VONAGE HOLDINGS CORP
Form 10-K
February 13, 2015
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION • WASHINGTON, D.C. 20549

FORM 10-K

x	Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934 For the fiscal year ended December 31, 2014	or	o 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 (I.R.S. Employer Identification No.)
23 Main Street, Holmdel, New Jersey (Address of principal executive offices)	07733 (Zip Code)

Registrant's telephone number, including area code: (732) 528-2600

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, Par Value $0.001 Per Share	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
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 x No o
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 Regulations 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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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:

o Large accelerated filer x Accelerated filer

o Non-accelerated filer (Do not check if a smaller reporting company) o 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 o No x

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant at June 30, 2014 was $658,638,331 based on the closing price of $3.75 per share.

The number of shares outstanding of the registrant's common stock as of January 31, 2015 was 211,217,679.

Documents Incorporated By Reference

Selected portions of the Vonage Holdings Corp. definitive Proxy Statement, which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2014, are incorporated by reference in Part III of this Form 10-K.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements and other information which are deemed to be “forward-looking” within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Litigation Reform Act”). These forward-looking statements and other information are based on our beliefs as well as assumptions made by us using information currently available.

The words "plan," “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they rela us, are intended to identify forward-looking statements. Such statements reflect our current views with respect to future events, are subject to certain risks, uncertainties, and assumptions, and are not a guarantee of future performance. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in such forward-looking statements or information. In light of the significant uncertainties in these forward-looking statements, you should not place undue reliance on these forward-looking statements. The forward-looking statements and information contained in this Annual Report on Form 10-K relate to events and state our beliefs and the assumptions made by us only as to the date of this Annual Report on Form 10-K. We do not intend to update these forward-looking statements, except as required by law.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, any exhibits to this Form 10-K and other public statements we make. Such factors include, but are not limited to: the competition we face; our ability to adapt to rapid changes

in the market for voice and messaging services; our ability to retain customers and attract new customers; the expansion of competition in the unified communications market; the impact of fluctuations in economic conditions, particularly on our small and medium business customers; security breaches and other compromises of information security; risks related to the acquisition or integration of future businesses or joint ventures, including the risks related to the acquisition of Telesphere and Vocalocity; the risk associated with developing and maintaining effective distribution channels; our ability to establish and expand strategic alliances; governmental regulation and taxes in our international operations; our ability to obtain or maintain relevant intellectual property licenses; intellectual property and other litigation that have been and may be brought against us; failure to protect our trademarks and internally developed software; obligations and restrictions associated with data privacy; our dependence on third party facilities, equipment, systems and services; system disruptions or flaws in our technology and systems; uncertainties relating to regulation of VoIP services; risks associated with operating abroad; liability under anti-corruption laws; results of regulatory inquiries into our business practices; fraudulent use of our name or services; our dependence upon key personnel; our dependence on our customers' existing broadband connections; differences between our service and traditional phone services; restrictions in our debt agreements that may limit our operating flexibility; our ability to obtain additional financing if required; any reinstatement of holdbacks by our vendors; our history of net losses and ability to achieve consistent profitability in the future; and other factors that are set forth in the “Risk Factors” section and other sections of this Annual Report on Form 10-K, as well as in our Quarterly Reports on Form 10-Q and Current Reports on Form 8-K.

FINANCIAL INFORMATION PRESENTATION

For the financial information discussed in this Annual Report on Form 10-K, other than per share and per line amounts, dollar amounts are presented in thousands, except where noted. All trademarks are the property of their owners.

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PART I

ITEM 1. Business

OVERVIEW AND STRATEGY

OVERVIEW

We are a leading provider of telecommunications and unified communications as a service, or UCaaS, solutions connecting people and businesses through cloud-connected devices worldwide.

Consumer Customers

For our consumer customers, we rely heavily on our network, which is a flexible, scalable Session Initiation Protocol (SIP) based Voice over Internet Protocol, or VoIP, network. This platform enables a user via a single "identity," either a number or user name, to access and utilize services and features regardless of how they are connected to the Internet, including over 3G, LTE, Cable, or DSL broadband networks. This technology enables us to offer our customers attractively priced voice and messaging services and other features around the world on a variety of devices.

Our consumer strategy is focused on the continued penetration of our core North American markets, where we will continue to provide value in international long distance and target under-served ethnic segments, and target the low-end domestic market with our flanker brand, BasicTalk, a low-priced home phone service offering unlimited calling throughout the United States.

International long distance. As a part of our strategy, our primary focus in our domestic markets is serving the under-served ethnic segments in the United States with international calling needs. The markets for international long distance allow us to leverage our VoIP network by providing customers a low-cost and convenient alternative to services offered by telecom and cable providers and international calling cards. With our Vonage World product, we have successfully grown our international calling customer base in multiple ethnic markets.

To increase the visibility of our international long distance plans, we have shifted an increasing portion of our marketing budget from broad national advertising as we target attractive segments of the international long distance market. We have direct sales channels where customers can subscribe to our services on-line or through our toll-free number, as well as a retail distribution channel through regional and national retailers and localized street teams. Our retail distribution outlets include Walmart, Best Buy, Kmart, Sears, Brandsmart, Fry's, and Microcenter.

Low-end domestic. We also provide services to address the low-end domestic market for light users, often with poor in-home wireless coverage. BasicTalk, our low-end domestic calling product, is sold in Walmart, Family Dollar, and CVS/pharmacy stores nationwide and through our direct telesales and online channels. We believe the low-end domestic segment remains a sizeable opportunity, and we expect to continue to maintain our share as we as we focus on improving overall marketing efficiency.

Our focus on operations during the past five years has led to a significantly improved cost structure. We have implemented operational efficiencies throughout our business and have substantially reduced domestic and international termination costs per minute, as well as customer care costs. We achieved these structural costs reductions while concurrently delivering significantly improved network call quality and customer service performance. These improvements in customer experience have contributed to the stabilization in churn over recent periods. During 2014, we redoubled our focus on targeting customers with appropriate customer lifetime values. This focus has led to a reallocation of certain marketing spend away from our assisted selling channel, which utilizes direct face-to-face selling across multiple

retail chains and community and event venues. The investment in this channel has been reduced as we have focused on customer lifetime profitability and the maintenance of our strong cash flows in the consumer business.

The result of these initiatives has been to create a strong cash flow business which provides financial stability, as well as cost synergies and structural advantages to the portion of our business serving the growing small and medium

business (SMB) market.

Services outside of the United States. We currently have operations in the United States, United Kingdom, and Canada and believe that our low-cost Internet based communications platform enables us to cost effectively deliver voice and messaging services to other locations throughout the world. In December 2014 we announced plans to exit the Brazilian market for consumer telephony services and wind down our joint venture operations in the country. The Company expects to complete this process by the end of the first quarter of 2015. This decision underscores the Company’s focus on providing UCaaS solutions to domestic consumers and SMBs, which offer higher investment return opportunities.

Small and Medium Business Customers

For our business customers, we provide innovative, cloud-based unified communication solutions, comprised of integrated voice, text, video, data, collaboration, and mobile applications. We focus on the small and medium sized business market. Our products and services permit these customers to communicate with their customers and employees through any cloud-connected device, in any place, at any time. In November 2013 we acquired Vocalocity, Inc. (now rebranded Vonage Business Solutions) and in December 2014 we acquired Telesphere Networks, Ltd. These acquisitions position us as a leader in the high growth SMB market, with the ability to address the entire spectrum of SMB customers, from 1 to over 1,000 seats. We now provide customers with multiple deployment options, designed to provide the reliability and quality of service they demand. Our Vonage Business Solutions customers subscribe to our cloud-based communication services, delivered through our proprietary platform. Our Vonage Business Solutions products are primarily sold through our direct sales channel or through authorized resellers and value-added distributors and customers typically do not enter into term contracts. For larger customers that require guaranteed quality of service in their service level agreements (SLAs), Telesphere offers carrier-grade performance and support for wireline and mobile devices to businesses over its private IP MPLS network, one of the largest in the nation. Telesphere’s cloud-based UCaaS services allow businesses of any size to utilize cutting edge voice, video, data and collaboration features of large enterprise systems without the often costly investment required with on-site equipment. Our Telesphere products are provided under initial three-year contracts and are generally sold through our network of authorized indirect channel partners and master agents or by our direct sales force.

>Mobile Services

Mobile and other connected device services. Mobility has become central to our development priorities across our consumer and business operations. In our consumer services, we offer our patented Extensions® product, digital calling card and standalone Vonage Mobile product. Vonage Mobile provides free, high quality voice and video calling and messaging between users who have the application, as well as low-cost international calling to any other phone in more than 200 countries. In 2014, we launched Mobile Inbound Calling capabilities which allow customers and their families to take their full Vonage service with them on their mobile phones, enabling them to receive a call made to the home number on the home phone and multiple mobile devices concurrently, while still being able to view the original calling party’s ID.

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Our business customers can utilize cloud-based unified communications capabilities over their mobile devices and access features including presence management, instant messaging, high-definition voice and video and the ability to move from device to device without interrupting calls.

We had approximately 2.5 million subscriber lines as of December 31, 2014. We bill customers in the United States, Canada, and the United Kingdom. Customers in the United States represented 93% of our subscriber lines at December 31, 2014.

SERVICE OFFERINGS

Consumer Customers

Our home telephone replacement services are offered to residential customers through several service plans with different pricing structures. The service plans include basic features such as voicemail, call waiting, and call forwarding as well as unique features such as Simulring, Visual Voicemail and Extensions. We also charge for local and international calling outside of plan limits. Information on our revenues, operating income, and identifiable assets appears in Note 1 to our consolidated financial statements included in Item 8 hereof.

As of December 31, 2014, approximately 84% of our United States consumer subscriber lines were for residential service. Our primary residential offering is Vonage World with approximately 0.9 million subscriber lines as of December 31, 2014. For a flat monthly fee, this plan includes unlimited domestic calling (U.S., Canada, and Puerto Rico) and unlimited calling to landline phones in more than 60 countries, including India, Mexico, and China, and unlimited calling to mobile phones in certain of those countries. In addition, our Vonage World offer includes unlimited Vonage Visual Voicemail, which is “readable voicemail” delivered via email or SMS text message, Vonage Extensions, which extends the plan, and in-bound calling, to additional phone numbers and devices. We also market other residential plans that include limited domestic or international minutes, such as our 800 plan that includes 800 minutes to the U.S., Canada and Puerto Rico. We offer similar plans in Canada and the United Kingdom.

Each of our residential calling plans provides a number of basic features including call waiting, caller ID with name, call forwarding, and voicemail. We also offer, in some cases for additional fees, features that we believe help differentiate our service from our competitors, such as:

> Area Code Selection. Customers can select from approximately 291 United States area codes for their telephone number for use with our service, regardless of physical location.

> Virtual Phone Number. A customer can have additional inbound telephone numbers that ring on a primary subscriber line, each for an additional fee. Each of these inbound telephone numbers can have a different area code. In addition to United States virtual phone numbers, we offer virtual phone numbers for 19 other countries. For example, a customer living in New York City with a New York City phone number can purchase a Toronto virtual phone number that rings on the customer’s primary subscriber line. In this instance, a caller from Toronto could call the customer’s virtual phone number and be billed as if the customer were in Toronto. Virtual phone numbers are not included in our subscriber line count.

> Web-Enabled Voicemail. Our Visual Voicemail service allows customers to receive e-mail notification of a voicemail with the voice message attached to the e-mail message as an audio file. Our customers can also check and retrieve voicemails online or from any phone.

