

VONAGE HOLDINGS CORP

Form 10-Q/A

March 17, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

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

For the Quarterly Period Ended June 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.

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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

Smaller reporting company

(Do not check if a 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
Common Stock, par value \$0.001

Outstanding at July 31, 2007
155,649,747 shares

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q for the three and six months ended June 30, 2007 is being filed to reflect a correction of the amount of share-based compensation expense recorded by us for the three and six months ended June 30, 2007. The consolidated financial statements and Note 1 in Item 1 of Part I and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I are amended and restated to reflect the correct amount of share-based compensation for the three and six months ended June 30, 2007. For further discussion regarding the restatement, see Note 1 to our consolidated financial statements. In light of the restatement of our financial results, our interim chief executive officer and chief financial officer re-evaluated our disclosure controls and procedures as of June 30, 2007 and concluded that our disclosure controls and procedures were not effective as of such date due to a material weakness in internal control over financial reporting. Please see Item 4 of Part I for a discussion of our management's re-evaluation and conclusions.

This Amendment No. 1 did not result in a change in our previously reported revenues, cash flow from operations or total cash and cash equivalents shown in our consolidated financial statements in this Amendment No. 1. This Amendment No. 1 continues to speak as of the date of the original Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2007, and we have not updated or amended disclosure contained herein to reflect events that have occurred since filing the original Form 10-Q, or modified or updated those disclosures in any way other than as described in the preceding paragraph. Accordingly, this Amendment No. 1 should be read in conjunction with our filings made with the Securities and Exchange Commission subsequent to the filing of the original Form 10-Q on August 13, 2007.

Table of Contents

VONAGE HOLDINGS CORP.

INDEX

	Page
<u>Part I. Financial Information</u>	
Item 1. <u>Financial Statements</u>	
A) <u>Consolidated Balance Sheets as of June 30, 2007 (Unaudited) (as restated) and December 31, 2006</u>	1
B) <u>Unaudited Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2007 (as restated) and 2006</u>	2
C) <u>Unaudited Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2007 (as restated) and 2006</u>	3
D) <u>Unaudited Consolidated Statement of Stockholders' Equity for the Six Months Ended June 30, 2007 (as restated)</u>	4
E) <u>Notes to Unaudited Consolidated Financial Statements for the Six Months Ended June 30, 2007</u>	5
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	32
Item 4. <u>Controls and Procedures</u>	32
<u>Part II. Other Information</u>	
Item 1. <u>Legal Proceedings</u>	33
Item 1A. <u>Risk Factors</u>	33
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 3. <u>Defaults Upon Senior Securities</u>	33
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	33
Item 5. <u>Other Information</u>	33
Item 6. <u>Exhibits</u>	33
<u>Signature</u>	34

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

	June 30, 2007 (as restated)	December 31, 2006
Assets		
Assets		
Current assets:		
Cash and cash equivalents	\$ 144,756	\$ 210,253
Marketable securities	132,021	289,483
Accounts receivable, net of allowance of \$1,116 and \$476, respectively	18,885	16,544
Inventory, net of allowance of \$1,946 and \$1,270, respectively	29,211	24,390
Deferred customer acquisition costs, current	16,437	13,022
Prepaid expenses and other current assets	29,010	16,080
Restricted cash	66,760	
Total current assets	437,080	569,772
Property and equipment, net of accumulated depreciation	134,626	131,842
Deferred customer acquisition costs, non-current	37,501	34,067
Deferred financing costs, net	6,868	7,861
Restricted cash	31,062	8,042
Due from related parties	64	60
Intangible assets, net	3,331	4,300
Other assets	6,042	1,580
Total assets	\$ 656,574	\$ 757,524
Liabilities and Stockholders Equity		
Liabilities		
Current liabilities:		
Accounts payable	\$ 46,306	\$ 58,899
Accrued expenses	150,865	161,505
Deferred revenue, current portion	48,293	38,504
Current maturities of capital lease obligations	1,018	1,020
Total current liabilities	246,482	259,928
Convertible notes, net	253,299	253,430
Deferred revenue, net of current portion	41,784	37,730
Capital lease obligations, net of current maturities	22,746	23,235
Total liabilities	564,311	574,323

