equity		
Ordinary shares, No par value; 100,000 shares authorized; 25,072 shares issued at September 30, 2018 and December 31, 2017	112,038	112,038
Additional paid-in capital	15,836	13,848
Treasury stock (8,823 and 8,882 shares at September 30, 2018		

and December 31, 2017, respectively)	(117,402)	(118,146)
Retained earnings	38,739	28,822
Total capital equity	49,211	36,562
Total liabilities and capital equity	$ 144,276	$ 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 September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Net revenues	$19,472	$21,657	$59,509	$67,235
Cost of revenues	6,988	7,830	21,251	25,447
Gross profit	12,484	13,827	38,258	41,788
Operating expenses:				
Marketing	714	1,933	2,799	6,460
General and administrative	6,203	7,330	19,504	29,699
Impairment of intangible assets and goodwill	-	-	131	31,527
Research and development	1,210	1,477	4,071	4,438
Consideration adjustment/Gain on mark-to-market	-	(894)	-	(894)
Total operating expenses	8,127	9,846	26,505	71,230
Operating income (loss)	4,357	3,981	11,753	(29,442)
Other income (expense):				
Interest and dividend income	215	42	495	65
Other income (expense), net	(4)	2	(1)	(28)
Total other income (expense)	211	44	494	37
Income (loss) before income taxes	4,568	4,025	12,247	(29,405)
Income tax expense (benefit)	1,383	1,574	3,000	(7,194)
Net income (loss)	$3,185	$2,451	$9,247	$(22,211)
Income (loss) per share:				
Basic	$0.20	$0.15	$0.57	$(1.38)
Diluted	$0.20	$0.15	$0.57	$(1.38)
Weighted average common shares outstanding:				
Basic	16,233	16,114	16,210	16,076
Diluted	16,248	16,114	16,250	16,076

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	Treasury Stock		Retained	Total Capital
	Number	Amount	Capital	Number	Amount	Earnings	Equity
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	-	-	2,785	-	-	-	2,785
Issuance of ordinary shares	-	-	(797)	65	797	-	-
Purchase of treasury stock	-	-	-	(6)	(53)	-	(53)
Net income	-	-	-	-	-	9,247	9,247
Balance at September 30, 2018 (unaudited)	25,072	$112,038	$ 15,836	(8,823)	$(117,402)	$38,739	$49,211

* The net impact of changes in accounting policy is 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 Nine Months Ended September 30, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$9,247	$(22,211)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Provision for doubtful accounts and billing adjustments	31	8
Share-based compensation	2,785	2,053
Depreciation and amortization	2,596	3,397
Impairment of goodwill and intangible assets	131	31,527
Loss on sale of assets	-	115
Increase of uncertain tax positions	124	1,789
Deferred income tax provision	327	(7,910)
Change in operating assets and liabilities		
Accounts receivable	157	635
Inventories	(138)	2,289
Deferred costs/Contract costs	(167)	303
Prepaid income taxes	1,147	(2,507)
Deposits and other current assets	475	673
Other non-current assets	121	249
Receivable from earnout escrow	-	2,000
Accounts payable	(333)	648
Income taxes payable	-	38
Accrued expenses and other current liabilities	(1,182)	(2,377)
Deferred revenue/Contract liabilities	(5,746)	(9,391)
Other non-current liabilities	(6)	(993)
Net cash provided by (used in) operating activities	9,569	335
Cash flows from investing activities:		
Purchases of property and equipment	(30)	(510)
Proceeds from sale of investment in joint venture	-	245
Proceeds from sale of property and equipment	-	15
Acquisition of intangible assets	(16)	(1,090)
Net cash used in investing activities	(46)	(1,340)
Cash flows from financing activities:		
Repurchase of shares to settle withholding liability	(53)	(135)
Net cash used in financing activities	(53)	(135)
Net increase (decrease) in cash and cash equivalents	9,470	(1,140)
Cash and cash equivalents, beginning of period	52,638	52,394
Cash and cash equivalents, end of period	$62,108	$51,254

See accompanying notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2018	2017
Supplemental disclosures:		
Income taxes paid	$1,833	$3,313

See accompanying notes to condensed consolidated financial statements.

NOTE 1 – DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

magicJack VocalTec Ltd. and its subsidiaries (the “Company”) is the cloud communications leader that invented the magicJack device as well as other telecommunication products and services. The Company is a vertically integrated group of companies, with capabilities including Voice-over-Internet-Protocol (“VoIP”) services and related equipment sales, and development of the magicJack device. The Company also provides VoIP services and related equipment to small to medium sized businesses, wholesales telephone service to VoIP providers and telecommunication carriers and provides hosted Unified Communication as a Service (“UCaaS”) and related hardware and network equipment primarily to medium-to-large, multi-location enterprise customers.

magicJack devices weigh about one ounce and plug into the USB port on a computer or into a power adapter and high speed Internet source, providing users with complete phone service for home, business and travel. magicJack devices come with the right to access the Company’s servers ("access right"), which provides customers the ability to obtain free telephone services. Access rights are renewable. The Company currently offers the magicJack GO version of the device, which has its own CPU and can connect a regular phone directly to the user’s broadband modem/router and function as a standalone phone without using a computer. The sale of devices is done through distribution channels that include retailers, wholesalers and direct to customer sales via the Company’s web-site.

The Company also offers magicJack mobile apps, which are applications that allow users to make and receive telephone calls through their smart phones or devices. The Company currently offers the magicApp, magicJack Connect and magicJack Spark. The magicApp and magicJack Connect are mobile apps available for both iOS and Android. In 2017, the Company launched magicJack Spark on iOS and Android devices. The mobile apps allow customers to place and receive telephone calls in the U.S. or Canada on their mobile devices through either an existing or new magicJack account. The mobile apps also give users the ability to add a second phone number to their smart phone for a monthly or annual fee. Customers may purchase international minutes to place telephone calls through the magicJack device or mobile apps to locations outside of the U.S. and Canada.

On November 9, 2017, the Company entered into a Merger Agreement with B. Riley Financial, Inc. (“B. Riley”), in which B. Riley has agreed to acquire all of the outstanding shares of the Company for $8.71 per share (“The Transaction”). The purchase price represents a premium of approximately (i) 18.5% over the closing price of the Company’s ordinary shares on the NASDAQ Global Select Market on March 14, 2017, the last completed trading day prior to the date that the Company announced that it had received unsolicited indications of interest and would be considering its strategic alternatives, (ii) 23.6% over the 90-day average closing price of the Company’s ordinary shares for the period ended November 7, 2017, and (iii) 54.2% over the closing price of the Company’s ordinary shares on November 8, 2017, the last completed trading day prior to the Company’s announcement that it entered into the Merger Agreement. The Transaction is subject to various closing conditions, including Company shareholder approval and regulatory approvals. On March 19, 2018, the shareholders voted to approve the Transaction. As previously discussed, the Company had received all required consents and approvals from the various state public service commissions. On November 6, 2018, the Federal Communications Commission approved the merger agreement between the Company and B. Riley Financial Inc satisfying the last regulatory approval required. The parties have agreed to a scheduled closing date of November 14, 2018.

On May 8, 2018, the Company and B. Riley executed an amendment to the Merger Agreement documenting B. Riley’s intent to reorganize the Company’s structure as soon as practicable after the closing date of the Transaction to transfer ownership of YMax Corporation and subsidiaries to a US subsidiary of B. Riley.

The Company was incorporated in the State of Israel in 1989 and is domiciled in Netanya, Israel, with executive and administrative offices, and a customer care call center in West Palm Beach, Florida. In addition, the Company has offices for technology management in Franklin, Tennessee, research and development in Plano, Texas, Alpharetta, Georgia and Warsaw, Poland and the UCaaS provider in West Palm Beach and Fort Lauderdale, Florida.

Basis of Presentation

The Company’s unaudited condensed consolidated financial statements are prepared in conformity with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, the Company’s unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete financial statements that are included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017. Management believes, however, that all adjustments of a normal, recurring nature considered necessary for a fair presentation have been included. The balance sheet at December 31, 2017 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by GAAP for complete financial statements.