Our mobile services include enhancements to our residential calling plans as well as mobile applications that can be initially downloaded for iPhone®, iPad®, iPod touch®, and Android® OS devices for free. In August 2011, we launched Extensions, an enhancement to our calling plans that extends the plan to additional phone numbers and devices including smartphones and feature phones. A customer may sign-up for up to two extensions free of charge. In addition, smartphone users may also have in-bound calls to their home phone number ring to their smartphone. In early 2012, we introduced Vonage Mobile, our all-in-one mobile application that provides free calling and messaging between users who have the application, as well as low-cost international calling to any other phone in more than 200 destinations. In addition, calls by users of the mobile application to Vonage home or business lines are also free. This mobile application works over WiFi, 3G and LTE and in approximately 150 countries worldwide.

In order to access our residential services, a customer need only connect a standard telephone to a broadband Internet connection through a small Vonage-enabled device. In order to access our SMB services, a customer need only connect through a VoIP-enabled telephone. After connecting the device, our customers can use their telephone to make and receive calls. Vonage-enabled devices allow customers to use the Internet connection for their computer and telephones at the same time while ensuring a high quality calling experience. We also offer a cordless multi-phone system solution. Our plug-and-play Vonage-enabled devices permit portability as customers can take their Vonage device to different locations where broadband service is available. We generally have not charged new customers for the adapters permitting use of our service.

Small and Medium Business Customers

We provide a robust feature-rich range of communication services enabling small and medium businesses to interact with their customers, prospects and partners in a more efficient and effective manner. We provide services ranging from basic dial tone to services such as call queue, conferencing, call groups, CRM integration, and detailed analytics - allowing our customers a high level of visibility into their business at prices that are often significantly lower than that of traditional on premises solutions. These services can be delivered over-the-top of the customers' existing connectivity or bundled through our private MPLS connectivity service. Today more than 44,000 customers with over 326,000 seats rely on Vonage to meet their communication needs, putting Vonage in a leading position within the UCaaS space. Our services are delivered through either proprietary networks or through trusted third parties to ensure our offerings provide all of the critical functions business needed for one of their most important business tools.

Through Vonage Business Solutions (VBS), we offer a number of service plans which include basic metered extensions to unlimited calling plans. Our standard lines come fully functional with numerous standard features. Unlimited extensions is our most popular business service plan. Under this plan businesses can make flat rate, unlimited domestic calls (U.S. and Canada) each month. As of December 31, 2014, over 80% of our business customers were on an unlimited usage domestic calling plan. SMBs may also choose metered extension plans under which they are charged per-minute usage for both domestic and international calls. This plan is primarily used by customers with temporary or seasonal workers to save resources where phones are not heavily used during the workday.

Our standard features include: Admin Portal, Call Announce, Call Continuity, Call Screening, Call Waiting, Caller ID, Directory Assistance (411), Dynamic Caller ID, Emergency Assistance (911), Do Not Disturb, Multiple Devices on One Extension, Set Caller ID, Seven-Digit Dialing, Voicemail, Call Continuity, Work From Anywhere, Cell Phone Integration, Vonage Business Mobile, Never Miss a Call, Web Portal Interface, and Call Pass.

In addition to our standard functionality we have a number of add-on services for an additional month fee, including: Paperless Fax, Call Group, Call Queue, Conference Bridge, Main Company Number, Toll Free Number, Local or Geographic Number, Voicemail Transcription, On-Demand or Company Call Recording Service, and Paging Groups.

All of our VBS offerings allow free access to our mobile application. The mobile application allows users to choose WiFi, 3G and

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4G and the extended features provide caller ID as if the user were calling from their office. Additional features include the ability to update account profiles, manage devices, and contact call logs directly from their mobile devices. We also offer virtual extensions, which connects employees to a business phone number through their mobile phones. A virtual extension comes with its own dedicated direct dial number which is then forwarded to the mobile phone, allowing employees to be reached from anywhere.

Through Telesphere, we focus on customers for whom guaranteed quality of service and uniformity of services across all locations is critical. We deliver services to this customer base over our private, nation-wide, high quality IP MPLS network using over 17 network Points of Presence (POPs) that allow us to deliver dedicated, secure and private bandwidth utilizing all forms of last mile technologies including T1, NxT1, EoC and Fiber and bandwidth ranging from 1.5Mbps to 1Gbps. Services we deliver include Wide Area Networking (WAN), Internet Access, MPLS VPN, Managed Firewall, Hosted UCaaS, Hosted Video Conferencing, Web Collaboration, Secure Instant Messaging & Presence, Mobility and Fixed Mobile Convergence, and Hosted Contact Center among others.

The feature sets available through Telesphere are packaged into Premium, Standard and Trunking offerings. Premium licenses include advanced features such as Single Number Reach (one number, many devices including desk phone, tablets and smartphones), Shared Line Appearance, Busy Lamp Field, Phone Paging, Outlook Integration, IM, Presence, and Video. Telesphere also delivers SIP Trunking, over the same network, to customers using premises PBXs, with the ability to overlay UCaaS features where the premises PBX is deficient or for Disaster Recovery/Business Continuity requirements. This product also supports a hybrid deployment where some locations may be fully hosted and others may continue to use the premises PBX. This strategy is termed “cap-&-grow” wherein the customer caps their investment in premises hardware and grows their business with hosted services.

All Telesphere customers also receive access to a custom-built Customer Portal through which they can fully administer all services, online bill pay, manage trouble tickets, manage bandwidth and services, access detailed Call Analytics, and execute fully electronic Moves, Adds and Changes.

NETWORK OPERATIONS

Our network operations are conducted by a wholly-owned subsidiary that holds our networking equipment and employs the personnel who develop and operate our technology.

The Vonage network uses our customer’s existing high-speed broadband Internet service to allow calls over the Internet either from a standard telephone through a Vonage-enabled device or through soft phone software or mobile client applications. Our consumer and Vonage Business Solutions services are not dependent on any specific type or provider of Internet service, and our customers are free to change their Internet service provider in response to a competitive alternative, or because they have moved to a different location. For many of our Telesphere customers, unified communications services are delivered over the Company's private, nation-wide, high quality IP MPLS network under multi-year contracts to provide the high level of interconnection quality and the ability to offer service level agreements (SLA) guaranteeing certain levels of voice service performance. Our Vonage-enabled devices, soft phone software, and mobile client applications allow our customers to be authenticated and authorized to access our network in a secure manner.

Our network is scalable and geographically distributed for robustness, high availability, and reliability across multiple call processing sites, using regional data interconnection points, where calls to non-Vonage customers are interconnected with the public switched telephone network. We periodically assess the locations of our regional data connection points in connection with efforts to improve the quality of and efficiency in delivering our service. In 2014, we consolidated certain interconnection points, increasing efficiencies. Our

interconnections with the public switched telephone network, or IP/SIP networks, are made pursuant to commercial agreements we have with several telecommunications providers. Under these agreements, we transfer calls originated by our customers to other carriers who connect the call to the called party or connect peer to peer. We have a varying degree of settlement arrangements with our carrier partners for indirect third party or direct termination of our calls. The calls are routed from our network to other carriers’ interconnected circuits at co-location facilities in which we lease space. This method of connecting to the public switched telephone or IP/SIP networks allows us to expand

capacity quickly, as necessary to meet call volume, and to provide redundancy within our network. In 2014, we continued to enhance our call routing platform, increasing our control over call routing which lowered costs and improved call quality.

Because Vonage's system is not constrained to use any specific broadband service provider to connect to our customers, we can centrally manage and share resources across our customer base to minimize capital investment when entering new markets.

The following are also important in supporting our network operations:

> Network Operations Center. We currently maintain a network operations center at our headquarters with monitoring redundancies at several points within our network. The network operations center monitors and manages the status and health of our network elements, allowing us to manage our network in real time, respond to alert notifications, and re-route network traffic as needed. We pursue a multi-faceted approach to managing our network to ensure high call quality and reliable communications services to our customers. At Vonage Business Solutions and Telesphere, we have network operations centers on-site to monitor and manage network traffic. We may consolidate these network operations centers in the future if greater efficiencies can be obtained.

> Back Office Systems. In addition to our network management systems, we have developed a number of software systems that enable us to manage our network and service offerings more efficiently and effectively. Key aspects of these systems include:

> Network Quality Metrics. We have implemented a suite of advanced Big Data analysis tools that allow us to monitor and troubleshoot the performance of our calling and data network, customer premises equipment, and other associated calling elements in real-time. This suite is proprietary and was developed specifically to address the needs that Vonage has in monitoring, analyzing, understanding, troubleshooting, maintaining, and operating a world-class consumer VoIP platform.

> Web Portal. We provide a fully functional customer Web portal that allows our customers to configure and manage almost all aspects of their service on the Internet without requiring intervention of a customer-care representative. The portal permits customers to add and change features and phone numbers, update billing information, and access call usage and billing details.

> Emergency Calling Service and Enhanced 911 Service. We have deployed E-911 service to approximately 99.99% of our U.S. residential and small and home office customer base that is comparable to the emergency calling services provided to customers of traditional wireline telephone companies in the same area. Our E-911 service does not support the calls of our soft phone software users. The emergency calls of our soft phone software users are supported by a national call center. Not all Vonage products require 911 service capabilities, such as our mobile client products but we are fully compliant with FCC E911 requirements for VOIP Interconnected providers. To enable us to effectively deploy

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and provide our E-911 service, we maintain an agreement with a provider that assists us in delivering emergency calls to an emergency service dispatcher at the public safety answering point, or PSAP, in the area of the customer's registered location and terminating E-911 calls. We also contract for the national call center that operates 24 hours a day, seven days a week to receive certain emergency calls and for the maintenance of PSAP databases for the purpose of deploying and operating E-911 services. The databases include contact, technical infrastructure, boundary, and routing information for delivery of calls to a PSAP or emergency service providers in the United States.

> Local Number Portability. Our system allows our telephone replacement customers to port telephone numbers, which allows new customers to retain their existing telephone numbers when subscribing to our services. We rely on agreements with two service providers to facilitate the transfer of customer telephone numbers. In addition, we have engaged a provider that performs the third party verification of pertinent local number portability information from our subscribers prior to porting a customer from a local telephone company to us.

> Security. We have developed a service architecture and platform that uses industry-standard security techniques and allows us to remotely manage customer devices. Any Vonage-enabled device used by our customers can be securely managed by us, and these devices use authentication mechanisms to identify themselves to our service in order to place and receive calls. We regularly update our protocols and systems to protect against unauthorized access.

> Internet Protocol (IP) Addresses. Every machine on the Internet has a unique identifying number called an Internet Protocol address or IP address. Though there has been recent publicity surrounding the exhaustion of IP addresses under the current Internet Protocol version, we have procured a supply of addresses that we believe will cover our needs for the foreseeable future.

MARKETING

Our marketing objective is to grow subscriber lines and revenue by cost-effectively acquiring and retaining customers. We employ an integrated multi-channel approach to marketing, whereby we evaluate and focus our efforts on efficient marketing vehicles to accomplish our goals. To do this, we make use of both broad-reaching and highly-targeted media channels in the general market and for specific international long distance markets, including television, direct mail, online, alternative media, telemarketing, partner marketing, and customer referral programs. We regularly evaluate the cost per acquisition by media vehicle and reallocate budgets to identify more effective media mixes.

We make use of marketing research to gain consumer insights into brand, product, and service performance, and utilize those learnings to improve our messaging and media plans. Market research is also leveraged in the areas of testing, retention marketing, and product marketing to ensure we bring compelling products and services to market for our customers.

SALES AND DISTRIBUTION

Direct Sales

Our home telephone replacement services are sold through in-bound telemarketing and online direct sales. Customers can subscribe to our services at our websites, http://www.vonage.com, http://www.vonage.ca, http://www.vonage.co.uk and several affiliate

websites, or through multiple toll free numbers including 1-877-4VONAGE. Our primary sales channels for Vonage Business Solutions are direct sales and channel sales. Customers can subscribe to our Vonage Business Solutions services at our websites, http://www.vonagebusiness.com, http://www.vocalocity.com and http://www.vonagebusinesssolutions.com, or through toll free numbers including 1-877-862-2562. Telesphere has both a direct sales force located in major cities throughout the United States as well as an indirect channel partner program generating the majority of sales nationally. Customers can subscribe to our Telesphere services through one of our direct or indirect sales channel or at our website, https://www.telesphere.com/, or toll free number 1-888-MY-SPHERE.