Commitments and Contingencies

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Stockholders Equity

Common stock, par value \$0.001 per share; authorized 596,950 shares at June 30, 2007 and December 31, 2006; 156,947 and 156,353 shares issued at June 30, 2007 and December 31, 2006, respectively; 155,645 and 155,059 shares outstanding at June 30, 2007 and December 31, 2006, respectively	157	156
Additional paid-in capital	926,308	922,097
Stock subscription receivable	(5,542)	(5,721)
Accumulated deficit	(816,417)	(720,857)
Treasury stock, at cost, 1,302 shares at June 30, 2007 and 1,294 shares at December 31, 2006	(12,342)	(12,342)
Accumulated other comprehensive income (loss)	99	(132)
 Total stockholders equity	 92,263	 183,201
 Total liabilities and stockholders equity	 \$ 656,574	 \$ 757,524

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,	
	2007	2006	2007	2006
	(as restated)		(as restated)	
Operating Revenues:				
Telephony services	\$ 200,470	\$ 137,623	\$ 389,837	\$ 250,121
Customer equipment and shipping	5,432	6,742	12,005	13,967
	205,902	144,365	401,842	264,088
Operating Expenses:				
Direct cost of telephony services (excluding depreciation and amortization of \$4,191, \$3,133, \$8,304 and \$5,685, respectively)	52,335	39,933	107,901	78,357
Royalty	11,052		21,467	
Total direct cost of telephony services	63,387	39,933	129,368	78,357
Direct cost of goods sold	11,243	16,047	24,576	33,627
Selling, general and administrative	77,802	66,109	168,794	118,984
Marketing	67,906	90,164	158,756	178,452
Depreciation and amortization	8,191	5,740	16,050	10,699
	228,529	217,993	497,544	420,119
Loss from operations	(22,627)	(73,628)	(95,702)	(156,031)
Other Income (Expense):				
Interest income	4,761	3,980	10,828	6,721
Interest expense	(5,127)	(4,484)	(10,276)	(9,978)
Other, net	(50)	(4)	(33)	(8)
	(416)	(508)	519	(3,265)
Loss before income tax benefit (expense)	(23,043)	(74,136)	(95,183)	(159,296)
Income tax benefit (expense)	(183)		(377)	
Net loss	\$ (23,226)	\$ (74,136)	\$ (95,560)	\$ (159,296)
Net loss per common share:				
Basic and diluted	\$ (0.15)	\$ (1.16)	\$ (0.62)	\$ (4.85)
Weighted-average common shares outstanding:				
Basic and diluted	155,506	63,995	155,329	32,875

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,	
	2007	2006
	(as restated)	
Cash flows from operating activities:		
Net loss	\$ (95,560)	\$ (159,296)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	15,081	10,699
Amortization of intangibles	969	
Beneficial conversion on interest in kind on convertible notes	21	9
Accrued interest	708	4,226
Allowance for doubtful accounts	783	214
Allowance for obsolete inventory	839	177
Amortization of deferred financing costs	993	1,001
Loss on disposal of fixed assets	47	9
Share-based compensation	3,451	12,642
Changes in operating assets and liabilities:		
Accounts receivable	(3,050)	(2,556)
Inventory	(5,426)	4,212
Prepaid expenses and other current assets	(13,594)	(11,661)
Deferred customer acquisition costs	(6,670)	(12,753)
Due from related parties	2	11
Other assets	113	(307)
Accounts payable	(12,785)	27,947
Accrued expenses	(10,893)	(13,240)
Deferred revenue	13,521	20,334
Net cash used in operating activities	(111,450)	(118,332)
Cash flows from investing activities:		
Capital expenditures	(17,506)	(29,076)
Purchase of intangible assets		(5,241)
Purchase of marketable securities	(122,300)	(325,855)
Maturities and sales of marketable securities	279,750	174,141
Acquisition and development of software assets	(4,774)	
Increase in restricted cash	(89,736)	(1,447)
Net cash provided by (used in) investing activities	45,434	(187,478)
Cash flows from financing activities:		
Principal payments on capital lease obligations	(491)	(367)
Proceeds from notes issuance		2,047
Debt issuance costs		(278)
Proceeds from subscription receivable, net	12	53
Proceeds from common stock issuance, net		495,636
Purchase of treasury stock		(11,712)