The Company’s unaudited condensed consolidated financial statements are the basis for the discussion and analysis of the Company’s results of operations, liquidity and capital resources. References to authoritative accounting literature in this report, where applicable, are based on the Accounting Standards Codification (“ASC”). The Company’s functional and reporting currency is the United States Dollar (“U.S. Dollar”), which is the currency of the primary economic environment in which its consolidated operations are conducted. Transactions and balances originally denominated in U.S. Dollars are presented at their original amounts. Transactions and balances in currencies other than U.S. Dollars, including New Israeli Shekels (“NIS”) and Polish Zlotny (“PLN”), are re-measured in dollars and any gains or losses are recognized in the Company's unaudited condensed consolidated statement of operations in the period they occur. Approximately 84% and 85% of the Company’s consolidated revenues in the three and nine months ended September 30, 2018, respectively, were from sales to customers located in the United States. Approximately 85% and 86% of the Company’s consolidated revenues in the three and nine months ended September 30, 2017, respectively, were from sales to customers located in the United States.

Adoption of ASC 606 “Contracts with Customers”

On January 1, 2018, the Company adopted Topic 606, “Revenue from Contracts with Customers,” (“ASC 606”) for revenue recognition. The new standard requires entities to recognize revenue through the application of a five-step model, which includes identification of the contract, identification of the performance obligations, determination of the transaction price, allocation of the transaction price to the performance obligations, and recognition of revenue as the entity satisfies the performance obligations. The Company adopted the requirements of ASC 606 using the modified retrospective transition method under which the standard was applied only to the most current period presented and the cumulative effect of applying the new standard was recognized at the date of initial application as a cumulative adjustment to retained earnings. The Company applied the guidance to contracts that were not completed at the date of initial application. Therefore, the comparative information has not been adjusted and continues to be reported under ASC Topic 605. The cumulative effect of initially applying ASC 606 on January 1, 2018 increased retained earnings by approximately $1.3 million, with offsetting adjustments to deferred revenue and deferred costs, not including the tax impact of $0.4 million as an adjustment to the opening balance of equity at January 1, 2018 as follows:

Adjustments for the initial application of ASC 606	
Deferred costs/Contract costs	$(1,246)
Deferred revenue/Contract liabilities	2,634
Other	(88)
Total adjustment	$1,300

A summary of the significant changes to accounting policies are set out below:

Products/ services	Changes to accounting policies
magicJack device revenue	Under ASC 605, the device and initial access right were accounted for as a combined unit of accounting and recognized ratably over the service term. Under ASC 606, the transaction price for magicJack device sales is now allocated between equipment and service based on stand-alone selling prices. Revenues allocated to equipment are recognized upon delivery (when control transfers to the customer), and service revenue is recognized ratably over the service term.
	Direct sales include shipping charges and a 30-day free trial, during which customers can return the device and cancel the service, before payment. Prior to 2018, the Company did not recognize revenue until the 30-day trial period had expired and a customer’s credit card had been charged, at which point revenues for hardware, service and shipping were recognized ratably over the remaining service term. As of January 1, 2018, the Company no longer delays revenue recognition for devices sold with a right of return and instead estimates the returns as part of the transaction price using a six month rolling average of historical returns. Revenues for hardware and shipping are recognized at the time of delivery and revenues for service are recognized ratably over the service term.
	For retail sales, there is a delay between shipment to the retailer and the ultimate sale to a customer (end-user). Prior to 2018, the Company deferred revenue recognition on retail sales for the delay period, after which revenue for both hardware and service were recognized ratably over the remaining access right period. As of January 1, 2018, the Company recognizes revenue for hardware based on delivery terms to the retailer and revenue for service is deferred for the delay period and recognized ratably over the remaining access right period.
magicJack device cost	Prior to 2018, direct costs of producing magicJack devices were deferred on shipment and charged to cost of sales ratably over the initial access right period. As of January 1, 2018, direct costs of producing magicJack devices are charged to cost of sales when control transfers, consistent with the

	hardware revenue recognition.
Access right renewal costs	Prior to 2018, sales commissions associated with our multi-year service renewal plans were expensed as incurred at the time of sale. Under ASC 606, these are considered incremental costs to obtain a customer contract, which are deferred and amortized to cost of sales over the periods of expected benefit. The Company utilizes the practical expedient permitting expensing of these costs when the expected amortization period is one year or less.
UCaaS costs	Under ASC 606, certain incentive commissions to partners are considered incremental costs to obtain a customer contract, which are deferred and amortized to cost of sales ratably over the contract term.

Refer to Note 2, “Summary of Accounting Policies”, Note 7, “Deferred Costs/Contract Costs and Deferred Revenue/Contract Liabilities” and Note 11, “Revenue” for further details.

Adoption of ASU 2016-16 “Intra-Entity Transfers of Assets Other than Inventory”

On January 1, 2018, the Company adopted ASU 2016-16, “Intra-Entity Transfers of Assets Other than Inventory” (“ASU 2016-16”) which requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. The ASU was applied retrospectively as an adjustment to retained earnings, for a decrease of approximately $0.2 million, with an offsetting adjustment to prepaid taxes.

Segments

In the three months ended March 31, 2017, the Company reported results of its operations in three separate reportable segments – “Core Consumer”, “Enterprise” and “SMB”. During the first quarter of 2017, management restructured the Company to absorb within the Core Consumer segment, all of operations and functions of the SMB Segment which was based on the activities of magicJack SMB, Inc. (“SMB”). Accordingly, this segment does not show activity for periods after March 31, 2017.

The majority of the Company’s Core Consumer segment revenues recognized were generated from sales of the magicJack product line and from the software access right that accompanies these products, which were $15.2 million and $16.8 million for the three months ended September 30, 2018 and 2017, respectively, and $46.1 million and $52.0 million for the nine months ended September 30, 2018 and 2017, respectively. The Company’s Core Consumer segment also provides its customers with the ability to make prepaid calls using the magicJack devices and mobile apps by purchasing prepaid minutes. Revenues generated from the usage of prepaid minutes were $0.8 million and $1.1 million for the three months ended September 30, 2018 and 2017, respectively, and $2.8 million and $3.5 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company’s Enterprise segment was launched with the acquisition of North American Telecommunications Corporation d/b/a Broadsmart (“Broadsmart”) on March 16, 2016. The majority of the Company’s Enterprise segment revenues recognized were generated from Broadsmart hosted UCaaS services and sales of hardware and equipment which were $2.5 million and $2.6 million for the three months ended September 30, 2018 and 2017, respectively, and $8.0 million and $8.3 million for the nine months ended September 30, 2018 and 2017, respectively.

The Company’s SMB segment did not generate significant revenue for the three months ended March 31, 2017. Refer to Note 16, “Segment Reporting” for further details.

Basis of Consolidation

The Company’s unaudited condensed consolidated financial statements include the accounts of magicJack VocalTec and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. Certain reclassifications may have been made to prior period financial statement amounts to conform to the current presentation. The results for the three and nine months ended September 30, 2018 may not be indicative of the results for the entire year ending December 31, 2018. The interim unaudited condensed consolidated financial statements should be read in conjunction with the Company's financial statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this report and in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 filed on March 16, 2018.

Noncontrolling Interest

During the year ended December 31, 2016, the Company formed a new subsidiary and entered into a joint venture with an unrelated third party which resulted in the Company having a 60% controlling interest in the joint venture which sold high-technology residential consumer products. On March 31, 2017, this interest was reduced to 36% and on June 30, 2017 the Company sold its remaining interest to the unrelated third party. Based on the difference between the sales price from the agreement and the carrying value of the asset, the Company recognized an impairment loss of $0.4 million in general and administrative expense in the Core Consumer segment of the consolidated statement of operations for the year ended December 31, 2017. The operations of the joint venture for the three and nine months ended September 30, 2017 were not significant to the Company's financial statements.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

A summary of significant accounting policies used in preparing the Company's financial statements, including a summary of recent accounting pronouncements that may affect its financial statements in the future, follows:

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Such estimates and judgments are revised periodically as required. Actual results could differ from those estimates. Significant estimates include allowances for billing adjustments and doubtful accounts, the recoverability of long-lived assets and goodwill, income taxes, income tax valuation allowance, uncertain tax liabilities, the value of ordinary shares issued in asset acquisitions, business combinations or underlying the Company's ordinary share options, and estimates of likely outcomes related to certain contingent liabilities.