Retail Sales

In addition to our direct sales channel, we also offer our services through our retail channel. In 2014, we continued to increase our retail presence at leading regional and national retailers, including Walmart, Best Buy, Kmart, Sears, Brandsmart, Fry's, and Microcenter. We believe that the availability of our services through premier retailers enhances and reinforces the Vonage brand, and that the retail channel increases our ability to acquire mainstream consumers by reaching them in a familiar and interactive shopping environment. National and regional retailers provide Vonage with a wide footprint to distribute our service.

Channel Sales

In addition to direct sales, business customers acquire our services through channel partners. Telesphere, recognized for their industry-leading channel program, acquires approximately two-thirds of their sales through this channel, which is comprised of over 39 master agents and 20,000 sub-agents. In 2014, Vonage Business Solutions continued to build-out of its channel program by adding new senior management, as well as adding national master agents, representing 8,000 sub-agents.

Customer Service

We offer our customers support 24 hours a day, seven days a week through both our comprehensive online account management website and our toll free number. Many customers use our self-service website when they have a question or problem with their service and are able to resolve their concerns online without needing to speak to a customer care representative. Our customers can manage almost all aspects of their accounts online. This capability empowers our customers through self-service and reduces our customer care expenses.

Customers who cannot or do not wish to resolve their questions through our website may contact a customer care representative through our toll free number. We staff our customer care organization through a combination of our own employees and outsourced customer care representatives. All new customer care representatives are trained through an established program developed by Vonage. We also have a separate team that provides advanced technical support for resolving customers' complex issues. We use extensive monitoring of call quality and customer satisfaction scores to determine additional training or coaching requirements for individual associates and to drive continuous improvement in our processes, policies, and technology. We offer support in English, Spanish, Tagalog and French Canadian.

Billing

All customer billing for our communication services is automated. We bill in advance for monthly recurring services and fees. We automatically collect all fees from our customers' credit card, debit card, checks, wire transfer, ACH or electronic check payment ("ECP"). All usage related charges are billed no more than 30 days in arrears. By collecting monthly subscription fees in advance and certain other charges within the same billing cycle as they are incurred, we are able to reduce the amount of accounts receivable that we have outstanding, thus allowing us to have lower working capital requirements. Collecting in this manner also helps us mitigate bad debt exposure, which is recorded as a reduction to revenue. If a customer's payment is declined or returned we generally suspend services Historically, in most cases,

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we are able to correct the problem with the customer within the current monthly billing cycle. Generally, for our residential services, if the customer's credit card, debit card or ECP cannot be successfully processed during three billing cycles (i.e. the current and two subsequent monthly billing cycles), we terminate the account. For customers in grace or suspend status we have enabled one-time cash payments through an arrangement with MoneyGram. Generally, for our business customers, we will make several attempts to collect payment. If after approximately, five business days we have not successfully corrected the balance due, the customer's account services are suspended. If after 30 days the account is still in a suspended status the account is cancelled.

INTELLECTUAL PROPERTY

We believe that our technological position depends primarily on the experience, technical expertise, and creative ability of our employees. We routinely review our technological developments with our technology staff and business units to identify the aspects of our technology that provide us with a technological or commercial advantage and file patent applications as necessary to protect our technology in the United States and internationally. Our company policies require our employees to assign their intellectual property rights to us and to treat proprietary know-how and materials as our confidential information.

In addition to developing technology and intellectual property, we evaluate for potential licensing and acquisition technology and intellectual property of third parties to identify opportunities that may provide us with a strategic or commercial advantage in exchange for royalties or other consideration. As a result of these efforts, we have acquired multiple U.S. and foreign patents, and obtained licenses to numerous other patents. From time to time we receive letters from third parties inviting us to obtain patent licenses that might be relevant to our business. From time to time, we also have become involved in litigation alleging that our products or services infringe on third party patents or other intellectual property rights. See "Item 3. - Legal Proceedings-IP Matters."

We are the owner of numerous United States and international trademarks and service marks and have applied for registration of our trademarks and service marks in the United States and abroad to establish and protect our brand names as part of our intellectual property strategy. Examples of our registered marks include Vonage®, Vonage Mobile®, Telesphere® and Vonage Extensions®.

We endeavor to protect our internally developed systems and technologies and maintain our trademarks and service marks. Typically, we enter into confidentiality agreements with our employees, consultants, customers, and vendors in an effort to control access to and distribution of our technology, software, documentation, and other information.

COMPETITION

We face continued strong competition from traditional telephone companies, cable companies, wireless companies, and alternative communication providers in the residential, mobile, SMB and SOHO markets. Because most of our target customers are already purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract these customers away from their existing providers. We believe that the principal competitive factors affecting our ability to attract and retain customers are price, call quality, brand awareness, customer service, network and system reliability, service features and capabilities, scalability, usability, simplicity and mobile integration.

Traditional telephone and cable companies

The traditional telephone and cable companies are our primary competitors for our broadband telephone services. Traditional

telephone companies in particular have historically dominated their regional markets. These competitors include AT&T, Verizon Communications and CenturyLink, as well as rural incumbents such as Frontier Communications. Cable company competitors include companies such as Cablevision, Charter Communications, Comcast Corporation, Cox Communications, and Time Warner Cable. These traditional phone and cable company competitors are substantially larger and better capitalized than we are and have the advantage of a large existing customer base. Many of these competitors are continuing to make substantial investments in delivering broadband Internet access, VoIP phone service, and cable television to their customers and they often have larger product development and marketing

budgets than us. Providing home phone, Internet access, and cable television to many of our existing and potential customers may enhance their image as trusted providers of services.

The traditional phone and cable companies own networks that include a “last mile” connection to substantially all of our existing and potential domestic customers as well as the places our customers call domestically. As a result, the vast majority of the calls placed by a Vonage customer are carried over the “last mile” by a traditional phone company, and we indirectly pay access charges to these competitors for each of these calls. In contrast, traditional wireline providers do not pay us when their customers call our customers.

Cable companies and, in many cases traditional phone companies, are also aggressively using their existing customer relationships to bundle services. For example, they bundle Internet access, cable television, and home phone service with an implied price for the phone service that may be significantly below ours. In addition, such competitors may in the future require new customers or existing customers making changes to their service to purchase voice services when purchasing high speed Internet access. Certain traditional phone companies are also able to bundle wireless telephone service. Many of these competitors are able to advertise on their local access channels with no significant out-of-pocket cost and through mailings in bills with little marginal cost. They also receive advertising time as part of their relationships with television networks and are able to use this time to promote their telephone service offerings.

Traditional phone and cable companies’ ownership of Internet connections to our customers could enable them to detect and interfere with the completion of our customers’ calls. While we are not aware of any such occurrence, it is unclear whether current regulations would permit these companies to degrade the quality of, give low priority to or block entirely the information packets and other data we transmit over their lines. In addition, these companies may attempt to charge their customers more for using our services.

Many traditional phone and cable companies routinely send technicians to customers’ premises to initiate service. Although this is expensive, it also can be more attractive to customers than installing their own router. In addition, these technicians may install an independent source of power, which can give customers assurance that their phone service will not be interrupted during power outages.

The traditional phone and cable companies have long-standing relationships with regulators, legislators, lobbyists, and the media. This can be an advantage for them because legislative, regulatory or judicial developments in our rapidly evolving industry could have a negative impact on us.

In many cases, we charge prices that are lower than prices charged by the traditional phone and cable companies. We believe that we also currently compete successfully with the traditional phone and cable companies on the basis of the features we offer that they may not (such as area code selection, portable service, virtual phone numbers, and readable voice mail). We offer many of these features at no extra charge.

Wireless telephone companies

We also compete with wireless phone companies, such as AT&T, Sprint, T-Mobile, and Verizon Wireless, for both our broadband telephone services, international long distance, and our mobile services. Some consumers use wireless phones, instead of VoIP phones, as a

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replacement for a wireline phone. Also, wireless phone companies increasingly are providing wireless broadband Internet access to their customers. As wireless providers offer more minutes at lower prices and other services that improve calling quality, their services have become more attractive to households as a competitive replacement for wireline service. In addition, wireless providers are also offering standalone wireless home services as well as the ability to link multiple devices for telephony service. Wireless telephone companies have a strong retail presence and have significant financial resources. We are developing next-generation services to meet the emerging needs of mobile and other connected device users by delivering easy-to-use applications that provide significant cost savings in large existing markets. We believe that our efforts will capitalize on favorable trends including the proliferation of low or no-cost Wi-Fi and other broadband around the world, accelerating smart phone adoption rates, and the growth of social communities.

Alternative communications providers

We also compete against alternative communication providers such as magicJack, Ooma, Skype, and Google Voice, some of which are larger than us and have the ability to devote greater resources to their communications services. Some of these service providers, including Internet product and software companies, have chosen to sacrifice telephony revenue in order to gain market share or attract users to their platform and have offered their services at low prices or for free. While not all of these competitors currently offer the ability to call or be called by anyone not using their service, line portability, E911 service, and customer service, in the future they may integrate such capabilities into their service offerings. As we continue the introduction of applications that integrate different forms of voice, video, messaging, and other services over multiple devices, we face competition from emerging competitors focused on similar integration, as well as from alternative communication providers.

There is a continuing trend toward consolidation of telecommunications companies, including the acquisition of alternative communication providers by Internet product and software companies with significant resources. In addition, certain of our competitors have partnered and may in the future partner with other competitors to offer products and services, leveraging their collective competitive positions. We also are subject to the risk of future disruptive technologies, which could give rise to significant new competition.

In connection with our emphasis on the international long distance market, we face competition from low-cost international calling cards and VoIP providers in addition to traditional telephone companies, cable companies, and wireless companies.

In connection with our SMB and SOHO markets, we face competition from the traditional telephone and cable companies discussed above, as well as from vendors of premises-based solutions and/or hosted solutions, including the following:

- premises-based business communication equipment providers such as Alcatel-Lucent, Avaya, Cisco, Huawei, Interactive Intelligence, Mitel, NEC, Shoretel, and Unify;
- Independent cloud services providers such as EvolveIP, iCore Networks, Jive, Mitel, RingCentral, ShoretelSky, Thinking Phone, West IP Communications, and 8x8;
- Hosted communication services providers based on technologies from Avaya, Broadsoft, Cisco, Microsoft, Mitel, Unify and other vendors of technology platforms.

As the UCaaS market evolves, and the convergence of voice, video, messaging, mobility and data networking technologies accelerates, we may face competition in the future from companies that do not currently compete in the UCaaS market, including companies that currently compete in other sectors, companies that serve consumer rather than SMB customers, or companies which expand their market presence to include SMB communications.

SEGMENT INFORMATION

ASC 280 "Segment Reporting" establishes reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Under ASC 280, the method for determining what information to report is based upon the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance. Our chief operating

decision-makers review financial information presented on a consolidated basis, accompanied by disaggregated information about revenues, marketing expenses and operating income (loss) excluding depreciation for our consumer customers and our small and medium business customers for purposes of allocating resources and evaluating financial performance. Based upon the information reviewed by our chief operating decision makers, we have determined that we have two operating segments; however, we have one reportable segment as our two operating segments meet the criteria for aggregation since the segments have similar operating and economic characteristics.

FINANCIAL INFORMATION ABOUT GEOGRAPHIC AREAS

For information regarding the Company's revenues and long-lived assets attributable to our U.S. and foreign countries for the last three fiscal years see Note 13 to the Company's consolidated financial statements.