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Payments for directed share program, net	167	
Proceeds from exercise of stock options	609	53
Net cash provided by financing activities	297	485,432
Effect of exchange rate changes on cash	222	64
Net change in cash and cash equivalents	(65,497)	179,686
Cash and cash equivalents, beginning of period	210,253	132,549
Cash and cash equivalents, end of period	\$ 144,756	\$ 312,235

Supplemental disclosures of cash flow information:

Cash paid during the periods for:

Interest	\$ 10,386	\$ 4,609
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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 STOCKHOLDERS EQUITY****(In thousands)****(Unaudited)****(as restated)**

	Common Stock	Additional Paid-in Capital	Stock Subscription Receivable	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance at December 31, 2006	\$ 156	\$ 922,097	\$ (5,721)	\$ (720,857)	\$ (12,342)	\$ (132)	\$ 183,201
Stock option exercises	1	608					609
Share-based compensation		3,451					3,451
Convertible notes converted into common stock		152					152
Directed share program transactions, net			167				167
Stock subscription receivable payments			12				12
Comprehensive loss:							
Change in unrealized gain (loss) on available-for-sale investments						(12)	(12)
Foreign currency translation adjustment						243	243
Net loss				(95,560)			(95,560)
Total comprehensive loss				(95,560)		231	(95,329)
Balance at June 30, 2007	\$ 157	\$ 926,308	\$ (5,542)	\$ (816,417)	\$ (12,342)	\$ 99	\$ 92,263

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

Table of Contents

VONAGE HOLDINGS CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share amounts)

(Unaudited)

Note 1. Restatement of Condensed Consolidated Financial Statements

Background Information

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (R) (SFAS No. 123(R)) *Share-Based Payment*. SFAS No. 123(R) requires all share-based payments to employees, including stock awards, to be recognized as expenses in the issuer's financial statements based on the fair values of those payments, reduced as appropriate based on any estimated forfeitures. Share-based compensation expense recognized during a period is based on the value of the portion of share-based payment awards that is ultimately expected to vest during the period. However, SFAS No. 123(R) requires that compensation cost recognized at any date must be at least equal to the amount attributable to awards that are vested at that date.

Due to the departure of our former chief executive officer, certain senior executives and other personnel primarily as a result of the reduction in force during the second and third quarters of 2007, there was a corresponding forfeiture of a large number of stock awards, and we determined that actual forfeitures as a result of these actions exceeded previous estimates. As a result, non-cash stock compensation expense should have been reduced concurrent with the resignation of these employees and a reduction of stock-based compensation as required by SFAS No. 123(R) should have been recorded at that time.

In February 2008, our management, after consultation with our audit committee of the board of directors and our independent public accounting firm, determined that it was necessary to restate our previously issued consolidated financial statements for the three and six months ended June 30, 2007 in order to correct the amount of share-based compensation expense recorded by us for those periods.

Restatement

The restatement has been accounted for in accordance with SFAS No. 154, *Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB Statement No. 3*, as a revision of previously issued financial statements to reflect the correction of an error.

We have calculated the amount of the necessary adjustment resulting from the restatement to be approximately \$10,400 for the three and six months ended June 30, 2007, which amount should have been recorded as a decrease in non-cash share-based compensation expense within our operating expenses. Previously, in the Form 10-Q, we reported non-cash share-based compensation expense of \$6,937 and \$13,851 for the three and six months ended June 30, 2007, respectively. As a result, after applying the necessary adjustment referenced above, our non-cash share-based compensation expense for the three and six months ended June 30, 2007 are \$(3,463) and \$3,451, respectively.