The Company evaluates its estimates on an ongoing basis. The Company's estimates and assumptions are based on factors such as historical experience, trends within the Company and the telecommunications industry, general economic conditions and on various other assumptions that it believes to be reasonable under the circumstances. The results of such assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results may differ from the Company's estimates and assumptions as a result of varying market and economic conditions, and may result in lower revenues and net income.

Fair Value

The Company accounts for financial instruments in accordance with ASC 820, "Fair Value Measurements and Disclosures", which provides a framework for measuring fair value and expands required disclosure about fair value measurements of assets and liabilities. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's judgements about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the reliability of inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuations based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Valuation based on inputs that are unobservable and significant to the overall fair value measurement.

When available, the Company uses quoted market prices to determine fair value, and it classifies such measurements within Level 1. Fair value measurements are classified according to the lowest level input or value-driver that is significant to the valuation. Fair value includes the consideration of nonperformance risk. Nonperformance risk refers to the risk that an obligation (either by a counterparty or the Company) will not be fulfilled. For the Company's financial assets traded in an active market (Level 1), the nonperformance risk is included in the market price. The

Company’s assets and liabilities measured on a recurring basis at fair value may include marketable securities and time deposits. As of September 30, 2018 and December 31, 2017, all of them were Level 1 instruments. The fair value of Level 2 securities is estimated based on observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The carrying amounts of the Company’s financial instruments, including cash and cash equivalents, accounts payable and accrued expenses are expected to approximate fair value because of their immediate availability, near term maturities or potential interest payments at settlement.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity at acquisition of three months or less to be cash equivalents.

Certain Risks and Concentrations

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, investments and accounts receivable. Cash equivalents generally consist of money market instruments.

The Company places its cash and cash equivalents in high quality financial institutions and management believes that the Company is not exposed to any significant risk on its cash accounts. The Company maintains accounts with various banks and brokerage organizations and constantly monitors the creditworthiness of these institutions. Cash accounts at each U.S. bank are insured by the Federal Deposit Insurance Corporation or FDIC up to $250 thousand in the aggregate and may exceed federally insured limits. Cash accounts at Israeli or Polish banks are not insured. The Company has never experienced any losses related to these balances. At September 30, 2018, the Company had cash and cash equivalents totaling $62.1 million, which included (i) $61.8 million in U.S. financial institutions, and (ii) $0.3 million in foreign financial institutions.

The Company's non-interest bearing cash balances in U.S. banks, which included $1.3 million in one individual financial institution, were fully insured at September 30, 2018. The Company had money market accounts with financial institutions with balances totaling approximately $60.5 million at September 30, 2018.

For the Core Consumer segment, no telecommunication carrier accounted for more than 10% of gross accounts receivable at September 30, 2018 and December 31, 2017. For the three and nine months ended September 30, 2018 and 2017, no telecommunications carrier accounted for more than 10% of the segment's total operating revenues.

For the Core Consumer segment, one U.S. retail customer accounted for approximately 11% of the segment's gross accounts receivable at September 30, 2018 and December 31, 2017. For the three and nine months ended September 30, 2018 and 2017, no retailer accounted for more than 10% of the segment's total operating revenues.

For the Enterprise segment, two U.S. retail customers accounted for approximately 41% of gross accounts receivable at September 30, 2018. Two customers accounted for approximately 55% of gross accounts receivable at December 31, 2017. For the three months ended September 30, 2018 and 2017, one customer accounted for approximately 19% and two customers accounted for approximately 27% of the segment's total operating revenues, respectively. For the nine months ended September 30, 2018 and 2017, one customer accounted for approximately 19% and two customers accounted for approximately 30% of the segment's total operating revenues, respectively.

Investments

Investments consist of interest bearing time deposits with maturity dates of greater than 90 days totaling $369 thousand at September 30, 2018 and December 31, 2017.

The fair value of time deposits at September 30, 2018 and December 31, 2017 was determined based on face value, which approximates fair value and is a Level 1 input. There was no realized gain or loss on investments for the nine months ended September 30, 2018 and 2017.

Allowance for Doubtful Accounts and Billing Adjustments

The Company maintains an allowance for doubtful accounts and billing adjustments based on the expected collectability of its accounts receivables. That estimate is based on historical collection experience, current economic and market conditions and a review of the current status of each customer's trade accounts receivable. The allowance includes estimates of billing adjustments, which are negotiated with other telecommunications carriers and are common in the telecommunications industry. There was no impairment of receivables for the nine months ended

September 30, 2018 and 2017.

Inventories

Inventories are stated at the lower of cost or net realizable value, with cost primarily determined using the first-in first-out cost method. Inventory is written off at the point it is determined to be obsolete.

Deferred Costs/Contract Costs

Prior to 2018, deferred costs for the Core Consumer segment primarily consisted of costs of producing magicJack devices which were amortized to cost of sales ratably over the initial access right period. With the adoption of ASC 606 on January 1, 2018, these costs are no longer amortized but are expensed upon sale.

ASC 606 requires that contract costs related to obtaining contracts be expensed over the life of the contract. A practical expedient is allowed for all contracts with lives that are less than one year. Upon adoption, as of January 1, 2018, contract costs for the Core Consumer segment consist primarily of sales commissions associated with our multi-year service renewal plans which are amortized to cost of sales over the respective periods of expected benefit. The Company is using the practical expedient to recognize the cost of sales commissions associated with one year or less service renewal plans immediately.

For the Enterprise segment, deferred costs/contract costs consist of hardware or equipment purchased but not yet delivered and put into service and third party service charges not yet billed to customers. These costs are recognized in the period they are billed to the customer. As of January 1, 2018, certain incentive commissions are considered incremental costs to obtain a customer contract, which are deferred and amortized to cost of sales ratably over the contract term.

Deferred costs/contract costs to be recognized over the next twelve months are classified as current and included in deferred costs/contract costs, current portion in the Company's consolidated balance sheets. The remaining amounts are classified as non-current in the consolidated balance sheets and included in deferred costs/contract costs, net of current portion. There was no impairment of contract costs for the three and nine months ended September 30, 2018.

Property, Equipment and Depreciation Expense

Property and equipment are accounted for under ASC 360, "Property, Plant and Equipment" and consist primarily of servers, computer hardware, furniture, and leasehold improvements. Property and equipment are stated at cost and depreciated using the straight-line method over their estimated useful lives, which range from three to fifteen years. Leasehold improvements are depreciated over the shorter of the term of the lease or useful life of the assets. The cost of substantial improvements is capitalized while the cost of maintenance and repairs are charged to operating expenses as incurred. Refer to Note 4, "Property and Equipment" for further details.

The Company reviews property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss is based on the fair value of the asset compared to its carrying value. Property and equipment to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management believes there was no impairment of the Company's property or equipment at September 30, 2018.

The Company's hardware consists of routers, gateways and servers that enable the Company's telephony services. Some of these assets may be subject to technological risks and rapid market changes due to the introduction of new technology, products and services and changing customer demand. These changes may result in future adjustments to the estimated useful lives and the carrying value of these assets. Changes in estimated useful lives are accounted for on a prospective basis starting with the period in which the change in estimate is made in accordance with ASC 250-10, "Accounting Changes and Error."

Intangible Assets

Identifiable intangible assets are stated at cost and accounted based on whether the useful life of the asset is definite or indefinite. Identified intangible assets with definite useful lives are amortized using the accelerated and straight-line methods over their estimated useful lives, which range from one to seventeen years. Intangible assets with indefinite lives are not amortized to operations, but instead are reviewed for impairment at least annually, or more frequently if there is an indicator of impairment.

The Company reviews definite lived intangible assets subject to amortization for possible impairment using a three-step approach. Under the first step, management determines whether an indicator of impairment is present (a "Triggering Event"). If a Triggering Event has occurred, the second step is to test for recoverability based on a comparison of the asset's carrying amount with the sum of the undiscounted cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the undiscounted cash flows is less than the carrying amount of the asset, the third step is to recognize an impairment loss for the excess of the asset's carrying amount over its fair value. Intangible assets subject to amortization to be disposed of are reported at the lower of carrying amount or fair value less costs to sell.

The Company recognized impairment charges of $0.1 million on intangible assets during the nine months ended September 30, 2018 on an intangible asset that the Company has determined will no longer be used in the future. The Company recognized impairment charges of $16.6 million on intangible assets during the nine months ended September 30, 2017. Refer to Note 5, “Intangible Assets” for further details.

