

VONAGE HOLDINGS CORP
Form 10-Q
August 06, 2009
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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 June 30, 2009

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 July 31, 2009
Common Stock, par value \$0.001	157,004,974 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)**

	June 30, 2009 (unaudited)	December 31, 2008
Assets		
Assets		
Current assets:		
Cash and cash equivalents	\$ 56,000	\$ 46,134
Accounts receivable, net of allowance of \$2,625 and \$2,045, respectively	23,115	17,696
Inventory, net of allowance of \$1,452 and \$1,405, respectively	14,390	10,360
Deferred customer acquisition costs, current	21,490	24,002
Prepaid expenses and other current assets	20,964	18,325
Total current assets	135,959	116,517
Property and equipment, net of accumulated depreciation	87,086	98,292
Software, net of accumulated depreciation	33,798	34,368
Deferred customer acquisition costs, non-current	11,980	20,393
Debt related costs, net	10,277	11,541
Restricted cash	40,133	39,585
Intangible assets, net	4,529	5,400
Other assets	9,794	10,809
Total assets	\$ 333,556	\$ 336,905
Liabilities and Stockholders Equity (Deficit)		
Liabilities		
Current liabilities:		
Accounts payable	\$ 23,515	\$ 33,978
Accrued expenses	83,144	73,482
Deferred revenue, current portion	63,267	63,155
Current maturities of capital lease obligations	1,372	1,252
Current portion of long-term debt	1,303	1,303
Total current liabilities	172,601	173,170
Notes payable, net of discount	201,782	192,747
Derivative embedded within convertible note, at fair value	18,600	
Deferred revenue, net of current portion	13,845	23,058
Capital lease obligations, net of current maturities	20,234	20,947
Other liabilities, net of current portion in accrued expenses	14,981	17,725
Total liabilities	442,043	427,647

Commitments and Contingencies

Stockholders' Equity (Deficit)

Common stock, par value \$0.001 per share; 596,950 shares authorized at June 30, 2009 and December 31, 2008; 158,542 and 158,201 shares issued at June 30, 2009 and December 31, 2008, respectively; 156,936 and 156,648 shares outstanding at June 30, 2009 and December 31, 2008, respectively			159	158
Additional paid-in capital		947,719	980,768	
Stock subscription receivable		(5,195)	(5,195)	
Accumulated deficit		(1,038,082)	(1,052,861)	
Treasury stock, at cost, 1,606 shares at June 30, 2009 and 1,553 at December 31, 2008		(12,727)	(12,704)	
Accumulated other comprehensive income (loss)		(361)	(908)	
Total stockholders' equity (deficit)		(108,487)	(90,742)	
Total liabilities and stockholders' equity (deficit)	\$ 333,556		\$ 336,905	

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Operating Revenues:				
Telephony services	\$ 214,709	\$ 218,738	\$ 430,352	\$ 435,718
Customer equipment and shipping	5,319	8,786	13,681	16,423
	220,028	227,524	444,033	452,141
Operating Expenses:				
Direct cost of telephony services (excluding depreciation and amortization of \$4,872, \$4,728, \$9,629 and \$9,429, respectively)	51,480	56,586	103,231	113,084
Direct cost of goods sold	16,179	18,533	36,691	40,605
Selling, general and administrative	71,327	77,931	139,378	157,323
Marketing	52,144	65,300	117,839	126,199
Depreciation and amortization	13,848	11,114	26,744	21,323
	204,978	229,464	423,883	458,534
Income (loss) from operations	15,050	(1,940)	20,150	(6,393)
Other Income (Expense):				
Interest income	60	1,021	170	2,421
Interest expense	(13,679)	(5,535)	(27,221)	(11,106)
Change in fair value of embedded derivative	1,150		14,120	
Other, net	5	52	806	(112)
	(12,464)	(4,462)	(12,125)	(8,797)
Income (loss) before income tax benefit (expense)	2,586	(6,402)	8,025	(15,190)
Income tax benefit (expense)	(301)	(480)	(469)	(653)
Net income (loss)	\$ 2,285	\$ (6,882)	\$ 7,556	\$ (15,843)
Net income (loss) per common share:				
Basic	\$ 0.01	\$ (0.04)	\$ 0.05	\$ (0.10)
Diluted	\$ 0.01	\$ (0.04)	\$ 0.05	\$ (0.10)

Weighted-average common shares outstanding:

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Basic	156,928	156,103	156,824	156,068
Diluted	156,928	156,103	218,893	156,068

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)**

	Six Months Ended June 30,	
	2009	2008
Cash flows from operating activities:		
Net income (loss)	\$ 7,556	\$ (15,843)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization and impairment charges	25,873	19,924
Amortization of intangibles	871	1,399
Change in fair value of embedded derivative	(14,120)	
Beneficial conversion on interest in kind on convertible notes		46
Amortization of discount on notes	2,729	
Accrued interest paid in-kind	9,523	
Allowance for doubtful accounts	800	(92)
Allowance for obsolete inventory	1,020	679
Amortization of debt related costs	1,515	1,655
Share-based expense	4,835	5,036
Changes in operating assets and liabilities:		
Accounts receivable	(6,158)	(5,027)
Inventory	(4,993)	4,459
Prepaid expenses and other current assets	(2,597)	(4,515)
Deferred customer acquisition costs	11,037	3,958
Due from related parties		2
Other assets	1,015	(2,563)
Accounts payable	(10,570)	15,813
Accrued expenses	9,400	(972)
Deferred revenue		