This restatement did not result in a change in our previously reported revenues, cash flow from operations or total cash and cash equivalents shown in the consolidated financial statements for or as of the three and six months ended June 30, 2007. Instead, the resulting decrease in non-cash share-based compensation expense results in a decrease of \$10,400 in our net loss for the three and six months ended June 30, 2007. In addition, because the amount of decrease in non-cash share-based compensation expense had an effect of decreasing by the same amount both our accumulated deficit and additional paid-in capital, there was no effect on our consolidated stockholders' equity at June 30, 2007. Further, the restatement has no impact on our operating results for any periods prior to the quarter ended June 30, 2007.

There is no difference between the gross adjustment to non-cash share-based compensation described herein and the net effect after taxes as we have a history of net losses and a valuation allowance has been recorded to offset the net deferred tax assets at June 30, 2007.

Table of Contents**Consolidated Balance Sheet Adjustments**

The following is a summary of the adjustments to our previously issued unaudited consolidated balance sheet at June 30, 2007.

	as previously reported	June 30, 2007 adjustments	as restated
Assets			
Assets			
Current assets:			
Cash and cash equivalents	\$ 144,756		\$ 144,756
Marketable securities	132,021		132,021
Accounts receivable, net of allowance	18,885		18,885
Inventory, net of allowance	29,211		29,211
Deferred customer acquisition costs, current	16,437		16,437
Prepaid expenses and other current assets	29,010		29,010
Restricted cash	66,760		66,760
Total Current assets	437,080		437,080
Property and equipment, net of accumulated depreciation	134,626		134,626
Deferred customer acquisition costs, non-current	37,501		37,501
Deferred financing costs, net	6,868		6,868
Restricted cash	31,062		31,062
Due from related parties	64		64
Intangible assets, net	3,331		3,331
Other assets	6,042		6,042
Total assets	\$ 656,574		\$ 656,574
Liabilities and Stockholders Equity			
Liabilities			
Current liabilities:			
Accounts payable	\$ 46,306		\$ 46,306
Accrued expenses	150,865		150,865
Deferred revenue, current portion	48,293		48,293
Current maturities of capital lease obligations	1,018		1,018
Convertible notes, net			
Total current liabilities	246,482		246,482
Convertible notes, net	253,299		253,299
Deferred revenue, net of current portion	41,784		41,784
Capital lease obligations, net of current maturities	22,746		22,746
Other liability, net of current portion			
Total liabilities	564,311		564,311
Commitments and Contingencies			
Stockholders Equity			
Common stock	157		157
Additional paid-in capital	936,708	(10,400)	926,308
Stock subscription receivable	(5,542)		(5,542)
Accumulated deficit	(826,817)	10,400	(816,417)
Treasury stock	(12,342)		(12,342)
Accumulated other comprehensive income (loss)	99		99

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Total stockholders' equity	92,263	92,263
Total liabilities and stockholders' equity	\$ 656,574	\$ 656,574

Table of Contents**Consolidated Statements of Operations Adjustments**

The following is a summary of the adjustments to our previously issued unaudited consolidated statements of operations for the three and six months ended June 30, 2007.

	Three Months Ended June 30, 2007			Six Months Ended June 30, 2007		
	as previously reported	adjustment	as restated	as previously reported	adjustment	as restated
Operating Revenues:						
Telephony services	\$ 200,470		\$ 200,470	\$ 389,837		\$ 389,837
Customer equipment and shipping	5,432		5,432	12,005		12,005
	205,902		205,902	401,842		401,842
Operating Expenses						
Direct cost of telephony services	52,335		52,335	107,901		107,901
Royalty	11,052		11,052	21,467		21,467
Total cost of telephony services	63,387		63,387	129,368		129,368
Direct cost of goods sold	11,243		11,243	24,576		24,576
Selling, general and administrative	88,202	(10,400)	77,802	179,194	(10,400)	168,794
Marketing	67,906		67,906	158,756		158,756
Depreciation and amortization	8,191		8,191	16,050		16,050
	238,929		228,529	507,944		497,544
Loss from operations	(33,027)		(22,627)	(106,102)		(95,702)
Other Income (Expense):						
Interest income	4,761		4,761	10,828		10,828
Interest expense	(5,127)		(5,127)	(10,276)		(10,276)