The costs of developing the Company’s intellectual property rights, intellectual property right applications and technology are charged to research and development expense as incurred.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. Goodwill is not amortized to operations, but instead is reviewed for impairment at least annually, or more frequently if there is an indicator of impairment. Indicators include, but are not limited to: sustained operating losses or a trend of poor operating performance and a decrease in the Company's market capitalization below its book value.

The Company's valuation methodology for assessing impairment requires management to make judgments and assumptions based on historical experience and projections of future operating performance. If these assumptions differ materially from future results, the Company may record impairment charges in the future.

The Company may utilize a qualitative assessment to determine if it is "more-likely-than-not" that the fair value of the reporting unit is less than its carrying value. If so, an impairment test must be performed. If not, no further testing is required and the Company documents the relevant qualitative factors that support its fair value. Qualitative factors may include, but are not limited to: macroeconomic conditions, industry and market considerations, cost factors that may have a negative effect on earnings, overall financial performance, and other relevant entity-specific events. In the first quarter of 2017, the Company adopted ASU 2017-04, "Intangibles – Goodwill and Other", which eliminated step two of the goodwill impairment test.

In 2017, goodwill was allocated between two reporting units, "Core Consumer" and "Enterprise" which were consistent with the reportable segments and evaluated separately. The Company recognized impairment charges of $14.9 million on goodwill for the Enterprise reporting unit, the full value of its goodwill, during the nine months ended September 30, 2017. There was no change in goodwill during the nine months ended September 30, 2018. Refer to Note 6, "Goodwill" and Note 16, "Segment Reporting" for further details.

Deferred Revenues/Contract Liabilities

Deferred revenues/contract liabilities for the Core Consumer segment consist primarily of billings and payments for magicJack devices access rights renewals and prepaid international minutes billed and collected in advance of revenue recognition. Prior to adoption of ASC 606, the revenue related to the sale of magicJack devices, including a period of service, was recognized as revenue over the period of service. After the adoption, the revenue from the sale of magicJack devices is allocated between the revenue from the sale of the device and the sale of service included based on stand-alone selling prices. The revenue allocated to the sale of the device is recognized immediately and the revenue from the sale of the service included with the device is recognized over the period of service.

For the Enterprise segment, deferred revenues/contract liabilities consist of hardware or equipment purchased but not yet delivered. There were no deferred revenues/contract liabilities for the Enterprise segment as of September 30, 2018. Deferred revenues/contract liabilities for the Enterprise segment were not significant as of September 30, 2017.

Deferred revenues/contract liabilities to be recognized as revenue over the next twelve months are classified as current and included in deferred revenue/contract liabilities, current portion in the Company's consolidated balance sheets. The remaining amounts are classified as non-current in the consolidated balance sheets and included in deferred revenue/contract liabilities, net of current portion.

Revenues

Revenues consist of revenue from sales of magicJack devices to retailers, wholesalers or directly to customers, access right renewal fees, fees charged for shipping magicJack devices, usage of domestic and international prepaid minutes, access charges to other carriers, recurring sales of the Company's hosted UCaaS voice services, non-recurring sales of equipment related to its UCaaS services and other miscellaneous charges. The Company typically enters into multi-year agreements, typically with durations of three to five years, to provide the hosted voice and other services. The Company earns revenue from the sale of the hardware and network equipment necessary to operate its UCaaS services directly to its customers. All revenue is recorded net of any taxes collected from customers. All revenue is from contracts with customers.

Revenue Recognition

Prior to 2018, the Company recognized revenue in accordance with ASC 605, "Revenue Recognition", which provided authoritative guidance on revenue recognition. For arrangements that included more than one product or service (deliverables), the Company applied Section 25 of ASC 605, “Multiple-Element Arrangements”. ASC 605-25 established criteria for separating deliverables into different units of accounting and allocating consideration to those units of accounting.

On January 1, 2018, the Company adopted ASC 606, “Revenue from Contracts with Customers,” for revenue recognition. Set forth below is a description of revenue recognition policies for our various segments.

Revenue Recognition - Core Consumer Segment

magicJack Devices

Prior to 2018, magicJack devices, which include an initial access right service period, were multiple deliverables per ASC 605-25. Since the device and initial access right were not previously sold separately, they were accounted for as a combined unit of accounting. Under ASC 605, the device and initial access right were accounted for as a combined unit of accounting and recognized ratably over the service term.

Under ASC 606, the sale of the device and the initial access right service are considered as two distinct performance obligations. The transaction price for magicJack device sales is now allocated between equipment and service based on the relative stand-alone selling prices of separate sales which occur at consistent prices. Revenues allocated to the device are recognized when control transfers to the customer, and service revenue is recognized ratably over the service term.

Direct sales of devices include shipping charges and a 30-day free trial period, during which customers can return the device and cancel the service, before payment. Prior to 2018, the Company did not recognize revenue until the 30-day trial period had expired and a customer’s credit card had been charged, at which point revenues for hardware, service and shipping were recognized ratably over the remaining service term. Under ASC 606, control is considered to transfer to the customer for direct sales when the item has been delivered to the customer. As a result, the Company no longer delays revenue recognition for devices sold with a right of return and instead estimates the returns as part of the return allowance. Revenues for hardware and shipping are recognized at the time of delivery and revenues for service are recognized ratably over the service term.

For retail sales of devices, there is a delay between shipment to the retailer and the ultimate sale to a customer (end-user). Based on sales and inventory data provided by retail partners, the Company’s estimate of the delay for the three and nine months ended September 30, 2018 and 2017 was 30 days. Prior to 2018, the Company deferred revenue recognition on retail sales for the delay period, after which revenue for both hardware and service were recognized ratably over the remaining initial access right period. As of January 1, 2018, the Company recognizes revenue for hardware based on delivery terms to the retailer and revenue for service is deferred for the delay period and recognized ratably over the remaining initial access right period.

Returns from retailers are accepted on an authorized basis for devices deemed defective. The Company estimates all potential returns of devices using a six month rolling average of historical returns and reviews the actual returns against the allowance on a quarterly basis. For the three and nine months ended September 30, 2018 and 2017, the Company’s estimates of returns and actual returns have not been materially different.

Access Right Renewals and Mobile Apps

Customers may renew access rights for periods ranging from one month to five years. All payments are due upon purchase of a renewal term and are not considered to include a financing component since the payment terms are primarily not for financing purposes. Under both ASC 605 and ASC 606, the revenue associated with access right renewals is deferred and recognized ratably as time elapses over the extended access right period purchased. Revenues from the sales of magicApp, magicJack Connect and magicJack Spark mobile app access rights are recognized ratably over the access right period.

Other magicJack-Related Products and services

The Company offers customers other optional products and services related to their magicJack devices and services, such as custom or vanity phone numbers, Canadian phone numbers, and the ability to either change their existing phone numbers or port them to a magicJack device. These revenues are recognized when the performance obligation has been satisfied. In 2017, the Company also offered battery powerbanks for mobile devices for which revenue was recognized when shipped.

Prepaid Minutes and Access and Wholesale Charges

The Company generates revenues from the sales of prepaid international minutes to customers, fees for origination of calls to 800-numbers, and access fees charged to other telecommunication carriers on a per-minute basis for Interexchange Carriers ("IXC") calls terminated on the Company's servers. Revenues from access fee charges to other telecommunication carriers are recorded based on rates set forth in the respective state and federal tariffs or negotiated contract rates, less a provision for billing adjustments. The Company is using the as-invoiced method for access and wholesale fees. Revenues from prepaid minutes and access and wholesale charges are recognized as minutes are used.

Revenue Recognition - Enterprise Segment

UCaaS services and equipment sales related to the Broadsmart subsidiary can be sold separately and used with other products and services. As such, they qualified as multiple deliverables accounted for as separate units of accounting under ASC 605-25 and qualify as two distinct performance obligations under ASC 606. The Company recognizes revenues from sales of its hosted services in the period the services are provided over the term of the respective customer agreements. Customers are billed monthly in advance for these recurring services and in arrears for one time service and equipment charges and usage charges. Revenues from sales of hardware and network equipment are recognized in the period that the equipment is delivered. Revenue from the sale of equipment purchased but not yet delivered is deferred and recognized in the period that the hardware or equipment is delivered and put into service. Revenues from one time service and usage are recognized in the period incurred.

