

VONAGE HOLDINGS CORP
Form 10-Q
August 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

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

For the Quarterly Period Ended June 30, 2018

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 11-3547680
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

23 Main Street, 07733
Holmdel, NJ
(Address of principal executive offices) (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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a nonaccelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 30, 2018
Common Stock, par value \$0.001		239,058,980 shares

VONAGE HOLDINGS CORP.
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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.

PART 1 - FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

VONAGE HOLDINGS CORP.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)

(Unaudited)

	June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$26,077	\$ 31,360
Accounts receivable, net of allowance of \$2,342 and \$2,258, respectively	49,460	44,159
Inventory, net of allowance of \$236 and \$108, respectively	2,033	2,971
Deferred customer acquisition costs, current portion	9,640	—
Prepaid expenses	23,099	23,763
Other current assets	5,035	7,522
Total current assets	115,344	109,775
Property and equipment, net of accumulated depreciation of \$92,972 and \$87,792, respectively	43,992	46,754
Goodwill	369,760	373,764
Software, net of accumulated amortization of \$98,015 and \$93,858, respectively	18,092	22,252
Deferred customer acquisition costs	32,258	—
Restricted cash	1,940	1,967
Intangible assets, net of accumulated amortization of \$142,035 and \$124,573, respectively	152,901	173,270
Deferred tax assets	112,478	110,892
Other assets	23,637	20,007
Total assets	\$870,402	\$ 858,681
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$36,999	\$ 29,766
Accrued expenses	79,563	85,706
Deferred revenue, current portion	28,440	30,255
Current portion of notes payable	18,750	18,750
Total current liabilities	163,752	164,477
Indebtedness under revolving credit facility	116,000	141,000
Notes payable, net of debt related costs and current portion	63,560	72,765
Other liabilities	7,978	7,541
Total liabilities	351,290	385,783

Commitments and Contingencies (Note 7)

Stockholders' Equity:

Common stock, par value \$0.001 per share; 596,950 shares authorized at June 30, 2018 and December 31, 2017; 308,569 and 298,174 shares issued at June 30, 2018 and December 31, 2017, respectively; 238,818 and 230,939 shares outstanding at June 30, 2018 and December 31, 2017, respectively	309	298
Additional paid-in capital	1,396,407	1,375,391
Accumulated deficit	(614,630)	(672,561)
	(271,890)	(244,239)

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Treasury stock, at cost, 69,751 shares at June 30, 2018 and 67,235 shares at December 31, 2017

Accumulated other comprehensive income	8,916	14,009
Total stockholders' equity	519,112	472,898
Total liabilities and stockholders' equity	\$870,402	\$ 858,681

See accompanying notes to condensed consolidated financial statements.

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VONAGE HOLDINGS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Total revenues	\$259,875	\$251,836	\$513,448	\$495,183
Operating Expenses:				
Cost of revenues (exclusive of depreciation and amortization)	107,204	103,861	210,771	198,750
Sales and marketing	77,685	79,738	154,821	161,669
Engineering and development	10,375	6,670	21,195	15,040
General and administrative	32,174	36,514	59,756	71,600
Depreciation and amortization	19,062	18,394	35,862	36,341
Total operating expenses	246,500	245,177	482,405	483,400
Income from operations	13,375	6,659	31,043	11,783
Other Income (Expense):				
Interest expense	(3,097)	(3,861)	(6,258)	(7,564)
Other income (expense), net	337	690	84	475
Total other income (expense), net	(2,760)	(3,171)	(6,174)	(7,089)
Income before income taxes	10,615	3,488	24,869	4,694
Income tax (expense) benefit	(2,056)	1,337	8,214	6,044
Net income	\$8,559	\$4,825	\$33,083	\$10,738
Earnings per common share:				
Basic	\$0.04	\$0.02	\$0.14	\$0.05
Diluted	\$0.03	\$0.02	\$0.13	\$0.04
Weighted-average common shares outstanding:				
Basic	237,919	223,492	235,490	221,930
Diluted	248,256	239,938	248,373	239,923

See accompanying notes to condensed consolidated financial statements.

VONAGE HOLDINGS CORP.
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
 (In thousands)
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$8,559	\$4,825	\$33,083	\$10,738
Other comprehensive (loss) income:				
Foreign currency translation adjustment, net of tax (benefit) expense of (\$1,358), \$2,007, (\$1,356), and \$2,436, respectively	(12,434)	14,185	(6,101)	17,232
Unrealized (loss) gain on available-for-sale securities, net of tax (benefit) expense of \$0, \$0, \$0, and \$0, respectively	—	(20)	—	1
Unrealized gain on derivatives, net of tax expense of \$89, \$0, \$391, and \$0, respectively	228	—	1,008	—
Total other comprehensive (loss) income	(12,206)	14,165	(5,093)	17,233
Comprehensive (loss) income	\$(3,647)	\$18,990	\$27,990	\$27,971

See accompanying notes to condensed consolidated financial statements.

VONAGE HOLDINGS CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$33,083	\$10,738
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,515	17,381
Amortization of intangibles	18,181	18,826
Deferred income taxes	(10,305)	(8,111)
Amortization of deferred customer acquisition costs	4,423	—
Allowance for doubtful accounts	1,129	452
Allowance for obsolete inventory	298	293
Amortization of debt issuance costs	511	204
Gain on sale of business	—	(928)
Loss on disposal of fixed assets	166	134
Share-based expense	15,972	20,891
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(7,256)	1,280
Inventory	623	353
Prepaid expenses and other current assets	3,032	2,302
Deferred customer acquisition costs	(11,837)	—
Accounts payable	7,794	(8,124)
Accrued expenses	(3,535)	(23,787)
Deferred revenue	(1,713)	(1,506)
Other assets and liabilities	(2,146)	2,295
Net cash provided by operating activities	65,935	32,693
Cash flows from investing activities:		
Capital expenditures	(7,787)	(8,995)
Maturities and sales of marketable securities	—	602
Acquisition and development of software assets	(4,220)	(6,884)
Proceeds from sale of business	—	1,000
Net cash used in investing activities	(12,007)	(14,277)
Cash flows from financing activities:		
Principal payments on capital lease obligations and other financing obligations	(95)	(4,861)
Principal payments on notes and revolving credit facility	(44,375)	(19,375)
Proceeds received from draw down of revolving credit facility and issuance of notes payable	10,000	15,000