EMPLOYEES

As of December 31, 2014, we had 1,400 employees. None of our employees are subject to a collective bargaining agreement.

AVAILABLE INFORMATION

We were incorporated in Delaware in May 2000 and changed our name to Vonage Holdings Corp. in February 2001. We maintain a website with the address www.vonage.com. References to our website are provided as a convenience, and the information contained on our website is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. Other than an investor’s own Internet access charges, we make available free of charge through our website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the U.S. Securities and Exchange Commission (SEC). Copies are also available, without charge, by writing to Vonage’s Investor Relations Department at Vonage Holdings Corp., 23 Main Street, Holmdel, NJ 07733 or calling us at 732.365.1328 or sending an email through the Vonage Investor Relations website at http://ir.vonage.com/. Reports filed with the SEC may be viewed at www.sec.gov or obtained at the SEC Public Reference Room in Washington, D.C. Information regarding the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330.

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ITEM 1A. Risk Factors

You should carefully consider the risks below, as well as all of the other information contained in this Annual Report on Form 10-K and our financial statements and the related notes included elsewhere in this Annual Report on Form 10-K, in evaluating our company and our business. Any of these risks could materially adversely affect our business, financial condition and results of operations and the trading price of our common stock.

For the financial information discussed in this Annual Report on Form 10-K, other than per share and per line amounts, dollar amounts are presented in thousands, except where noted.

If we are unable to compete successfully, we could lose market share and revenue.

The telecommunications and Unified Communications (UCaaS) industries are highly competitive. We face intense competition from traditional telephone companies, cable companies, wireless companies, and alternative communication providers.

Our competitors include the traditional telephone service providers, including AT&T, Verizon Communications, and CenturyLink, which provide telephone service based on the public switched telephone network. Some of these traditional providers also have added VoIP services to their existing telephone and broadband offerings. We also face competition from cable companies, such as Cablevision, Charter Communications, Comcast Corporation, Cox Communications, and Time Warner Cable. Traditional telephone service providers and cable companies have added VoIP services to their existing bundled cable television and broadband offerings. Further, as wireless providers, including AT&T, Sprint, T-Mobile, and Verizon Wireless, offer more minutes at lower prices, better coverage, and companion landline alternative services, their services have become more attractive to households as a replacement for wireline service.

Most traditional wireline and wireless telephone service providers and cable companies are substantially larger and better capitalized than we are and have the advantage of greater name and brand name recognition and a large existing customer base. Because most of our target customers are already purchasing communications services from one or more of these providers, our success is dependent upon our ability to attract target customers away from their existing providers. Our competitors' financial resources may allow them to offer services at prices below cost or even for free in order to maintain and gain market share or otherwise improve their competitive positions. Our competitors also could use their greater financial resources to develop and market telephony and messaging services with more attractive features and more robust customer service. In addition, because of the other services our competitors provide, they often choose to offer VoIP services as part of a bundle that includes other products, such as video, high speed Internet access, and wireless telephone service, which we do not offer. This bundle may enable our competitors to offer VoIP service at prices with which we may not be able to compete or to offer functionality that integrates VoIP service with their other offerings, both of which may be more desirable to consumers. Any of these competitive factors could make it more difficult for us to attract and retain customers, reduce our market share and revenues, or cause us to lower our prices or offer additional features that may result in additional costs without commensurate price increases.

We also compete against alternative communication providers, such as magicJack, Skype, and Google Voice, some of which are larger than us, have greater name and brand recognition, and have the ability to devote greater resources to their communications services. Some of these service providers, including Internet product and software companies, have chosen to sacrifice telephony revenue in order to gain market share or attract customers to their platform or have lower cost structures and have offered their services at low prices or for free or are using different payment structures such as one-time or low annual fees.

As we continue the introduction of applications that integrate different forms of voice and messaging services over multiple devices, we face competition from emerging competitors focused on similar integration, as well as from established alternative communication providers. In order to compete with such service providers, we may have to reduce our prices, which would impair our profitability, or offer additional features that may cause us to incur additional costs without commensurate price increases.

We also face competition from SMB communications providers such as EvolveIP, iCore Networks, Jive, Mitel, RingCentral, ShoretelSky, Thinking Phone, West IP Communications, and 8x8, and other companies. To the extent that these providers strengthen their offerings to small and medium businesses, we may have to reduce our prices, increase promotions, or offer additional features, which may adversely impact our revenues and profitability.

In connection with our emphasis on the international long distance market, we face competition from low-cost international calling cards, digital calling cards and VoIP providers in addition to traditional telephone companies, cable companies, and wireless companies. To the extent that these providers target marketing to the same ethnic segments that we target or strengthen their offerings to these segments, we may have to reduce our prices or increase promotions, which would impair our profitability, or offer additional features that may cause us to incur additional costs without commensurate price increase.

As a result of increasing competition, domestic and international telephony and messaging rates have generally decreased during the past few years, and we expect this trend to continue. Continued rate pressures or increasing cost to use our services could lessen or eliminate the pricing advantage that we maintain over certain competitors and cause customers or potential customers to select alternative providers or cause us to lower our prices, which would adversely impact our revenues and profitability.

As the UCaaS market evolves, and the convergence of voice, video, messaging, mobility and data networking technologies accelerates, we may face competition in the future from companies that do not currently compete in the UCaaS market, including companies that currently compete in other sectors, companies that serve consumer rather than SMB customers, or companies which expand their market presence to include SMB communications.

In connection with our SMB and SOHO markets, we face competition from the traditional telephone and cable companies, as well as from vendors of premises-based solutions and/or hosted solutions. As the UCaaS market evolves, combining voice, video, messaging and data networks and combining of information technology and communication applications, opportunity for new competitors to enter the UCaaS market and offer competing products. This new competition may take many forms, and may offer products and applications similar to ours. If these new competitors emerge, the UCaaS market will become increasingly competitive and we may not be able to maintain or improve our market position. Our failure to do so could materially and adversely affect our business and results of operations.

If we fail to adapt to rapid changes in the market for voice and messaging services, then our products and services could become obsolete.

The market for our products and services is constantly and rapidly evolving as we and our competitors introduce new and enhanced products and services and react to changes in the telecommunications and Unified Communications industries and customer demands. We may not be able to develop or acquire new products and plans or product and plan enhancements that compete effectively with present or

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emerging telecommunications and Unified Communications technologies or differentiate our products and plans based on functionality and performance. In addition, we may not be able to establish or maintain strategic alliances that will permit enhancement opportunities or innovative distribution methods for our products and plans.

To address these issues, we are targeting revenue growth in large, existing markets, which require us to enhance our current products and plans, and develop new products and plans on a timely basis to keep pace with market needs and satisfy the increasingly sophisticated requirements of customers. For example, in 2014 we acquired Telesphere Networks Ltd. to further increase our penetration of the hosted VoIP SMB market. If we are unable to attract users of these services our net revenues may fail to grow as we expect.

Telecommunications and Unified Communications technology is complex, and new products and plans and enhancements to existing products and plans can require long development and testing periods. Any delays in developing and releasing new or enhanced products and plans could cause us to lose revenue opportunities and customers. Any technical flaws in products we release could diminish the innovative impact of the products and have a negative effect on customer adoption and our reputation.

We also are subject to the risk of future disruptive technologies. New products based on new technologies or new industry standards could render our existing products obsolete and unmarketable. If new technologies develop that are able to deliver competing voice and messaging services at lower prices, better or more conveniently, it could have a material adverse effect on us.

If we are unsuccessful at retaining customers or attracting new customers, including small and medium business customers, we may experience a reduction in revenue or may be required to spend more money or alter our marketing approaches to grow our customer base.

Our rate of customer terminations for our broadband telephone replacement services, or average monthly customer churn, was 2.6% for the year ended December 31, 2014. During 2014, we added 519,324 customers while 625,893 of our customers terminated their service. Our churn rate could increase in the future if customers are not satisfied with the quality and reliability of our network, the value proposition of our products, and the ability of our customer service to meet the needs and expectations of our customers. In addition, competition from traditional telephone companies, cable companies, wireless companies, alternative communications providers, and low-cost international calling cards, disruptive technologies, general economic conditions, and our ability to activate and register new customers on the network, also influence our churn rate.

As we continue to emphasize the international long distance market, we expect our churn to be impacted by the ethnic segments that we target. For example, we have found that certain ethnic segments have higher churn due to inability to use our existing payment methods. We may not be able to educate these customers in these payment methods or offer alternative payment methods that serve the needs of these customers. In addition, higher proportions of certain ethnic segments that we target may be more likely to have poor or no credit history, indicating that they may have more difficulty affording the service, leading to higher churn for these customers.

Because of customer losses, we have to acquire new customers on an ongoing basis just to maintain our existing level of customers and revenues. As a result, marketing expense, and the effectiveness of our marketing vendors, is an ongoing requirement to maintain or grow our business. If our churn rate increases, we will have to acquire even more new customers in order to maintain our existing revenues. We incur significant costs to acquire new customers, and those costs are an important factor in maintaining profitability. Therefore, if we are unsuccessful in retaining customers, are required to spend significant amounts to acquire new customers beyond those budgeted, or our marketing and advertising efforts are not effective in targeting

specific customer segments, we may be forced to change marketing approaches or marketing vendors, our revenue could decrease or we could incur losses.

We may face difficulties related to the acquisition or integration of businesses, which could harm our growth or operating results.

We may elect to acquire additional businesses or assets, such as our acquisition of Vocalocity in 2013 and Telesphere in 2014. These activities require substantial management time and resources. We cannot predict or guarantee that we will be able to identify suitable acquisition candidates or consummate any acquisition. In addition, acquisitions of

existing businesses, including Vocalocity and Telesphere, involve substantial risks, including the risk that we may not be able to integrate the operations, personnel, services, or technologies, the potential disruption of our ongoing businesses, the diversion of management attention, the maximization of financial and strategic opportunities, the difficulty in developing or maintaining controls and procedures, and the dilution to our existing stockholders from the issuance of additional shares of common stock. As a result of these and other risks, we may not produce anticipated revenue, profitability, or synergies.

Acquisitions may require us to issue equity securities, use our cash resources, incur debt or contingent liabilities, amortize intangibles, or write-off acquisition-related expenses. If we are unable to successfully integrate any acquired businesses or assets we may not receive the intended benefits of such acquisition. In addition, we cannot predict market reactions to any acquisitions we may make or to any failure to announce any future acquisitions.

Further, while we conduct due diligence in connection with acquisition and joint venture opportunities, there may be risks or liabilities that such due diligence efforts fail to discover, are not disclosed to us, or that we inadequately assess. The discovery of material liabilities associated with acquisitions or joint venture opportunities, economic risks faced by joint venture partners, or any failure of joint venture partners to perform their obligations could adversely affect our business, results of operations, and financial condition.

We market our products and services to small and medium-sized businesses, which may be disproportionately impacted by fluctuations in economic conditions.

We market our products to small and medium-sized businesses. Customers in this SMB market may be affected by economic downturns to a greater extent, and may have more limited financial resources, than larger or more established businesses. If customers in the SMB market experience financial hardship as a result of a weak economy, the demand for our services could be materially and adversely affected.

Security breaches and other cybersecurity or technological risks could compromise our information, systems and network and expose us to liability, including a failure to meet Payment Card Industry data security standards, which would cause our business and reputation to suffer.