Revenue Recognition - SMB Segment

SMB provided phone equipment and services that are interdependent and not sold separately. As such they were accounted for as a combined unit of accounting under ASC 605-25. Some agreements included a refund period or a promotion for free introductory service. Revenue recognition was deferred for either period, after which the Company recognized the revenue for the combined unit ratably over the remaining service period. Revenue from this segment was not significant for the three months ended March 31, 2017. During the first quarter of 2017, management restructured the Company to absorb all operations and functions of the SMB segment within the Core Consumer segment. Accordingly, this segment does not show activity for periods after March 31, 2017.

Cost of Revenues

Core Consumer Segment

Cost of revenues for the Core Consumer segment include direct costs of operation of the Company's servers, which are expensed as incurred. These costs include i) the Company's internal operating costs, ii) depreciation and amortization expense, iii) access and interconnection charges to terminate domestic and international telephone calls on the public switched telephone network and related taxes, iv) regulatory costs, v) server maintenance, and vi) costs to co-locate the Company's equipment in other telephone companies' facilities.

Prior to 2018, direct costs of producing magicJack devices were deferred on shipment and charged to cost of sales ratably over the initial access right period. As of January 1, 2018, direct costs of producing magicJack devices are charged to cost of sales at the time of sale, to match recognition of hardware revenue.

Costs for the Core Consumer segment include sales commissions associated with our multi-year service renewal plans. Prior to 2018, these costs were expensed as incurred. Under ASC 606, these are considered incremental costs to obtain a customer contract, which are deferred and amortized to cost of sales over the respective periods of expected benefit. The Company utilizes the practical expedient permitting expensing of these costs when the expected amortization period is one year or less.

Costs incurred for shipping and handling and credit card charges are included in cost of revenues and are expensed as incurred. Costs for shipping and handling and credit card charges were $0.5 million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively and $1.7 million and $2.4 million for the nine months ended September 30, 2018 and 2017, respectively.

Enterprise Segment

Cost of revenues related to the Company's UCaaS services include direct costs of providing the services, which are expensed as incurred. These costs include charges for access to the public switched telephone network, internet service for its customers, maintenance costs for its software, commissions, credit card charges, contract labor for installation and depreciation and amortization. The Company also incurs costs for hardware and equipment sold to customers and third party service costs, which are deferred and recognized in the period they are billed to the customer. Under ASC 606, certain incentive commissions to partners are considered incremental costs to obtain a customer contract, which are deferred and amortized to cost of sales ratably over the contract term.

SMB Segment

Cost of revenues for the SMB segment included direct costs of providing the services, which were expensed as incurred, and costs for phone equipment, which were recognized ratably over the service period. Cost of revenues from this segment were not significant for the three months ended March 31, 2017.

Marketing Expenses

Marketing expenses consisted primarily of advertising media buys for television commercials, internet and print advertising, marketing related personnel costs and other marketing projects including sponsorships. Marketing costs are expensed when incurred.

A break-down of marketing expense by category is as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Advertising media buys	$249	$550	$610	$2,469
Marketing personnel related	413	586	1,435	1,806
Other marketing projects	52	797	754	2,185
Total marketing expenses	$714	$1,933	$2,799	$6,460

Research and Development Expenses

The Company's research and development activities consist primarily of the design and development of its proprietary software used in the magicJack devices, mobile apps and servers, as well as the development of new products and applications for use in its broadband service offerings. The Company accounts for research and development costs in accordance with applicable accounting pronouncements. These pronouncements specify that costs incurred internally in researching and developing a product should be charged to expense until technological feasibility has been established for the product. Once technological feasibility is established, all costs should be capitalized until the product is available for general release to customers. The Company has determined that technological feasibility for its products is reached after all high-risk development issues have been resolved through internal and customer base testing. Generally, new products offered to customers and improvements to the Company's servers are placed in service on attainment of technological feasibility. The Company has not capitalized any of its research and development activities and related costs.

Research and development expenses were $1.2 million and $1.5 million for the three months ended September 30, 2018 and 2017, respectively, and $4.1 million and $4.4 million for the nine months ended September 30, 2018 and 2017, respectively.

Share-based Compensation

Share-based compensation generally consists of option grants or ordinary share and restricted stock awards to directors, officers, employees or consultants. We account for share-based compensation in accordance with ASC 718, "Compensation - Stock Compensation", which requires companies to estimate the fair value of equity-based payment awards on the date of grant based on the fair value of the award. The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service period.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected tax consequences of temporary differences between the tax basis of assets and liabilities and their book basis using enacted tax rates. Any changes in enacted tax rates or tax laws are included in the provision for income taxes in the period of enactment. The Company's net deferred tax assets consist primarily of foreign net operating loss carry-forwards, timing differences between recognition of income for book and tax purposes, and the tax benefit related to the impairment of intangible assets, including goodwill, in the Enterprise segment. The Company records a valuation allowance to reduce the net deferred tax assets to the amount that it estimates is more-likely-than-not to be realized. The Company periodically reviews the composition of its deferred tax assets and related valuation allowances and will make adjustments if available evidence indicates that it is more likely than not a change in the carrying amounts is required. The Company increased the valuation allowance by $11 thousand and $33 thousand during the three and nine months ended September 30, 2018, respectively. The Company increased the valuation allowance by $15 thousand and $44 thousand during the three and nine months ended September 30, 2017, respectively.

The Company assesses its income tax positions and records tax benefits for all years subject to examination based upon its evaluation of the facts, circumstances and information available at the reporting date. For those tax positions where it is more likely than not that a tax benefit will be sustained, the Company has recorded the largest amount of tax benefit that may potentially be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions that the Company estimates where it is not more likely than not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. The Company revised its liability for uncertain tax positions by an increase of $180 thousand and $124 thousand in the three and nine months ended September 30, 2018, respectively, due primarily to the net impact of accrued interest on previously recorded uncertain positions and the revaluation impact of previously recorded Israeli uncertain tax positions. The Company revised its liability for uncertain tax positions by a decrease of $20 thousand and an increase of $1.6 million in the three and nine months ended September 30, 2017, respectively, due primarily to an increase in uncertain tax positions related to various state issues and the revaluation impact of certain Israeli uncertain tax positions.

The Company records its income tax expense for interim financial statements by using an estimated annual effective income tax rate based on its expected annual results after consideration of permanent nontaxable items. The tax benefits of net operating loss carry-forwards expected to be realized through 2018 and changes in other deferred tax assets and liabilities are recognized during interim periods based on an annual forecast as of the interim reporting date. At September 30, 2018, the estimated annual effective income tax rate is expected to approximate 21.9%, excluding discrete tax items, which` includes federal, foreign, state and local taxes. This rate may fluctuate due to changes in jurisdictional income and to the timing of other discrete period transactions during the remainder of the year.

Earnings (Loss) per Share

Net income or loss per share– basic, is calculated by dividing net income (loss) by the weighted average number of common shares outstanding during each period, including redeemable ordinary shares (if applicable). Net income or loss per share – diluted, is computed using the weighted average number of common and potentially dilutive common share equivalents outstanding during the period, including redeemable common shares (if applicable). Potentially dilutive common share equivalents consist of shares issuable upon the exercise or settlement of options to purchase common shares or restricted stock.

Recent Accounting Pronouncements

<u>Pronouncements adopted in the current period</u>

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments". ASU 2016-15 reduces the diversity of how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. The standard is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The ASU should be applied retrospectively to all periods presented. There was no impact on the Company's financial condition, results of operations and cash flows resulting from the adoption of ASU 2016-15.

In October 2016, the FASB issued ASU 2016-16, "Intra-Entity Transfers of Assets Other than Inventory". ASU 2016-16 requires an entity to recognize the income tax consequences of intra-entity transfers of assets other than inventory when the transfer occurs. The standard is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted. The ASU should be applied retrospectively as an adjustment to retained earnings. The impact of adopting ASU 2016-16 on January 1, 2018 was a decrease to retained earnings of approximately $0.2 million, with offsetting adjustments to prepaid taxes.

In May 2017, the FASB issued ASU 2017-09, "Compensation - Stock Compensation: Scope of Modification Accounting". ASU 2017-09 provides guidance on determining which changes to share-based awards require modification accounting under ASC 718. The standard is effective for annual and interim periods beginning after December 15, 2017, and early adoption is permitted. There was no impact on the Company's financial condition, results of operations and cash flows for the nine months ended September 30, 2018 resulting from the adoption of ASU 2017-09.

