

VONAGE HOLDINGS CORP

Form 10-Q

May 05, 2011

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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, 2011

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, 2011
Common Stock, par value \$0.001	223,560,018 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)**

Assets	March 31, 2011 (unaudited)	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 79,655	\$ 78,934
Accounts receivable, net of allowance of \$330 and \$588, respectively	15,922	15,207
Inventory, net of allowance of \$416 and \$763, respectively	5,704	6,143
Deferred customer acquisition costs, current	5,227	6,481
Prepaid expenses and other current assets	17,425	17,231
Total current assets	123,933	123,996
Property and equipment, net	74,131	79,050
Software, net	34,552	35,516
Deferred customer acquisition costs, non-current	839	1,093
Debt related costs, net	4,764	5,372
Restricted cash	6,934	7,978
Intangible assets, net	3,900	4,186
Other assets	2,664	3,201
Total assets	\$ 251,717	\$ 260,392
Liabilities and Stockholders Deficit		
Liabilities		
Current liabilities:		
Accounts payable	\$ 34,223	\$ 37,128
Accrued expenses	75,115	89,407
Deferred revenue, current portion	41,897	43,397
Current maturities of capital lease obligations	1,859	1,783
Current portion of notes payables	10,000	20,000
Total current liabilities	163,094	191,715
Notes payable, net of discount and current maturities	168,799	173,004
Deferred revenue, net of current portion	1,460	1,784
Capital lease obligations, net of current maturities	17,170	17,665
Other liabilities, net of current portion in accrued expenses	3,155	5,871
Total liabilities	353,678	390,039
Commitments and Contingencies		
Stockholders Deficit	225	223

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Common stock, par value \$0.001 per share; 596,950 shares authorized at March 31, 2011 and December 31, 2010; 225,191 and 223,454 shares issued at March 31, 2011 and December 31, 2010, respectively; 223,205 and 221,566 shares outstanding at March 31, 2011 and December 31, 2010, respectively

Additional paid-in capital	1,059,837	1,053,805
Accumulated deficit	(1,150,788)	(1,171,901)
Treasury stock, at cost, 1,986 shares at March 31, 2011 and 1,888 shares at December 31, 2010	(13,332)	(13,139)
Accumulated other comprehensive income	2,097	1,365
Total stockholders' deficit	(101,961)	(129,647)
Total liabilities and stockholders' deficit	\$ 251,717	\$ 260,392

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)**

	Three Months Ended March 31,	
	2011	2010
Operating Revenues:		
Telephony services	\$ 218,230	\$ 224,527
Customer equipment and shipping	1,611	3,424
	219,841	227,951
Operating Expenses:		
Direct cost of telephony services (excluding depreciation and amortization of \$4,124 and \$4,981, respectively)	60,189	62,495
Direct cost of goods sold	11,055	16,647
Selling, general and administrative	58,243	60,787
Marketing	49,404	49,240
Depreciation and amortization	11,066	13,768
	189,957	202,937
Income from operations	29,884	25,014
Other Income (Expense):		
Interest income	42	53
Interest expense	(6,602)	(13,211)
Change in fair value of embedded features within notes payable and stock warrant	(950)	835
(Loss) gain on extinguishment of notes	(593)	1,038
Other (expense) income, net	(2)	103
	(8,105)	(11,182)
Income before income tax (expense) benefit	21,779	13,832
Income tax (expense) benefit	(666)	136
Net Income	\$ 21,113	\$ 13,968
Net Income per common share:		
Basic	\$ 0.10	\$ 0.07
Diluted	\$ 0.09	\$ 0.06
Weighted-average common shares outstanding:		
Basic	222,162	201,324

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Diluted

240,340

221,947

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)**

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net Income	\$ 21,113	\$ 13,968
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization and impairment charges	10,780	13,482
Amortization of intangibles	286	286
Change in fair value of embedded features in notes payable and stock warrant	950	(835)
Loss on extinguishment of notes	593	(1,038)
Amortization of discount on notes	460	1,370
Accrued interest paid in-kind		3,920
Allowance for doubtful accounts	(251)	(623)
Allowance for obsolete inventory	79	667
Amortization of debt related costs	350	403
Share-based expense	2,475	1,018
Changes in operating assets and liabilities:		
Accounts receivable	(448)	305
Inventory	383	(5,389)
Prepaid expenses and other current assets	(184)	13,803
Deferred customer acquisition costs	1,527	6,702
Other assets	537	(8)
Accounts payable	(2,920)	4,558
Accrued expenses	(14,555)	9,245
Deferred revenue	(1,899)	(8,972)
Other liabilities	(1,819)	(1,614)
Net cash provided by operating activities	17,457	51,248
Cash flows from investing activities:		
Capital expenditures	(1,298)	(1,959)
Acquisition and development of software assets	(3,593)	(2,041)
Decrease (increase) in restricted cash	1,047	(27,098)
Net cash used in investing activities	(3,844)	(31,098)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(419)	(352)
Principal payments on notes	(15,000)	(326)
Proceeds from exercise of stock options and stock warrant	1,712	30
Net cash used in financing activities		