There are several inherent risks to engaging in a technology business, including our reliance on our data centers and networks, and the use and interconnectivity of those networks. A significant portion of our operations relies heavily on the secure processing, storage and transmission of confidential and other sensitive data, including intellectual property, proprietary business information, and personally identifiable information of our customers and employees, in our data centers and on our networks. The secure processing, storage, and transmission of this information is critical to our operations and business strategy. As seen in our industry and others, these activities have been, and will continue to be, subject to continually evolving cybersecurity or other technological risks. A new type of risk known as advanced

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persistent threat (APT) is prevalent throughout the Internet and associated with the theft of intellectual property and state-sponsored espionage. Due to the nature of our business and reliance on the Internet, we are susceptible to this type of attack. In addition, physical security of devices located within our offices, and/or remote devices, pose cybersecurity and other technological risks that could negatively impact our business and reputation.

We also operate Internet based, worldwide voice, video communications, and messaging services and electronic billing, which require the secure transmission of confidential information over public networks that may or may not support end to end security. Despite our security measures, which include the development and operation as maintenance of systems and processes that are designed to protect consumer information and prevent fraudulent credit card transactions and other security breaches, our information technology and infrastructure may be vulnerable to attacks by hackers or breached due to error, malfeasance or other disruptions by a current or former employee or third-party provider and our failure to mitigate such fraud or breaches may adversely affect our operating results. Any such breach could compromise our systems and network and the information stored there could be accessed, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, regulatory penalties, disruption to our operations, damage to our reputation, and a loss of confidence in our products and services, and our ability to keep personally identifiable information confidential, which could adversely affect our business.

We have been subject to cyber incidents from external sources including “brute force” and distributed denial of service attacks. Although these incidents have not had a material adverse effect financially or on our ability to provide services, this may not continue to be the case going forward. There can be no assurance that cyber incidents will not occur in the future, potentially more frequently and/or on a more significant scale.

We have taken steps designed to improve the security of our networks and computer systems and our physical space. Despite these defensive measures, there can be no assurance that we are adequately protecting our information or that we will not experience future incidents. The expenses associated with protecting our information could reduce our operating margins. We maintain insurance intended to cover some of these risks, however, this insurance may not be sufficient to cover all of our losses from any future breaches of our systems. In addition, third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions, which results in the storage and processing of customer information by third parties. While we engage in certain actions to reduce the exposure resulting from outsourcing, unauthorized access, loss or destruction of data or other cyber incidents could occur, resulting in similar costs and consequences as those discussed above.

We make available on our website our privacy policy, which describes how we collect, use, and disclose our customers' personal information. To the extent we expand our operations into new geographies, we may become subject to local data security, privacy, data retention, and disclosure laws and regulations. It may be difficult for us to comply with these laws and regulations if they were deemed to be applicable to us. In addition, risks related to cybercrime and fraud increase when establishing a global presence.

We are subject to Payment Card Industry (“PCI”) data security standards, which require periodic audits by independent third parties to assess compliance. PCI data security standards are a comprehensive set of requirements for enhancing payment account data security that was developed by the PCI Security Standards Council including American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and VISA Inc., to help facilitate the broad adoption of consistent data security measures. Failure to comply with the security requirements as identified in subsequent audits or rectify a security issue may result in fines. While we believe it is unusual, restrictions on accepting payment cards, including a complete restriction, may be imposed on companies that are not compliant. Further, the law relating to the liability of providers of online payment

services is currently unsettled and states may enact their own rules with which we may not comply.

We rely on third party providers to process and guarantee payments made by Vonage and its affiliates’ subscribers, up to certain limits, and we may be unable to prevent our customers from fraudulently receiving goods and services. Our liability risk will increase if a larger fraction of our Vonage transactions involve fraudulent or disputed credit card transactions. Any costs we incur as a result of fraudulent or disputed transactions could harm our business. In addition, the functionality of our current billing system relies on certain third party vendors delivering services. If these vendors

are unable or unwilling to provide services, we will not be able to charge for our services in a timely or scalable fashion, which could significantly decrease our revenue and have a material adverse effect on our business, financial condition and operating results.

Our success in the UCaaS market depends in part on developing and maintaining effective distribution channels, including with third-party resellers and value-added distributors. The failure to develop and maintain these relationships could materially and adversely affect our business.

A portion of our small and medium business revenue is generated through indirect channel sales. These channels consist of third-party resellers and value-added distributors that market and sell telecommunications products and services to customers. These channels may generate an increasing portion of our small and medium business revenue in the future. Our continued success requires that we continue developing and maintaining successful relationships with these third-party resellers and value-added distributors.

If we are unable to establish and expand effective strategic relationships our ability to grow revenues and offer new products under commercially attractive terms may be inhibited, which could adversely affect our business, results of operations, and financial condition.

An element of our strategy is to develop and maintain strategic relationships. We have or are pursuing relationships in the U.S. retail industry as well as with entities in the small and medium business markets. The continued development of these relationships may assist us in enhancing our brand, introducing our products and services to larger numbers and types of customers, developing and implementing new products and services, and generating additional revenue. We may not be able to enter into new relationships on economic terms favorable to us. In addition, if we lose any of our important strategic relationships or if strategic relationships fail to benefit us as expected, our ability to grow revenues and offer new products may be inhibited, which could adversely affect our business, results of operations, and financial condition. In addition, inefficiencies or fraud on the part of mass merchant retailers or vendors associated with our assisted selling programs could adversely affect our business, results of operations, and financial condition.

Our international long distance business is subject to country-specific governmental regulation and related actions and taxes that may increase our costs or impact our product offerings.

In the United States, Canada, and United Kingdom, we are not a regulated telecommunications business. Our services are also in use in countries outside of the United States, Canada, and the United Kingdom, including countries where providing VoIP services is or may be illegal. We may need to change our service offerings to avoid regulation as a telecommunications business in a jurisdiction, or if we are treated as a regulated telecommunications business, we may be required to incur additional expenses. In addition, if governments believe that we are providing unauthorized service in their countries, they may pursue fines, penalties, or other governmental action,

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including criminal action, that may damage our brand and reputation. If we use a local partner to provide services in a country and the local partner does not comply with applicable governmental regulations, we may face additional regulation, liabilities, penalties or other governmental action, and our brand and reputation may be harmed.

In addition to the risk of being directly subjected to regulation, decisions by foreign regulators to increase the charge for terminating international calls into their countries may adversely impact our ability to attract and retain international long distance customers in the U.S., U.K., and Canada. For example, our Vonage World offering includes calling to over 60 countries. Regulatory actions in any of these countries could cause increased costs, impact margin, cause us to remove a country from Vonage World, and impact churn and gross line additions. These regulatory actions may be taken without notice and cause us to react quickly to changing market conditions. These efforts could divert management's efforts and attention from ordinary business operations which could materially and adversely affect our results of operations.

As a United States-based company, any foreign subsidiary or joint venture that we use for international operations may be subject to a variety of governmental regulations in the countries where we market our products, including tariffs and taxes. For example, distributions of earnings and other payments, including interest, received from our foreign subsidiaries may be subject to withholding taxes imposed by the jurisdiction in which such entities are formed or operating, which will reduce the amount of after-tax cash we can receive. In general, as a United States corporation, we may claim a foreign tax credit against our federal income tax expense for such foreign withholding taxes and for foreign income taxes paid directly by foreign corporate entities in which we own 10% or more of the voting stock. The ability to claim such foreign tax credits and to utilize net foreign losses is, however, subject to numerous limitations, and we may incur incremental tax costs as a result of these limitations or because we are not currently in a tax-paying position in the United States. We may also be required to include in our income for United States federal income tax purposes our proportionate share of certain earnings of those foreign subsidiaries that are classified as "controlled foreign corporations" without regard to whether distributions have been actually received from such subsidiaries.

Certain rights to third party patents and technology may expire and not be extended, or may not be available, which may decrease the quality of our products or services or subject us to liability.

Certain previously disclosed patent rights licensed to the Company have expired. We may attempt to pursue extensions of such licenses. If we are unable to do so on terms acceptable to us, our making, using, and selling of certain of our existing and future products and services may be subject to claims of infringement under patents previously subject to these licenses if we do not make changes. In addition, we may seek to obtain rights to other third party technology in the future, but may not be able to agree upon commercially reasonable terms or at all with respect to obtaining such rights. If we are unable to extend existing licenses or are unable to obtain rights to other technology that may be commercially advantageous or necessary for our product and service offerings, we may experience a decrease in the quality of our products or services or we may lose the ability to provide our products and services on a non-infringing basis until alternative technology or suitable alternative products and services can be developed, identified, obtained (through acquisition, license or other grants of rights), and integrated.

We may be subject to damaging and disruptive intellectual property litigation that could materially and adversely affect our business, results of operations, and financial condition, as well as the continued viability of our company.

There has been substantial litigation in the VoIP, telecommunications and related industries regarding intellectual property rights and, given the rapid technological change in our industry

and our continual development of new products and services, we and/or our commercial partners may be subject to infringement claims from time to time. For example, we may be unaware of filed patent applications and issued patents that could include claims that might be interpreted to cover our products and services. We have been subject to patent infringement claims in the past, are currently named as a defendant in several proceedings that relate to alleged patent infringement, and from time to time we receive letters from third parties offering an opportunity for us to obtain licenses to patents that may be relevant to our business or alleging that our services infringe upon third party patents or other intellectual property. See "Item 3. - Legal Proceedings-IP Matters."

Parties making claims of infringement may be able to obtain injunctive or other equitable relief that could effectively block our ability to provide our services and could cause us to pay substantial royalties, licensing fees, damages or settlement fees. The defense of any lawsuit could divert management's efforts and attention from ordinary business operations and result in time-consuming and expensive litigation, regardless of the merits of such claims. These outcomes may:

>result in the loss of a substantial number of existing customers or prohibit the acquisition of new customers;

>cause us to accelerate expenditures to preserve existing revenues;

>cause existing or new vendors to require prepayments or letters of credit;

>cause our credit card processors to demand reserves or letters of credit or make holdbacks;

>result in substantial employee layoffs;

>materially and adversely affect our brand in the marketplace and cause a substantial loss of goodwill;

>cause our stock price to decline significantly;

>materially and adversely affect our liquidity, including our ability to pay debts and other obligations as they become due;

>cause us to change our business methods or services;

>require us to cease certain business operations or offering certain products and services; and

>lead to our bankruptcy or liquidation.

If we fail to protect our internally developed systems and software and our trademarks, we may become involved in costly litigation or our business or brand may be harmed.
Our ability to compete effectively is dependent in large part upon the maintenance and protection of systems and software that we have developed internally based on open standards. While we own 69 issued U.S. patents (and a number of foreign patents) and more than 245 pending patent applications, we cannot patent much of the technology that is important to our business. Our pending patent applications may not be granted. Any issued patent that we own may be challenged, narrowed, invalidated, or circumvented. To date, we have relied on patent, copyright and trade secret laws, as well as confidentiality procedures and licensing arrangements, to establish and protect our rights to this technology. We typically enter into confidentiality agreements with our employees, consultants, customers, and vendors

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in an effort to control access to and distribution of technology, software, documentation, and other information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use this technology without authorization. Policing unauthorized use of this technology is difficult. The steps we take may not prevent misappropriation of the technology we rely on. In addition, effective protection may be unavailable or limited in some jurisdictions outside the United States, Canada, and the United Kingdom. Litigation may be necessary in the future to enforce or protect our rights or to determine the validity and scope of the rights of others. That litigation could cause us to incur substantial costs and divert resources away from our daily business, which in turn could materially adversely affect our business.

The unlicensed use of our brand by third parties could harm our reputation, cause confusion among our customers, and impair our ability to market our services. To that end, we have registered numerous trademarks and service marks and have applied for registration of our trademarks and service marks in the United States and abroad to establish and protect our brand names as part of our intellectual property strategy. If our applications receive objections or are successfully opposed by third parties, it will be difficult for us to prevent third parties from using our brand without our permission. Moreover, successful opposition to our applications might encourage third parties to make additional oppositions or commence trademark infringement proceedings against us, which could be costly and time consuming to defend against. If we decide to take limited or no action to protect our trademarks, our trademark rights may be diluted and subject to challenge or invalidation, which could materially and adversely affect our brand in the marketplace.