In March 2018, the FASB issued ASU 2018-05, "Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118". ASU 2018-05 provides guidance on certain income tax effects of the Tax Cuts and Jobs Act. The standard is effective immediately. The Company's financial condition, results of operations and cash flows was impacted by the new tax rates resulting in lower income tax expense.

<u>Pronouncements to be adopted in future periods</u>

In February 2016, the FASB issued ASU 2016-02, “Leases”. ASU 2016-02 requires that long-term lease arrangements be recognized on the balance sheet. The standard is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the guidance to determine the potential impact on the Company’s financial condition, results of operations and cash flows, but the standard will result in the Company recording both assets and liabilities for leases currently classified as operating leases.

In June 2018, the FASB issued ASU 2018-07, “Compensation - Stock Compensation: Improvements to Nonemployee Share Based Payment Accounting”. ASU 2018-07 provides guidance on accounting for share-based awards issued to nonemployees. The standard is effective for annual and interim periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the guidance to determine the potential impact on its financial condition, results of operations and cash flows.

NOTE 3 – INVENTORIES

Raw materials represent components used in the manufacturing of the magicJack devices, held by the Company or by a Chinese manufacturer on consignment. Finished goods are comprised primarily of magicJack devices on hand or in transit to the Company’s distribution center in the United States and customer equipment, as well as hardware and equipment pending delivery or sale to Enterprise segment customers. Inventories were comprised of the following (in thousands):

	September 30, 2018	December 31, 2017
Raw materials	$ 424	$ 746
Finished goods	1,594	1,134
Total	$ 2,018	$ 1,880

The Company wrote-off approximately $81 thousand of obsolete inventory during the three and nine months ended September 30, 2018. The Company (recovered) wrote-off approximately ($33) thousand and $370 thousand of obsolete inventory during the three and nine months ended September 30, 2017, respectively. Inventory write-offs are reflected in cost of revenues in the unaudited condensed consolidated statements of operations.

NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment were summarized as follows (in thousands):

	Estimated Useful Lives (in years)	September 30, 2018	December 31, 2017
Switches	3 - 15	$ 6,853	$ 6,851
Computers	3	1,995	2,457
Furniture	5 - 7	76	100
Leasehold-improvements	*	387	615
Accumulated depreciation		(7,314)	(7,251)
Total		$ 1,997	$ 2,772

* The estimated useful life for leasehold improvements is the shorter of the term of the lease or life of the asset.

Depreciation expense was $0.3 million for both of the three months ended September 30, 2018 and 2017, and $0.8 million and $1.0 million for the nine months ended September 30, 2018 and 2017, respectively. Refer to Note 16, “Segment Reporting” for further details.

NOTE 5 – INTANGIBLE ASSETS

Identified intangible assets consisted of the following (in thousands):

Estimated	September 30, 2018				December 31, 2017			
Useful Lives (in years)	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Life	Gross Carrying Amount	Accumulated Amortization	Net	Weighted-Average Life

Technology	3 - 17	$2,630	$(2,620)	$10	0.25	$3,110	$(2,973)	$137	5.29
Intellectual property rights	3 - 17	7,333	(5,829)	1,504	5.19	14,162	(11,996)	2,166	4.87
Covenants not-to-compete and not-to-sue	2 - 5	100	(78)	22	0.67	2,185	(2,137)	48	1.42
Customer relationships	5 - 10	4,400	(817)	3,583	7.46	4,900	(900)	4,000	8.21
Software license	2 - 10	2,087	(951)	1,136	5.60	2,297	(554)	1,743	1.46
Process know how	5	400	(116)	284	4.25	400	(49)	351	5.00
Intangible assets subject to amortization		$16,950	$(10,411)	$6,539		$27,054	$(18,609)	$8,445	
Tradename		$1,700	$-	$1,700	N/A	$1,700	$-	$1,700	N/A
Domain names		45	-	45	N/A	45	-	45	N/A
Intangible assets not subject to amortization		$1,745	$-	$1,745		$1,745	$-	$1,745	
Total intangible assets		$18,695	$(10,411)	$8,284		$28,799	$(18,609)	$10,190	

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Amortization expense was $0.6 million and $0.7 million for the three months ended September 30, 2018 and 2017, respectively, and $1.8 million and $2.4 million for the nine months ended September 30, 2018 and 2017, respectively. Refer to Note 16, “Segment Reporting” for further details.

During the nine months ended September 30, 2018, impairment losses of $0.1 million were recognized in Operating Expenses under the Consumer segment in the statement of operations. The impairment was comprised of a software license of $131 thousand (net of accumulated amortization) related to magicJack Connect app, which will no longer be offered.

As part of the Company’s quarterly impairment review for intangible assets with indefinite lives, including goodwill, performed as of March 31, 2017, management determined that there were impairment indicators at the Enterprise segment. Based on the knowable impairment indicators as of March 31, 2017 discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, the Company engaged an independent third party to perform a valuation of the Enterprise segment’s long-lived assets and indefinite-lived intangible assets, including goodwill, as of March 31, 2017. Based on the results of the valuation, impairment losses of $16.6 million were recognized on the following intangible assets in operating expenses under the Enterprise segment in the unaudited condensed consolidated statements of operations for the nine months ended September 30, 2017 as follows:

	March 31, 2017		
	Carrying Amount	Valuation Amount	Impairment
Customer Relationships	$19,572	$ 4,400	$ 15,172
Process Know How	974	400	574
Tradename	1,700	800	900
	$22,246	$ 5,600	$ 16,646

Based on the carrying value of finite lived identified intangible assets recorded at September 30, 2018, the amortization expense for the future fiscal years is expected to be as follows (in thousands):

Fiscal Year	Amortization Expense
Three months ending December 31, 2018	$ 464
2019	1,527
2020	1,070
2021	762
2022	696
Thereafter	2,020
	$ 6,539

NOTE 6 – GOODWILL

There were no changes in the carrying amount of goodwill for the three and nine months ended September 30, 2018.

As part of the Company’s quarterly impairment review for intangible assets with indefinite lives, including goodwill, performed as of March 31, 2017, management determined that there were impairment indicators at the Enterprise segment. Based on the knowable impairment indicators as of March 31, 2017 discussed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, the Company engaged an independent third party to perform a valuation of the Enterprise reporting unit’s long-lived assets and indefinite-lived intangible assets, including goodwill, as of March 31, 2017.

Based on a discounted future cash-flows approach, the third party valuation estimated the fair value of the Enterprise reporting unit to be $17.9 million. Recognition of the goodwill impairment resulted in a tax benefit which was recorded as a deferred tax asset. Since the deferred tax asset increases the carrying value of the reporting unit, it would result in an additional impairment. The accounting guidance requires an entity to calculate the impairment charge and the deferred tax effect using a simultaneous equations method, which effectively grosses up the goodwill impairment charge to account for the related deferred tax benefit so that the resulting carrying value does not exceed the calculated fair value. The resulting impairment is limited to the carrying value of goodwill. In the valuation performed for the Company the impairment calculated using the simultaneous equation method resulted in an impairment charge that exceeded the carrying value of the goodwill. Accordingly, an impairment loss of $14.9 million on goodwill was recognized in operating expenses under the Enterprise segment in the unaudited condensed consolidated statements of operations for the three months ended March 31, 2017.

The changes in the carrying amount of goodwill for the nine months ended September 30, 2017 were as follows (in thousands):

	Nine Months Ended September 30, 2017				
	Core Consumer	Enterprise	SMB	Other	Consolidated
Balance, beginning of period	$32,304	$14,881	$ -	$ -	$ 47,185
2017 impairment	-	(14,881)			(14,881)
Balance, end of period	$32,304	$-	$ -	$ -	$ 32,304

The application of the goodwill impairment test requires judgment, including the identification of reporting units, assigning assets and liabilities to reporting units, assigning goodwill to reporting units, and determining the fair value of each reporting unit. Significant judgment, and the use of significant estimates and assumptions, is required to estimate the fair value of reporting units, including estimating future cash flows, future market conditions, and determining the appropriate discount rates, growth rates, and operating margins, among others.

