

VONAGE HOLDINGS CORP
Form 10-Q
November 14, 2007
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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, 2007

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)

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

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(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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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, 2007
Common Stock, par value \$0.001	155,863,949 shares

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

	September 30, 2007	December 31, 2006
Assets		
Assets		
Current assets:		
Cash and cash equivalents	\$ 129,010	\$ 210,253
Marketable securities	148,734	289,483
Accounts receivable, net of allowance of \$1,400 and \$476, respectively	21,823	16,544
Inventory, net of allowance of \$2,131 and \$1,270, respectively	19,898	24,390
Deferred customer acquisition costs, current	17,060	13,022
Prepaid expenses and other current assets	23,564	16,080
Restricted cash	78,146	
Total current assets	438,235	569,772
Property and equipment, net of accumulated depreciation	127,856	128,247
Deferred customer acquisition costs, non-current	38,635	34,067
Deferred financing costs, net	6,371	7,861
Restricted cash	31,134	8,042
Due from related parties	4	60
Intangible assets, net	8,346	4,300
Other assets	15,181	5,175
Total assets	\$ 665,762	\$ 757,524
Liabilities and Stockholders Equity (Deficit)		
Liabilities		
Current liabilities:		
Accounts payable	\$ 58,121	\$ 58,899
Accrued expenses	273,698	161,505
Deferred revenue, current portion	51,038	38,504
Current maturities of capital lease obligations	1,018	1,020
Total current liabilities	383,875	259,928
Convertible notes, net	253,310	253,430
Deferred revenue, net of current portion	43,023	37,730
Capital lease obligations, net of current maturities	22,483	23,235
Other liability, net of current portion	26,000	
Total liabilities	728,691	574,323

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Commitments and Contingencies

Stockholders' Equity (Deficit)

Common stock, par value \$0.001 per share; authorized 596,950 shares at September 30, 2007 and December 31, 2006;

157,235 and 156,353 shares issued at September 30, 2007 and December 31, 2006, respectively;

155,882 and 155,059 shares outstanding at September 30, 2007 and December 31, 2006, respectively

	157	156
Additional paid-in capital	943,107	922,097
Stock subscription receivable	(5,273)	(5,721)
Accumulated deficit	(988,645)	(720,857)
Treasury stock, at cost, 1,353 shares at September 30, 2007 and 1,294 shares at December 31, 2006	(12,428)	(12,342)
Accumulated other comprehensive income (loss)	153	(132)

Total stockholders' equity (deficit)	(62,929)	183,201
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Total liabilities and stockholders' equity (deficit)	\$ 665,762	\$ 757,524
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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 September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Operating Revenues:				
Telephony services	\$ 203,724	\$ 155,611	\$ 593,561	\$ 405,732
Customer equipment and shipping	6,810	6,235	18,815	20,202
	210,534	161,846	612,376	425,934
Operating Expenses:				
Direct cost of telephony services (excluding depreciation and amortization of \$4,312, \$3,022, \$12,616 and \$8,707, respectively)	54,463	41,396	162,364	119,753
Royalty	11,139		32,606	
Total direct cost of telephony services	65,602	41,396	194,970	119,753
Direct cost of goods sold	17,057	16,934	41,633	50,561
Selling, general and administrative	217,939	72,052	397,133	191,036
Marketing	61,885	91,316	220,641	269,768
Depreciation and amortization	8,563	5,946	24,613	16,645
	371,046	227,644	878,990	647,763
Loss from operations	(160,512)	(65,798)	(266,614)	(221,829)
Other Income (Expense):				
Interest income	4,238	7,721	15,066	14,442
Interest expense	(5,424)	(3,999)	(15,700)	(13,977)
Other, net	(36)	(108)	(69)	(116)
	(1,222)	3,614	(703)	349
Loss before income tax benefit (expense)	(161,734)	(62,184)	(267,317)	(221,480)
Income tax benefit (expense)	(94)		(471)	
Net loss	\$ (161,828)	\$ (62,184)	\$ (267,788)	\$ (221,480)
Net loss per common share:				
Basic and diluted	\$ (1.04)	\$ (0.40)	\$ (1.72)	\$ (2.99)
Weighted-average common shares outstanding:				
Basic and diluted	155,784	154,775	155,482	73,955

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)**

	Nine Months Ended September 30,	
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (267,788)	\$ (221,480)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,159	16,412
Amortization of intangibles	1,454	233
Beneficial conversion on interest in kind on convertible notes	32	22
Accrued interest	597	3,295
Allowance for doubtful accounts	1,087	191
Allowance for obsolete inventory	1,443	827
Amortization of deferred financing costs	1,490	1,503
Loss on disposal of fixed assets	118	16
Share-based compensation	20,079	19,980
Other		(49)
Changes in operating assets and liabilities:		
Accounts receivable	(6,220)	(6,608)
Inventory	3,350	(2,764)
Prepaid expenses and other current assets	(8,047)	(13,512)
Deferred customer acquisition costs	(8,284)	(16,908)
Due from related parties	74	25
Other assets	185	(129)
Accounts payable	(1,108)	40,732
Accrued expenses	106,147	(10,159)
Deferred revenue	17,243	27,681
Other liability	26,000	
Net cash provided by (used in) operating activities	(88,989)	(160,692)
Cash flows from investing activities:		
Capital expenditures	(19,981)	(32,472)
Purchase of intangible assets		