The storage, processing, and use of personal information and related data subjects us to evolving governmental laws and regulation, commercial standards, contractual obligations, and other legal obligations related to consumer and data privacy, which may have a material impact on our costs, use of our products and services, or expose us to increased liability.

Federal, state, local and foreign laws and regulations, commercial obligations and industry standards, each provide for obligations and restrictions with respect to data privacy and security, as well as the collection, storage, retention, protection, use, processing, transmission, sharing, disclosure and protection of personal information and other customer data. The evolving nature of these obligations and restrictions dictates that differing interpretations, inconsistency or conflicts among countries or rules, and general uncertainty impact the application to our business. These obligations and restrictions may limit our ability to collect, store, process, use, transmit and share data with our customers, employees, and third party providers and to allow our customers to collect, store, retain, protect, use, process, transmit, share and disclose data with others through our products and services. Compliance with, and other burdens imposed by, such obligations and restrictions could increase the cost of our operations and impact our ability to market our products and services through effective segmentation.

Failure to comply with obligations and restrictions related to applicable data protection laws, regulations, standards, and codes of conduct, as well as our own posted privacy policies and contractual commitments could subject us to lawsuits, fines, criminal penalties, statutory damages, consent decrees, injunctions, adverse publicity, loss of user confidence in our services, and loss of users, which could materially harm our business. Additionally, third-party contractors may have access to customer or employee data. If these or other third-party vendors violate obligations and restrictions related to applicable data protection laws or our policies, such violations may also put our customers' or employees' information at risk and could in turn have a material and adverse effect on our business.

We rely on third parties to provide a portion of our customer service representatives, provide aspects of

our E-911 service, and initiate local number portability for our customers. If these third parties do not provide our customers with reliable, high-quality service, our reputation will be harmed and we may lose customers.

We offer our customers support 24 hours a day, seven days a week through both our comprehensive online account management website and our toll free number. Our customer support is currently provided via United States based employees as well as third party partners located in the United States, Philippines, Costa Rica, Chile, Mexico, and India. We offer support in English, Spanish, and French Canadian. Our third-party providers generally represent us without identifying themselves as independent parties. The ability to support our customers may be disrupted by natural disasters, inclement weather conditions, civil unrest, and other adverse events in the locations where our

customer support is provided.

We also contract for services required to provide E-911 services including assistance in routing emergency calls, terminating E-911 calls, operating a national call center that is available 24 hours a day, seven days a week to receive certain emergency calls, and maintaining PSAP databases for the purpose of deploying and operating E-911 services. Interruptions in service from our vendor could cause failures in our customers' access to E-911 services and expose us to liability and damage our reputation.

We also have agreements with companies that initiate our local number portability, which allow new customers to retain their existing telephone numbers when subscribing to our services.

If any of these third parties do not provide reliable, high-quality service, our reputation and our business will be harmed. In addition, industry consolidation among providers of services to us may impact our ability to obtain these services or increase our expense for these services.

Our ability to provide our telephony service and manage related customer accounts is dependent upon third-party facilities, equipment, and systems, the failure of which could cause delays of or interruptions to our service, damage our reputation, cause us to lose customers, limit our growth, and affect our financial condition.

Our success depends on our ability to provide quality and reliable telephony service, which is in part dependent upon the proper functioning of facilities and equipment owned and operated by third parties and is, therefore, beyond our control. Unlike traditional wireline telephone service or wireless service, our telephony service requires our customers to have an operative broadband Internet connection and an electrical power supply, which are provided by the customer's Internet service provider and electric utility company, respectively, and not by us. The quality of some broadband Internet connections may be too poor for customers to use our telephony services properly. In addition, if there is any interruption to a customer's broadband Internet service or electrical power supply, that customer will be unable to make or receive calls, including emergency calls, using our telephony service.

We outsource several of our network functions to third-party providers. For example, we outsource the maintenance of our regional data connection points, which are the facilities at which our network interconnects with the public switched telephone network. If our third-party service providers fail to maintain these facilities properly, or fail to respond quickly to problems, our customers may experience service interruptions. Interruptions in our service caused by third-party facilities have in the past caused and may in the future cause us to lose customers or cause us to offer substantial customer credits, which could adversely affect our revenue and profitability. If interruptions adversely affect the perceived reliability of our service, we may have difficulty attracting new customers, and our brand, reputation, and growth will be negatively impacted.

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In order to access our residential, small office, and home office services, a customer needs to connect a standard telephone to a broadband Internet connection through a Vonage-enabled device that we provide. Although we closely monitor inventory levels, if we are unable to procure a sufficient number of devices from our suppliers in a timely manner, including as a result of a failure by a component supplier, we would be delayed in activating new customers and may lose these customers.

Flaws in our technology and systems or our failure to adapt our systems to any new Internet Protocol could cause delays or interruptions of service, which could damage our reputation, cause us to lose customers, and limit our growth.

Although we have designed our service network to reduce the possibility of disruptions or other outages, our service may be disrupted by problems with our technology and systems, such as malfunctions in our Vonage-enabled device that we provide to customers, software or facilities and overloading of our network. As we attract new subscribers, we expect increased call volume that we need to manage to avoid network interruptions. In particular, as we have marketed to different international long distance markets, we have seen international call volumes to targeted countries increase. During the next few years we expect wide-spread industry adoption of a new Internet Protocol, which is a set of standard communications and routing mechanisms. Customers may experience periodic delays of service caused by the industry transition to this new Internet Protocol. Interruptions have caused and may in the future cause us to lose customers and offer substantial customer credits, which could adversely affect our revenue and profitability. Network interruptions have also impaired our ability at times to sign-up new customers and the ability of customers to manage their accounts. If service interruptions or other outages adversely affect the perceived reliability of our telephony service or customer service, we may have difficulty attracting and retaining customers and our brand reputation and growth may suffer.

In addition, we utilize third-party Internet-based or “cloud” computing services in connection with some of our business operations. Any disruption to the internet or to our third-party Web hosting or cloud computing providers, including technological or business-related disruptions, could adversely impact the experience of our customers and have adverse effects on our operations. In addition, fires, floods, earthquakes, power losses, telecommunications failures, and similar "Acts of God" could damage these systems and hardware or cause them to fail completely. While we do maintain redundant systems consistent with industry best practices, including standby data centers, certain events could result in downtime for our operations and could adversely affect our business.

Our services are subject to regulation in the United States, United Kingdom, and Canada, and future legislative, regulatory or judicial actions could adversely affect our business and expose us to liability.

Our business has developed in a relatively lightly regulated environment. However, the United States, United Kingdom, and Canada have applied some traditional telephone company regulations to VoIP and continue to evaluate how VoIP should be regulated. The effects of future regulatory developments are uncertain. At the federal level in the U.S., the Federal Communications Commission (“FCC”) has imposed certain telecommunications regulations on VoIP services including:

>Requirements to provide E911 service;
>Communications Assistance for Law Enforcement Act (“CALEA”) obligations;
>Obligation to support Universal Service;

>Customer Proprietary Network Information (“CPNI”) requirements;
>Disability access obligations;
>Local Number Portability requirements;
>Service discontinuance notification obligations;
>Outage reporting requirements; and
>Rural call completion reporting and rules related to ring signal integrity.

In general, the focus of interconnected VoIP telecommunications regulation is at the federal level. On November 12, 2004, the FCC issued a declaratory ruling providing that our service is subject to federal regulation and preempted the Minnesota Public Utilities Commission from imposing certain of its regulations on us. While this ruling does not

exempt us from all state oversight of our service, it effectively prevents state telecommunications regulators from imposing certain burdensome and inconsistent market entry requirements and certain other state utility rules and regulations on our service. As such, Vonage is subject to relatively few state regulatory requirements including:

- Payment of state and local E911 fees; and
- State Universal Service support obligations.

In Canada, the Canadian Radio-television and Telecommunications Commission ("CRTC") regulates VoIP service. CRTC VoIP regulations include:

- Requirement to provide 911 service; and
- Local Number Portability requirements.

In the UK, we are subject to regulation in the UK by the Office of Communications ("OFCOM"). OFCOM VoIP regulations include:

- Requirement to provide 999/112 service; and
- Number Portability requirements.

Vonage seeks to comply with all applicable regulatory requirements. We could, however, be subject to regulatory enforcement action if a regulator does not believe that we are complying with applicable regulations.

In addition, the regulatory framework for VoIP service is still evolving and it is possible that Vonage could be subject to additional regulatory obligations and/or existing regulatory obligations could be modified or expanded. The effects of future regulatory developments are uncertain. Future legislative, judicial or other regulatory actions could have a negative effect on our business. If we become subject to the rules and regulations applicable to telecommunications providers in individual states, we may incur significant litigation and compliance costs, and we may have to restructure our service offerings, exit certain markets, or raise the price of our services, any of which could cause our services to be less attractive to customers. In addition, future regulatory developments could increase our cost of doing business and limit our growth.

We are subject to risks that are inherent in operating abroad, including country-specific risks.

Some of our research and development personnel and facilities are located in Israel. Political, economic and military conditions in Israel directly affect our operations. For example, increased violence or armed conflict in Israel or the Palestinian territories may disrupt travel and communications in the region, harming our operations there. Furthermore, some of our employees in Israel are obligated to perform up to 36 days of military reserve duty annually and may be called to

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active duty in a time of crisis. The absence of these employees for significant periods may cause us to operate inefficiently during these periods.

We may be exposed to liabilities under the Foreign Corrupt Practices Act, the UK Bribery Act, and similar laws, and any determination that we violated any of these laws could have a material adverse effect on our business.

We are subject to the Foreign Corrupt Practice Act ("FCPA"), the UK Bribery Act and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by persons and entities for the purpose of obtaining or retaining business. We have operations, agreements with third parties, and make sales internationally. In addition, we plan to expand our international operations through potential joint ventures with local partners. Our international activities create the risk of unauthorized payments or offers of payments by one of our employees, consultants, partners, sales agents or distributors, even though these parties are not always subject to our control. It is our policy to prohibit these practices by our employees, consultants, partners, sales agents or distributors, however, our existing safeguards and any future improvements may prove to be less than effective, and our employees, consultants, partners, sales agents or distributors may engage in conduct for which we might be held responsible. Violations of the FCPA, the UK Bribery Act or other laws may result in severe criminal or civil sanctions, and we may be subject to other liabilities, which could negatively affect our business, operating results, and financial condition.

We may incur significant costs and harm to our reputation from lawsuits and regulatory inquiries related to our business practices, which may also divert the attention of our management from other aspects of our business.

We have been subject to periodic regulatory inquiries regarding our business practices, including an investigation settled in 2009 with a group of 32 states' attorneys general into certain of our business practices. There was no finding of any violation or wrongdoing by us, and the 32 states participating in the settlement have released us and our affiliates from the matters investigated. On July 18, 2011, we entered into an amended settlement agreement initiated at our request to reflect revised business practices associated with our new “consumable” product offerings. Any similar claims or regulatory inquiries, whether successful or not, could require us to devote significant amounts of monetary or human resources to defend ourselves and could harm our reputation. We may need to spend significant amounts on our legal defense, senior management may be required to divert their attention from other portions of our business, new product launches may be deferred or canceled as a result of any proceedings, and we may be required to make changes to our present and planned products or services. If, as a result of any proceedings, a judgment is rendered or a decree is entered against us, it may materially and adversely affect our business, financial condition, and results of operations and harm our reputation.

Third parties may fraudulently use our name to obtain access to customer accounts and other personal information, use our services to commit fraud or steal our services, which could damage our reputation, limit our growth, and cause us to incur additional expenses.

