

VONAGE HOLDINGS CORP

Form 10-Q

May 07, 2010

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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 March 31, 2010

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.**

(Exact name of registrant as specified in its charter)

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**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 has submitted electronically and posted on its corporate Web site, 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

\* The registrant has not yet been phased into the interactive data requirements

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 April 30, 2010
Common Stock, par value \$0.001	210,881,209 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)**

	<b>March 31, 2010 (unaudited)</b>	<b>December 31, 2009</b>
<b>Assets</b>		
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 52,055	\$ 32,213
Accounts receivable, net of allowance of \$772 and \$1,432, respectively	15,376	15,053
Inventory, net of allowance of \$398 and \$432, respectively	12,498	7,771
Deferred customer acquisition costs, current	13,407	15,997
Prepaid expenses and other current assets	26,591	40,425
<b>Total current assets</b>	<b>119,927</b>	<b>111,459</b>
Property and equipment, net	84,979	90,548
Software, net	31,630	35,540
Deferred customer acquisition costs, non-current	2,959	7,075
Debt related costs, net	6,627	7,412
Restricted cash	70,773	43,700
Intangible assets, net	5,045	5,331
Other assets	12,327	12,319
<b>Total assets</b>	<b>\$ 334,267</b>	<b>\$ 313,384</b>
<b>Liabilities and Stockholders Deficit</b>		
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 16,053	\$ 11,512
Accrued expenses	78,410	69,171
Deferred revenue, current portion	51,602	55,929
Current maturities of capital lease obligations	1,567	1,500
Current portion of long-term debt	1,303	1,303
<b>Total current liabilities</b>	<b>148,935</b>	<b>139,415</b>
Notes payable, net of discount	202,624	200,468
Embedded conversion option within convertible notes, at fair value	10,860	25,050
Deferred revenue, net of current portion	4,008	8,629
Capital lease obligations, net of current maturities	19,029	19,448
Other liabilities, net of current portion in accrued expenses	10,630	12,283
<b>Total liabilities</b>	<b>396,086</b>	<b>405,293</b>

**Commitments and Contingencies**

**Stockholders' Deficit**

Common stock, par value \$0.001 per share; 596,950 shares authorized at March 31, 2010 and December 31, 2009; 212,459 and 201,628 shares issued at March 31, 2010 and December 31, 2009, respectively; 210,707 and 199,898 shares outstanding at March 31, 2010 and December 31, 2009, respectively			212	202
Additional paid-in capital		1,024,347	1,008,547	
Accumulated deficit		(1,074,268)	(1,088,236)	
Treasury stock, at cost, 1,752 shares at March 31, 2010 and 1,730 shares at December 31, 2009		(12,906)	(12,878)	
Accumulated other comprehensive income		796	456	
Total stockholders' deficit		(61,819)	(91,909)	
Total liabilities and stockholders' deficit		\$ 334,267	\$ 313,384	

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 March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Operating Revenues:</b>		
Telephony services	\$ 224,527	\$ 215,643
Customer equipment and shipping	3,424	8,362
	227,951	224,005
<b>Operating Expenses:</b>		
Direct cost of telephony services (excluding depreciation and amortization of \$4,902 and \$4,757, respectively)	62,495	51,751
Direct cost of goods sold	16,647	20,512
Selling, general and administrative	60,787	68,051
Marketing	49,240	65,695
Depreciation and amortization	13,768	12,896
	202,937	218,905
Income from operations	25,014	5,100
<b>Other Income (Expense):</b>		
Interest income	53	110
Interest expense	(13,211)	(13,542)
Change in fair value of embedded conversion option and stock warrant	835	12,970
Gain on extinguishment of notes	1,038	
Other, net	103	801
	(11,182)	339
Income before income tax benefit (expense)	13,832	5,439
Income tax benefit (expense)	136	(168)
Net income	\$ 13,968	\$ 5,271
<b>Net income (loss) per common share:</b>		
Basic	\$ 0.07	\$ 0.03
Diluted	\$ 0.06	\$ (0.03)
<b>Weighted-average common shares outstanding:</b>		
Basic	201,324	156,718

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Diluted

221,947

218,787

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>Three Months Ended</b>	
	<b>Mar 31,</b>	<b>Mar 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,968	\$ 5,271
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization and impairment charges	13,482	12,249
Amortization of intangibles	286	647
Change in fair value of embedded conversion option and stock warrant	(835)	(12,970)
Gain on extinguishment of notes	(1,038)	
Amortization of discount on notes	1,370	1,347
Accrued interest paid in-kind	3,920	4,645
Allowance for doubtful accounts	(623)	96
Allowance for obsolete inventory	667	540
Amortization of debt related costs	403	734
Share-based expense	1,018	2,608
Changes in operating assets and liabilities:		
Accounts receivable	305	(3,781)
Inventory	(5,389)	(764)
Prepaid expenses and other current assets	13,803	(4,107)
Deferred customer acquisition costs	6,702	6,144
Other assets	(8)	563
Accounts payable	4,558	(2,318)
Accrued expenses	9,245	3,478
Deferred revenue	(8,972)	(6,387)
Other liabilities	(1,614)	(1,432)
Net cash provided by operating activities	51,248	6,563
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,959)	(2,519)
Acquisition and development of software assets	(2,041)	(3,995)
Increase in restricted cash	(27,098)	(437)
Net cash used in investing activities	(31,098)	(6,951)
<b>Cash flows from financing activities:</b>		
Principal payments on capital lease obligations	(352)	(292)
Principal payments on notes	(326)	(326)
Debt related costs		(251)
Proceeds from exercise of stock options	30	
Net cash used in financing activities	(648)	(869)