

VONAGE HOLDINGS CORP  
Form 10-Q  
November 10, 2008  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

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

For the Quarterly Period Ended September 30, 2008

or

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-32887

**VONAGE HOLDINGS CORP.**

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(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**11-3547680**  
(IRS Employer  
Identification No.)

**23 Main Street, Holmdel, NJ**  
(Address of principal executive offices)

**07733**  
(Zip Code)

**Registrant's telephone number, including area code: (732) 528-2600**

(Former name, former address and former fiscal year, if changed since last report): Not Applicable

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one:

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2008
Common Stock, par value \$0.001	156,565,277 shares

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**Financial Information Presentation**

For the financial information discussed in this Quarterly Report on Form 10-Q, other than per share and per line amounts, dollar amounts are presented in thousands, except where noted.

**Table of Contents****Part I Financial Information****Item 1. Financial Statements****VONAGE HOLDINGS CORP.****CONSOLIDATED BALANCE SHEETS****(In thousands, except par value)**

	September 30, 2008 (unaudited)	December 31, 2007
<b>Assets</b>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 112,267	\$ 71,542
Marketable securities		79,942
Accounts receivable, net of allowance of \$1,940 and \$1,924, respectively	24,957	20,105
Inventory, net of allowance of \$1,377 and \$3,080, respectively	10,683	19,604
Deferred customer acquisition costs, current	25,958	18,992
Prepaid expenses and other current assets	28,681	21,498
Restricted cash	2,185	
Total current assets	204,731	231,683
Property and equipment, net of accumulated depreciation	103,465	118,666
Deferred customer acquisition costs, non-current	23,392	39,159
Deferred financing costs, net	690	3,172
Restricted cash	39,799	38,928
Due from related parties		2
Intangible assets, net	6,109	7,656
Other assets	51,450	23,031
Total assets	\$ 429,636	\$ 462,297

**Liabilities and Stockholders Equity (Deficit)**

<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 47,775	\$ 56,235
Accrued expenses	82,621	84,360
Deferred revenue, current portion	67,844	53,653
Current maturities of capital lease obligations	1,195	1,035
Convertible notes, net	253,413	253,320
Total current liabilities	452,848	448,603
Deferred revenue, net of current portion	26,382	43,575
Capital lease obligations, net of current maturities	21,288	22,200
Other liability, net of current portion in accrued expenses	19,116	23,046
Total liabilities	519,634	537,424

**Commitments and Contingencies****Stockholders Equity (Deficit)**

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Common stock, par value \$0.001 per share; 596,950 shares authorized at September 30, 2008 and December 31, 2007;		
158,027 and 157,414 shares issued at September 30, 2008 and December 31, 2007, respectively;		
156,500 and 156,014 shares outstanding at September 30, 2008 and December 31, 2007, respectively	158	157
Additional paid-in capital	939,850	930,600
Stock subscription receivable	(5,195)	(5,266)
Accumulated deficit	(1,011,945)	(988,285)
Treasury stock, at cost, 1,527 shares at September 30, 2008 and 1,400 shares at December 31, 2007	(12,676)	(12,499)
Accumulated other comprehensive income (loss)	(190)	166
<b>Total stockholders' Equity (Deficit)</b>	<b>(89,998)</b>	<b>(75,127)</b>
<b>Total liabilities and stockholders' Equity (Deficit)</b>	<b>\$ 429,636</b>	<b>\$ 462,297</b>

The accompanying notes are an integral part of the consolidated financial statements.

**Table of Contents****VONAGE HOLDINGS CORP.****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Operating Revenues:</b>				
Telephony services	\$ 216,092	\$ 203,724	\$ 651,810	\$ 593,561
Customer equipment and shipping	9,678	6,810	26,101	18,815
	225,770	210,534	677,911	612,376
<b>Operating Expenses:</b>				
Direct cost of telephony services (excluding depreciation and amortization of \$4,908, \$4,312, \$14,337 and \$12,616, respectively)	56,502	54,463	169,586	162,364
Royalty		11,139		32,606
Total direct cost of telephony services	56,502	65,602	169,586	194,970
Direct cost of goods sold	20,835	17,057	61,440	41,633
Selling, general and administrative	73,035	214,139	230,358	382,933
Marketing	64,911	61,885	191,110	220,641
Depreciation and amortization	13,347	8,563	34,670	24,613
	228,630	367,246	687,164	864,790
Loss from operations	(2,860)	(156,712)	(9,253)	(252,414)
<b>Other Income (Expense):</b>				
Interest income	544	4,238	2,965	15,066
Interest expense	(5,504)	(5,424)	(16,610)	(15,700)
Other, net	46	(36)	(66)	(69)
	(4,914)	(1,222)	(13,711)	(703)
Loss before income tax benefit (expense)	(7,774)	(157,934)	(22,964)	(253,117)
Income tax benefit (expense)	(43)	(94)	(696)	(471)
Net loss	\$ (7,817)	\$ (158,028)	\$ (23,660)	\$ (253,588)
<b>Net loss per common share:</b>				
Basic and diluted	\$ (0.05)	\$ (1.01)	\$ (0.15)	\$ (1.63)
<b>Weighted-average common shares outstanding:</b>				
Basic and diluted	156,299	155,784	156,146	155,482

The accompanying notes are an integral part of the consolidated financial statements.



**Table of Contents****VONAGE HOLDINGS CORP.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (23,660)	\$ (253,588)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization and impairment charges	32,563	23,159
Amortization of intangibles	2,107	1,454
Beneficial conversion on interest in kind on convertible notes	93	32
Accrued interest	804	597
Allowance for doubtful accounts	(63)	1,087
Allowance for obsolete inventory	1,116	1,443
Amortization of deferred financing costs	2,482	1,490
Loss on disposal of fixed assets	12	118
Share-based expense	9,203	5,879
Changes in operating assets and liabilities:		
Accounts receivable	(4,847)	(6,220)
Inventory	7,747	3,350
Prepaid expenses and other current assets	(10,591)	(8,047)
Deferred customer acquisition costs	8,661	(8,284)
Due from related parties	2	74
Other assets	633	185
Accounts payable	(11,244)	(1,108)
Accrued expenses	(2,188)	106,147
Deferred revenue	(2,729)	17,243
Other liability	(3,930)	26,000
Net cash provided by (used in) operating activities	6,171	(88,989)
<b>Cash flows from investing activities:</b>		
Capital expenditures	(8,417)	(19,981)
Purchase of intangible assets		