Our customers have been subject to “phishing,” which occurs when a third party calls or sends an email or pop-up message to a customer that claims to be from a business or organization that provides services to the customer. The purpose of the inquiry is typically to encourage the customer to visit a bogus website designed to look like a website operated by the legitimate business or organization or provide information to the operator. At the bogus website, the operator attempts

to trick the customer into divulging customer account or other personal information such as credit card information or to introduce viruses through “trojan horse” programs to the customers’ computers. This has resulted in identity theft from our customers and the unauthorized use of Vonage services. Third parties have also used our communications services to commit fraud. Although we have engaged a third party to assist in the shutdown of purported phishing sites, if we are unable to detect and prevent “phishing,” use of our services for fraud, and similar activities, our brand reputation and growth may suffer and we may incur additional costs, including costs to increase security, or be required to credit significant amounts to customers.

Third parties also have used our communications services without paying, including by submitting fraudulent credit card information. This has resulted in our incurring the cost of providing the services, including incurring call termination fees, without any corresponding revenues. We have implemented anti-fraud procedures in order to limit

the expenses resulting from theft of service. If our procedures are not effective, theft of service could significantly increase our expenses and negatively impact our profitability.

We are dependent on a small number of individuals, and if we lose key personnel upon whom we are dependent, our business will be adversely affected.

Many of the key responsibilities of our business have been assigned to a relatively small number of individuals. Our future success depends to a considerable degree on the vision, skills, experience, and effort of our senior management. The loss of the services of these officers could have a material adverse effect on our business. In addition, our continued growth depends on our ability to attract and retain experienced key employees.

The success of our business relies on customers' continued and unimpeded access to broadband service. Providers of broadband services may be able to block our services or charge their customers more for also using our services, which could adversely affect our revenue and growth.

Our customers must have broadband access to the Internet in order to use our service. Some providers of broadband access, including outside of the United States, may take measures that affect their customers' ability to use our service, such as degrading the quality of the data packets we transmit over their lines, giving those packets low priority, giving other packets higher priority than ours, blocking our packets entirely or attempting to charge their customers more for also using our services.

In the United States, there continues to be some uncertainty regarding whether suppliers of broadband Internet access have a legal obligation to allow their customers to access and use our service without interference. In December 2010, the FCC adopted new net neutrality rules that would protect services like ours from such interference. Several parties sought judicial review of the FCC's net neutrality rules, and in January 2013 the anti-blocking and unreasonable discrimination provisions of the rules were vacated. While the court ruling did not foreclose the FCC from adopting anti-blocking or non-discrimination rules, interference with our service or higher charges for using our service could cause us to lose existing customers, impair our ability to attract new customers, and harm our revenue and growth. These problems could also arise in international markets. Most foreign countries have not adopted formal net neutrality rules like those adopted by the FCC.

If customers do not accept the differences between our service and traditional telephone service, they may choose to remain with their current telephone service provider or may choose to return to service provided by traditional telephone companies.

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For certain users, aspects of our service are not the same as traditional telephone service. Our continued growth is dependent on the adoption of our services by mainstream customers, so these differences are important. For example:

> Both our E-911 and emergency calling services are different, in significant respects, from the 911 service associated with traditional wireline and wireless telephone providers and, in certain cases, with other VoIP providers.

> In the event of a power loss or Internet access interruption experienced by a customer, our service is interrupted. Unlike some of our competitors, we have not installed batteries at customer premises to provide emergency power for our customers' equipment if they lose power, although we do have backup power systems for our network equipment and service platform.

> Our customers may experience lower call quality than they are used to from traditional wireline telephone companies, including static, echoes, and delays in transmissions.

> Our customers may experience higher dropped-call rates than they are used to from traditional wireline telephone companies.

> Customers who obtain new phone numbers from us do not appear in the phone book and their phone numbers are not available through directory assistance services offered by traditional telephone companies.

> Our customers cannot accept collect calls.

> Our customers cannot call premium-rate telephone numbers such as 1-900 numbers and 976 numbers.

If customers do not accept the differences between our service and traditional telephone service, they may choose to remain with their current telephone service provider or may choose to return to service provided by traditional telephone companies.

The debt agreements governing our financing contain restrictions that may limit our flexibility in operating our business.

On August 13, 2014, we entered into a credit agreement (the "2014 Credit Facility") consisting of a $100,000 senior secured term loan and a $125,000 revolving credit facility. The 2014 Credit Facility contains customary representations and warranties and affirmative covenants that limit our ability and/or the ability of certain of our subsidiaries to engage in specified types of transactions. These covenants and other restrictions may under certain circumstances limit, but not necessarily preclude, our and certain of our subsidiaries' ability to, among other things:

> consolidate or merge;

> create liens;

> incur additional indebtedness;

> dispose of assets;

> consummate acquisitions;

> make investments; or

> pay dividends and other distributions.

Under the 2014 Credit Facility, we are required to comply with the following financial covenants: specified maximum consolidated leverage ratio, specified minimum consolidated fixed coverage charge ratio, minimum cash position and maximum capital expenditures. Our ability to comply with such financial and other covenants may be affected by events beyond our control, so we may not be able to comply with these covenants. A breach of any such covenant could result in a default under the 2014 Credit Facility. In that case, the lenders could elect to declare due and payable immediately all amounts due under the 2014 Credit Facility, including principal and accrued interest.

The market price of our common stock has been and may continue to be volatile, and purchasers of our common stock could incur substantial losses.

Securities markets experience significant price and volume fluctuations. This market volatility, as well as general economic conditions, could cause the market price of our common stock to fluctuate substantially. The trading price of our common stock has been, and is likely to continue to be, volatile. Many factors that are beyond our control may significantly affect the market price of our shares. These factors include:

>changes in our earnings or variations in operating results;

>any shortfall in revenue or increase in losses from levels expected by securities analysts;

>judgments in litigation;

>operating performance of companies comparable to us;

>general economic trends and other external factors; and

>market conditions and competitive pressures that prevent us from executing on our future growth initiatives.

If any of these factors causes the price of our common stock to fall, investors may not be able to sell their common stock at or above their respective purchase prices.

If we require additional capital, we may not be able to obtain additional financing on favorable terms or at all.

We may need to pursue additional financing to respond to new competitive pressures, pay extraordinary expenses such as litigation settlements or judgments or fund growth, including through acquisitions. Because of our past significant losses and our limited tangible assets, we do not fit traditional credit lending criteria, which, in particular, could make it difficult for us to obtain loans or to access the capital markets. In addition, the credit documentation for our recent financing contains affirmative and negative covenants that affect, and in many respects may significantly limit or prohibit, among other things, our and certain of our subsidiaries' ability to incur, refinance or modify indebtedness and create liens.

Our credit card processors have the ability to impose significant holdbacks in certain circumstances. The reinstatement of such holdbacks likely would have a material adverse effect on our liquidity.

Under our credit card processing agreements with our Visa, MasterCard, American Express, and Discover credit card processors, the credit card processor has the right, in certain circumstances,

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including adverse events affecting our business, to impose a holdback of our advanced payments purchased using a Visa, MasterCard, American Express, or Discover credit card, as applicable, or demand additional reserves or other security. If circumstances were to occur that would allow any of these processors to reinstate a holdback, the negative impact on our liquidity likely would be significant. In addition, our Visa and MasterCard credit card processing agreement may be terminated by the credit card processor at its discretion if we are deemed to be financially insecure. As a significant portion of payments to us are made through Visa and MasterCard credit cards, if the credit card processor does not assist in transitioning our business to another credit card processor, the negative impact on our liquidity likely would be significant. There were no cash reserves and cash-collateralized letters of credit with any credit card processors as of December 31, 2014.

We have incurred cumulative losses since our inception and may not achieve consistent profitability in the future.

While we achieved net income attributable to Vonage of $20,266 for the year ended December 31, 2014, our accumulated deficit is $677,675 from our inception through December 31, 2014, which included the release of $325,601 of the valuation allowance recorded against our net deferred tax assets that we recorded as a one-time non-cash income tax benefit for the year ended December 31, 2011. Although we believe we will achieve consistent profitability in the future, we ultimately may not be successful. We believe that our ability to achieve consistent profitability will depend, among other factors, on our ability to continue to achieve and maintain substantive operational improvements and structural cost reductions while maintaining and growing our net revenues. In addition, certain of the costs of our business are not within our control and may increase. For example, we and other telecommunications providers are subject to regulatory termination charges imposed by regulatory authorities in countries to which customers make calls, such as India where regulatory authorities have been petitioned by local providers to consider termination rate increases. As we attract additional international long distance callers, we will be more affected by these increases to the extent that we are unable to offset such costs by passing through price increases to customers.

We may be unable to fully realize the benefits of our net operating loss (“NOL”) carry forwards if an ownership change occurs.

If we were to experience a “change in ownership” under Section 382 of the Internal Revenue Code (“Section 382”), the NOL carry forward limitations under Section 382 would impose an annual limit on the amount of the future taxable income that may be offset by our NOL generated prior to the change in ownership. If a change in ownership were to occur, we may be unable to use a significant portion of our NOL to offset future taxable income. In general, a change in ownership occurs when, as of any testing date, there has been a cumulative change in the stock ownership of the corporation held by 5% stockholders of more than 50 percentage points over an applicable three-year period. For these purposes, a 5% stockholder is generally any person or group of persons that at any time during an applicable three-year period has owned 5% or more of our outstanding common stock. In addition, persons who own less than 5% of the outstanding common stock are grouped together as one or more “public group” 5% stockholders. Under Section 382, stock ownership would be determined under complex attribution rules and generally includes shares held directly, indirectly (though intervening entities), and constructively (by certain related parties and certain unrelated parties acting as a group). We have implemented a Tax Benefits Preservation Plan intended to provide a meaningful deterrent effect against acquisitions that could cause a change in ownership, however this is not a guarantee against such a change in ownership.

Jeffrey A. Citron, our founder, non-executive Chairman, and a significant stockholder, exerts significant influence over us.

As of December 31, 2014, Mr. Citron beneficially owned approximately 13.55% of our outstanding common stock, including outstanding securities exercisable for common stock within 60 days of such date. As a result, Mr. Citron is able to exert significant influence over all matters presented to our stockholders for approval, including election and removal of our directors and change of control transactions. In addition, as our non-executive Chairman, Mr. Citron has and will continue to have influence over our strategy and other matters as a board member. Mr. Citron’s interests may not always coincide with the interests of other holders of our common stock.

Our certificate of incorporation and bylaws, the agreements governing our indebtedness, and the terms of certain settlement agreements to which we are a party contain provisions that could delay or discourage a takeover attempt, which could prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares.

Certain provisions of our restated certificate of incorporation and our second amended and restated bylaws may make it more difficult for, or have the effect of discouraging, a third party from acquiring control of us or changing our board of directors and management. These provisions:

- permit our board of directors to issue additional shares of common stock and preferred stock and to establish the number of shares, series designation, voting powers (if any), preferences, other special rights, qualifications, limitations or restrictions of any series of preferred stock;
- limit the ability of stockholders to amend our restated certificate of incorporation and second amended and restated bylaws, including supermajority requirements;
- allow only our board of directors, Chairman of the board of directors or Chief Executive Officer to call special meetings of our stockholders;
- eliminate the ability of stockholders to act by written consent;
- require advance notice for stockholder proposals and director nominations;
- limit the removal of directors and the filling of director vacancies; and
- establish a classified board of directors with staggered three-year terms.

In addition, a change of control would constitute an event of default under our 2014 Credit Facility. Upon the occurrence of an event of default, the lenders could elect to declare due and payable immediately all amounts due under our 2014 Credit Facility, including principal and accrued interest, and may take action to foreclose upon the collateral securing the indebtedness.