The discounted cash flow analyses factor in assumptions on revenue and expense growth rates. These estimates are based upon the Company's historical experience, best estimates of future activity, and a cost structure necessary to achieve the related revenues.

Additionally, these discounted cash flow analyses factor in expected amounts of working capital and weighted average cost of capital. The Company believes the assumptions are reasonable. However, there can be no assurance that its estimates and assumptions made for purposes of the goodwill impairment testing, at the annual Measurement Date, will prove to be accurate predictions of the future. Changes in these estimates and assumptions as previously noted, could result in the need to conduct additional goodwill impairment tests in the future and could ultimately result in an impairment charge. In addition, a change in the Company's reporting units could materially affect the determination of the fair value for each reporting unit, which could trigger impairment in the future. The Company will continue to review its results against forecasts and assess its assumptions to ensure they continue to be appropriate.

NOTE 7 – DEFERRED COSTS AND REVENUES/CONTRACT COSTS AND LIABILITIES

Deferred costs and revenues/contract costs and liabilities to be recognized over the next twelve months are classified as current and included in the Company's unaudited condensed consolidated balance sheets. The remaining deferred cost and revenue/contract cost and liability amounts are classified as non-current in the unaudited condensed consolidated balance sheets.

Deferred costs/contract costs were comprised of the following in the periods shown (in thousands):

	Core Consumer			Enterprise			Consolidated		
	Incremental costs to obtain contracts	Costs to fulfill contracts	Total	Incremental costs to obtain contracts	Costs to fulfill contracts	Total	Incremental costs to obtain contracts	Costs to fulfill contracts	Total
Balance at December 31, 2017	$-	$ 1,893	$1,893	$-	$ 43	$43	$-	$ 1,936	$1,936
Adoption of ASC 606	647	(1,893)	(1,246)	-	-	-	647	(1,893)	(1,246)
Balance at January 1, 2018, as adjusted	647	-	647	-	43	43	647	43	690

Costs recognized from previous contracts	(146)	-	(146)	-	(43)	(43)	(146)	(43)	(189)
Additions for contracts acquired in the period	132	-	132	236	105	341	368	105	473
Costs recognized from new contracts	(18)	-	(18)	(31)	(72)	(103)	(49)	(72)	(121)
Balance at September 30, 2018	$615	$ -	$615	$205	$ 33	$238	$820	$ 33	$853
Current	240	-	240	81	13	94	321	13	334
Non-current	375	-	375	124	20	144	499	20	519

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Deferred revenues/contract liabilities were related to the Core Consumer segment and were comprised of the following (in thousands):

	magicJack devices direct sales (1)	magicJack devices retail sales (1)	Access right renewals current	Prepaid minutes	Other	Total Current	Access right renewals non-current	Other	Total
Balance at December 31, 2017	$ 3,056	$ 2,221	$ 34,607	$ 2,254	$ 105	$ 42,243	$ 38,797	$ -	$ 81,040
Adoption of ASC 606	(1,656)	(978)	-	-	-	(2,634)	-	-	(2,634)
Balance at January 1, 2018, as adjusted	1,400	1,243	34,607	2,254	105	39,609	38,797	-	78,406
Revenue recognized from previous contracts	(1,304)	(1,121)	(31,091)	(1,989)	(105)	(35,610)	-	-	(35,610)
Additions for contracts acquired in the period	2,569	2,461	23,682	2,379	649	31,740	8,427	27	40,194
Revenue recognized from new contracts	(1,614)	(1,422)	(5,894)	(774)	(542)	(10,246)	-	-	(10,246)
Transfer of current portion	-	-	12,153	-	3	12,156	(12,153)	(3)	-
Balance at September 30, 2018	$ 1,051	$ 1,161	$ 33,457	$ 1,870	$ 110	$ 37,649	$ 35,071	$ 24	$ 72,744

(1) Deferred revenues/contract liabilities from device sales include only the service portion.

Contract liabilities as of September 30, 2018 were related to the Core Consumer segment and are expected to be recognized as revenue in future years as follows (in thousands):

Recognition Period	Estimated Recognition of Contract Liabilities
Next 12 months	$ 37,649
13-24 Months	16,530
25-36 Months	10,040
37-48 months	4,303
49-60 Months	1,763
61+ Months	2,459
	$ 72,744

Certain costs necessary to fulfill the Company’s obligations to provide broadband telephone service to new and existing customers who have purchased magicJack devices or access rights to access the Company’s servers are expensed as incurred. For the Core Consumer segment, such costs were approximately $2.1 million and $2.4 million for the three months ended September 30, 2018 and 2017, respectively and $6.4 million and $7.5 million for the nine months ended September 30, 2018 and 2017, respectively. For the Enterprise segment, such costs were approximately $0.7 million and $0.6 million for the three months ended September 30, 2018 and 2017, respectively and $2.0 million and $1.9 million for the nine months ended September 30, 2018 and 2017, respectively. Costs related to providing broadband telephone service to SMB segment customers were not significant for the three months ended March 31, 2017.

NOTE 8 – OTHER LIABILITIES

As of September 30, 2018 and December 31, 2017, other non-current liabilities primarily consisted of provisions for uncertain tax positions of $13.4 million and $13.1 million, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Legal Proceedings

The Company is subject to various legal proceedings and claims, including intellectual property claims, contractual and commercial disputes, employment claims, state and local tax matters and other matters which arise in the ordinary course of business. The Company's policy is to vigorously defend any legal proceedings. Management regularly evaluates the status of legal proceedings in which the Company is involved in order to assess whether a loss is probable or there is a reasonable possibility that a loss or additional loss may have been incurred and to determine if accruals are appropriate. While the outcome of these claims cannot be predicted with certainty, management does not believe that the outcome of any of these legal matters will have a material adverse effect on the Company's business, operating results, financial condition or cash flows. However, an unexpected adverse resolution of one or more of these matters could have a material adverse effect on the Company's results of operations in a particular fiscal year or quarter.

On August 11, 2017, a putative class action lawsuit titled Freedman v. magicJack VocalTec Ltd. et al., Case 9-17-cv-80940, was filed against the Company and its Board of Directors in the United States District Court for the Southern District of Florida. The complaint alleged claims against the Company and the current members of its Board of Directors as well as two former members for violations of Sections 14(a) and 20(a) of the Securities Exchange Act of 1934, arising from proxy statements issued in connection with the April 19, 2017 shareholders meeting and the July 31, 2017 shareholders meeting that allegedly misrepresented material facts concerning the “true value” of Broadsmart Global, Inc. and its future prospects in order that the individual defendants (the Board members) could entrench themselves on the Board and extract unwarranted compensation from the Company in connection with their attempt to sell the Company. In January 2018, the plaintiff filed an Amended Complaint. On February 16, 2018, the Company and all of the individual defendants filed a motion to dismiss the Amended Complaint. The plaintiff filed his opposition to the motion to dismiss on April 2, 2018, and defendants’ reply was filed on April 19, 2018. The court issued an order dismissing the amended complaint without prejudice on August 9, 2018. The plaintiff filed an amended complaint, and on August 20, 2018, the Company filed a motion to dismiss the second amended complaint. No decision has yet been reached on the motion The Company cannot estimate the amount of potential liability, if any, that could arise from this matter.

On March 1, 2018, Flexijet Technologies, Inc. (“Flexijet”) served a complaint for patent infringement against magicJack VocalTec Ltd. The complaint asserts that certain of the Company’s products infringe United States Patent Nos. 8,296,757; 8,533,352; 8,595,717; 9,043,482; and 9,116,723. The Company disputes all of the claims by Flexijet and intends to vigorously defend the action. The Company answered the complaint on May 31, 2018, and served its invalidity contentions on August 27, 2018.. The Company cannot estimate the amount of potential liability, if any, that could arise from this matter.

In June 2018, Galilee Acquisition LLC f/k/a Sutton View Acquisition LLC (“GAL”) filed a complaint, served the following month, (case No.:50-2018-CA-007976-XXXX-MB) in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida against magicJack Vocaltec Ltd. alleging a claim for negligent misrepresentation. The complaint alleges that the Company provided false, material information to the plaintiff concerning its business, including information related to the operations, revenue projections, profit projections and growth forecast of Broadsmart. It alleges that the plaintiff relied on the information provided in determining whether to pursue acquiring the Company and to incur the cost of conducting due diligence. The suit seeks an unspecified amount of damages. The Company disputes GAL’s claims and intends to vigorously defend the action. The Company filed a motion to dismiss on September 4, 2018, which remains pending. The Company cannot estimate the amount of potential liability, if any, that could arise from this matter.

On July 12, 2018, plaintiffs Ramon G. Martinez and Moses Lopez filed a putative class action complaint against magicJack LP and YMAX Holdings Corporation in the U.S. District Court for the Southern District of Florida as case number 9:18-cv-80917-RLR, alleging violations of the Telephone Consumer Protection Act in connection with calls placed by an autodialer using a pre-recorded voice without the requisite consent. The Plaintiffs entered into a stipulation with the Company under which the Complaint has been dismissed with prejudice, and on October 24, 2018, the Court issued an order closing the case.

Tax Contingencies

The Company believes that it files all required tax returns and pays all required federal, state and municipal taxes (such as sales, excise, utility, and ad valorem taxes), fees and surcharges. The Company is the subject of inquiries and examinations by various states and municipalities in the normal course of business. In accordance with generally accepted accounting principles, the Company makes a provision for a liability for taxes when it is both probable that a liability has been incurred and the amount of the liability can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. The Company believes any possible claims are without merit and vigorously defends its rights. However, if a government entity were to prevail in any matter, it could have a material adverse effect on the Company's financial condition, results of operation and cash flows. In addition, it is at least reasonably possible that a potential loss may exist for tax contingencies in addition to the provisions taken by the Company. For those potential additional tax contingencies which can be reasonably estimated, that additional potential liability ranges from $0 to $2.5 million dollars.

The Company is currently under examination for potential state tax liabilities in some states and local jurisdictions. On June 8, 2017, the Company offered to settle a state examination for payment of $0.6 million and the agreement to remit certain taxes on a prospective basis. The taxing authority subsequently rejected the Company's offer, and as of September 30, 2018, the Company has not reached an agreement with the state.

In a letter dated April 23, 2018, the Company received notice that the Internal Revenue Service (the "IRS") has selected our 2015 United States income tax return for examination. The Company had an initial meeting with the IRS in June 2018 and has supplied responses for all of the IRS's document requests to date. The Company believes that the positions taken in its 2015 return are reasonable and appropriate, however, the Company cannot be sure of the ultimate outcome of the examination and cannot estimate the likelihood of liability or the amount of potential assessments, if any, that could arise from the examination.

Historically, the Company has considered the requirements to collect sales taxes under the auspices of a 1991 Supreme Court case, Quill Corp. v. North Dakota, which established the precedent that a physical presence in the respective state is required for an entity to be subject to a state's sales and use tax requirements. Accordingly, the Company had concluded that the Company did not have nexus for sales tax in those states in which it had no physical presence (i.e., it had no employees regularly and systematically there and it had no property there). On June 21, 2018, via South Dakota v. Wayfair, Inc. (No. 17-494) the U.S. Supreme Court reversed its prior ruling and eliminated the "physical presence" requirement. The South Dakota law included no prospective liability for sellers, a safe harbor minimum for the number of transactions and dollar value of sales and relaxed registration procedures. However, it is still uncertain how other states will react to the ruling and what kind of overall impact that will have on internet sellers in the United States. In consideration of the recent ruling, the Company has made the decision to start collecting sales tax on direct sales of its magicJack device in states that have adopted similar "Economic Nexus" laws. To date, the Company has identified approximately 29 states that have similar laws. The Company began registering for, collecting and remitting sales tax to the identified jurisdictions during the third quarter of 2018. The Company will continue to monitor the situation and add additional states if deemed necessary. Though the South Dakota law is to be applied prospectively, it is not certain if other states may try to enact laws on a retrospective basis based on the Wayfair ruling, and the Company cannot estimate the likelihood of liability or the potential amount of assessments that could arise from prior periods if other states tried to apply the ruling on a retrospective basis.

Historically, the Company has from time to time received Letters of Inquiry ("LOI") from the Enforcement Bureau of the Federal Communications Commission ("FCC") regarding the nature of the Company's Core Consumer product offering. The Company has promptly responded to the inquiries of the Enforcement Bureau. As it has previously disclosed, the Company believes that under current regulations it is not an interconnected VoIP provider subject to FCC regulations. To date, the Company has not received any formal notice from the FCC of any enforcement action. The Company intends to vigorously defend itself if an enforcement action is initiated. The Company, however, cannot be sure of the ultimate outcome of any possible FCC action and cannot estimate the likelihood of liability or the amount of potential assessments, if any, that could arise.

NOTE 10 – TREASURY STOCK

In March 2018, the Company issued 21,897 of its ordinary shares held as treasury shares with a cost of $270 thousand, or $12.32 per share, to employees as a result of restricted stock vesting. In March 2018, the Company purchased 6,365 of its ordinary shares at $8.40 per share, for an aggregate purchase price of approximately $53 thousand, in settlement of the withholding tax liability on the vesting of the restricted stock. In August 2018, the Company issued 42,873 of its ordinary shares held as treasury shares with a cost of $528 thousand, or $12.32 per share, to board members as a result of restricted stock vesting.

In January 2017, the Company reclassified 16,666 shares previously issued out of treasury stock as they had been issued as new ordinary shares. In April 2017, the Company issued 6,996 of its ordinary shares held as treasury shares with a cost of $86 thousand, or $12.32 per share, to Board members as a result of restricted stock vesting. In May 2017, the Company issued 76,211 of its ordinary shares held as treasury shares with a cost of $939 thousand, or $12.32 per share, to an executive officer as a result of restricted stock vesting. In May 2017, the Company purchased 20,844 of its ordinary shares at $6.50 per share, for an aggregate purchase price of approximately $135 thousand, in settlement of the withholding tax liability on the vesting of that restricted stock.

NOTE 11 – REVENUE

The Company's revenues for the three and nine months ended September 30, 2018, disaggregated by segment and timing of revenue recognition were as follows (in thousands):

	Trigger for recognition	For the Three Months Ended September 30, 2018 Core Consumer	Enterprise	Intercompany	Consolidated
Revenues recognized at a point in time					
Sale of magicJack devices, hardware portion	Transfer of control	$ 522	$ -	$ -	$ 522
Shipping and handling	Transfer of control	223	-	-	223
magicJack-related products and services	Transfer of control	1,029	-	-	1,029
UCaaS equipment	Transfer of control	-	142	-	142
Other	Various	212	-	-	212
Revenues recognized over time					
Sale of magicJack devices, service portion	Service period	1,158	-	-	1,158
Access right renewals	Service period	12,286	-	-	12,286
Prepaid minutes	Usage	798	-	-	798
Access and wholesale charges	Usage	698	-	-	698
UCaaS service	Service period	-	2,375	(49)	2,326
UCaaS usage	Usage	-	78	-	78
		$ 16,926	$ 2,595	$ (49)	$ 19,472

	Trigger for recognition	For the Nine Months Ended September 30, 2018 Core Consumer	Enterprise	Intercompany	Consolidated
Revenues recognized at a point in time					
Sale of magicJack devices, hardware portion	Transfer of control	$ 1,925	$ -	$ -	$ 1,925
Shipping and handling	Transfer of control	570	-	-	570
magicJack-related products and services	Transfer of control	3,117	-	-	3,117
UCaaS equipment	Transfer of control	-	532	-	532
Other	Various	517	-	-	517
Revenues recognized over time					
Sale of magicJack devices, service portion	Service period	3,465	-	-	3,465
Access right renewals	Service period	36,990	-	-	36,990
Prepaid minutes	Usage	2,754	-	-	2,754
Access and wholesale charges	Usage	2,209	-	-	2,209
UCaaS service	Service period	-	7,281	(72)	7,209
UCaaS usage	Usage	-	221	-	221

$51,547	$ 8,034	$ (72)	$ 59,509

The following tables summarize the impacts of adopting Topic 606 on the Company's consolidated financial statements as of and for the three and nine months ended September 30, 2018:

	As reported	Adjustments	Balances without adoption of ASC 606
ASSETS			
Current assets:			
Deferred costs, current portion	$ -	$ 2,140	$ 2,140
Contract costs, current portion	334	(334)	-
Prepaid income taxes	646	(201)	445
Other current assets	68,134	-	68,134
Total current assets	69,114	1,605	70,719

Deferred tax assets