Under our 2014 Credit Facility, a “change of control” would result from the occurrence of, among other things, the acquisition by any person or group (other than Mr. Citron and his majority-controlled affiliates) of 35% or more of the voting and/or economic interest of our outstanding common stock on a fully-diluted basis.

Further, we were named as a defendant in several suits that related to patent infringement and entered into agreements to settle certain of the suits in 2007. Certain terms of those agreements, including licenses and covenants not to sue, will be restricted upon a change of

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control, which may discourage certain potential purchasers from acquiring us.
Such provisions could have the effect of depriving stockholders of an opportunity to sell their shares at a premium over prevailing market prices. Any delay or prevention of, or significant

payments required to be made upon, a change of control transaction or changes in our board of directors or management could deter potential acquirors or prevent the completion of a transaction in which our stockholders could receive a substantial premium over the then-current market price for their shares.

ITEM 1B. Unresolved Staff Comments
Not applicable.

ITEM 2. Properties
The following is a summary of our offices and locations:

Location	Business Use	Square Footage	Lease Expiration Date
Holmdel, New Jersey	Corporate Headquarters, Network Operations, Customer Service, Sales and Marketing, Administration	350,000	2017
London, United Kingdom	Sales and Marketing, Administration	3,472	2015
Atlanta, Georgia	Sales and Marketing, Administration, and Product Development	78,932	2020
Scottsdale, Arizona	Network Operations, Customer Services, Sales and Marketing, Administration	26,765	2021
Denver, Colorado	Network Operations, Customer Services, Sales and Marketing, Administration	4,157	2018
Minneapolis, Minnesota	Sales and Marketing, Administration	2,206	2017
Murray, Utah	Sales and Marketing, Administration	1,062	2017
Tel Aviv, Israel	Application Development	7,158	2015
		473,752	

We believe that the facilities that we occupy are adequate for our current needs and do not anticipate leasing any material additional space.

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ITEM 3. Legal Proceedings

Litigation

From time to time, in addition to those identified below, we are subject to legal proceedings, claims, investigations, and proceedings in the ordinary course of business, including claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment, and other matters. From time to time, we also receive letters or other communications from third parties inviting us to obtain patent licenses that might be relevant to our business or alleging that our services infringe upon third party patents or other intellectual property. In accordance with generally accepted accounting principles, we make a provision for a liability when it is both probable that a liability has been incurred and the amount of the loss or range of loss can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. We believe that we have valid defenses with respect to the legal matters pending against us and are vigorously defending these matters. Given the uncertainty surrounding litigation and our inability to assess the likelihood of a favorable or unfavorable outcome in the above noted matters and our inability to reasonably estimate the amount of loss or range of loss, it is possible that the resolution of one or more of these matters could have a material adverse effect on our consolidated financial position, cash flows or results of operations.

IP Matters

Bear Creek Technologies, Inc. On February 22, 2011, Bear Creek Technologies, Inc. (“Bear Creek”) filed a lawsuit against Vonage Holdings Corp., Vonage America, Inc., Vonage Marketing LLC, and Aptela Inc. (a subsidiary of Vocalocity, Inc., a wholly-owned subsidiary of the Company which was acquired on November 15, 2013 pursuant to an Agreement and Plan of Merger dated October 9, 2013) in the United States District Court for the Eastern District of Virginia (Norfolk Division) alleging that Vonage’s and Aptela’s products and services are covered by United States Patent No. 7,889,722, entitled “System for Interconnecting Standard Telephony Communications Equipment to Internet Protocol Networks” (the “'722 Patent”). The suit also named numerous other defendants, including Verizon Communications, Inc., Comcast Corporation, Time-Warner Cable, Inc., AT&T, Inc., and T-Mobile USA Inc. On August 17, 2011, the Court dismissed Bear Creek’s case against the Vonage entities and Aptela, as well as all the other defendants, except for one defendant. Later, on August 17, 2011, Bear Creek re-filed its complaint concerning the ‘722 Patent in the United States District Court for the District of Delaware against the same Vonage entities; and also re-filed a separate complaint concerning the ‘722 Patent in the United States District Court for the Eastern District of Virginia against Aptela. In each complaint, Bear Creek alleges that Vonage and Aptela, respectively, are infringing one or more claims of the ‘722 Patent. In addition, Bear Creek alleges that each party is contributing to and inducing infringement of one or more claims of the ‘722 Patent. On January 25, 2012, Bear Creek filed a motion with the United States Judicial Panel on Multidistrict Litigation seeking to transfer and consolidate its litigations against Vonage and Aptela with twelve other separate actions Bear Creek filed in the U.S. District Courts for Delaware and the Eastern District of Virginia. On May 2, 2012, the Multidistrict Litigation Panel granted Bear Creek’s motion and ordered the coordination or consolidation for pretrial proceedings of all fourteen actions in the U.S. District Court for the District of Delaware. On October 11, 2012, Vonage filed an answer to Bear Creek’s complaint, including counterclaims of non-infringement and invalidity of the ‘722 patent. Aptela, which filed a motion to dismiss Bear Creek’s complaint on September 27, 2011, has not yet answered, as its motion remains pending and awaiting disposition by the court. On November 5, 2012,

Bear Creek filed an answer to Vonage’s counterclaims. On March 1, 2013, several defendants including Vonage moved the Court to stay the case pending resolution of the reexamination of the ‘722 patent requested by Cisco Systems, Inc. (“Cisco”) as described below; the motion was granted on July 17, 2013, and the case is now stayed pending the resolution of the reexamination. On November 8, 2013, the Court granted Bear Creek’s request to

terminate and substitute counsel representing it in the litigation.

A request for reexamination of the ‘722 Patent was filed on September 12, 2012 by Cisco, challenging the validity of the ‘722 Patent. Cisco’s request was granted by the USPTO on November 28, 2012. On March 24, 2014, the Patent Office issued an Action Closing Prosecution, confirming its rejection of all claims of the ‘722 patent on multiple independent grounds. Bear Creek filed comments to the Action Closing Prosecution on April 24, 2014. Cisco filed responsive comments on May 22, 2014. On September 15, 2014, Bear Creek filed a Notice of Appeal to the Patent Office’s rejection of its patent. On November 14, 2014, Bear Creek submitted its Appeal to the Patent Trial and Appeal Board. Cisco filed its responsive brief on December 12, 2014; the brief was defective and, at the direction of the Patent Office, Cisco re-filed an amended brief on December 31, 2014.

RPost Holdings, Inc. On August 24, 2012, RPost Holdings, Inc., RPost Communications Limited, and RMail Limited (collectively, “RPost”) filed a lawsuit against StrongMail Systems, Inc. (“StrongMail”) in the United States District Court for the Eastern District of Texas (Marshall Division) alleging that StrongMail’s products and services, including its electronic mail marketing services, are covered by United States Patent Nos. 8,224,913, 8,209,389, 8,161,104, 7,966,372, and 6,182,219. On January 16, 2013, StrongMail moved the Court to transfer the venue of the lawsuit to the Northern District of California. That motion was denied by the Court on August 19, 2013. On February 11, 2013, RPost filed an amended complaint, adding 27 new defendants, including Vonage America Inc. RPost’s amended complaint alleges willful infringement of the RPost patents by Vonage and each of the other new defendants because they are customers of StrongMail. StrongMail has agreed to fully defend and indemnify Vonage in this lawsuit. Vonage answered the complaint on May 7, 2013. On January 30, 2014, RPost informed the Court that it is ready for a scheduling conference; the Court has not yet scheduled a conference.

AIP Acquisition LLC. On January 3, 2014, AIP Acquisition LLC (“AIP”), filed a lawsuit against Vonage Holdings Corp., Vonage America, Inc., and Vonage Marketing LLC in the U.S. District Court for the District of Delaware (Norfolk Division) alleging that Vonage’s products and services are covered by United States Patent No. 7,269,247. Vonage filed an answer and counterclaims on February 25, 2014. AIP filed an amended complaint on March 18, 2014, which Vonage answered on April 4, 2014. On April 8, 2014, the Court ordered a stay of the case pending final resolution of non-party Level 3’s inter partes review request of United States Patent No. 7,724,879, which is a continuation of the ‘247 patent. On October 8, 2014, the Patent Office issued a Final Written Decision, finding all challenged claims of the ‘879 patent to be invalid. On December 9, 2014, AIP filed a Notice of Appeal to the Patent Office’s rejection of its patent. On December 15, 2014, AIP moved to replace its attorneys and the Patent Office granted the request on December 23, 2014.

A second request for inter partes review of the ‘879 patent was made by Cisco on December 12, 2013 and granted by the Patent Office on May 27, 2014. AIP filed its response on August 18, 2014, and Cisco filed its reply on November 14, 2014. An oral hearing was held on January 7, 2015. The proceeding remains pending before the Patent Office. Cisco petitioned for inter partes review of the ‘247 patent on November 25, 2014. The Patent Office has not yet determined whether to grant this petition.

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Spansion. On April 28, 2014, Spansion LLC ("Spansion"), filed a lawsuit against Vonage Holdings Corp., Vonage America, Inc., Vonage Marketing LLC, and 20 other defendants in the U.S. District Court for the Northern District of California alleging that Macronix's flash memory chips and products containing those chips, including Vonage analog telephone adapter products, each are covered by one or more Spansion patents. On April 29, 2014, Spansion filed a complaint at the International Trade Commission containing substantially similar allegations, requesting that the ITC institute an investigation pursuant to Section 337 of the Tariff Act of 1930 against the respondents, including Vonage. Spansion's complaints allege that Vonage's telephone adapters are covered by United States Patent No. 6,246,611. Macronix agreed to fully defend and indemnify Vonage in the district court and ITC proceedings. On January 27, 2015, Macronix and Spansion announced a global settlement of all outstanding patent disputes, including the California action and the ITC complaint. The parties have agreed to dismiss all patent cases between themselves and their downstream customers (including Vonage) worldwide, granting to each other licenses under their respective patents.

Commercial Litigation

Merkin & Smith, et als. On September 27, 2013, Arthur Merkin and James Smith filed a putative class action lawsuit against Vonage America, Inc. in the Superior Court of the State of California, County of Los Angeles, alleging that Vonage violated California's Unfair Competition Law by charging its customers fictitious 911 taxes and fees. On October 30, 2013, Vonage filed a notice removing the case to the United States District Court for the Central District of California. On October 30, 2013 the case was assigned to a United States District Judge and a Magistrate Judge. On November 26, 2013, Vonage filed its Answer to the Complaint. On December 4, 2013, Vonage filed a Motion to Compel Arbitration. On February 4, 2014, the Court denied Vonage's Motion to Compel Arbitration. On March 5, 2014, Vonage filed an appeal with the United States Court of Appeals for the Ninth Circuit of the decision denying Vonage's Motion to Compel Arbitration. On March 6, 2014, Vonage moved to stay the district court proceedings pending its appeal; the Court granted Vonage's stay motion on March 26, 2014. Briefing on the appeal is now complete, though oral argument has not yet been scheduled.

Regulation

Telephony services are subject to a broad spectrum of state and federal regulations. Because of the uncertainty over whether Voice over Internet Protocol ("VoIP") should be treated as a telecommunications or information service, we have been involved in a substantial amount of state and federal regulatory activity. Implementation and interpretation of the existing laws and regulations is ongoing and is subject to litigation by various federal and state agencies and courts. Due to the uncertainty over the regulatory classification of VoIP service, there can be no assurance that we will not be subject to new regulations or existing regulations under new interpretations, and that such change would not introduce material additional costs to our business.

Federal - Net Neutrality

Clear and enforceable net neutrality rules would make it more difficult for broadband Internet service providers to block or discriminate against Vonage service. Also explicitly applying net neutrality rules to wireless broadband Internet service could create greater opportunities for VoIP applications that run on wireless broadband Internet service. In October 2009, the FCC proposed the adoption of enforceable net neutrality rules for both wired and wireless broadband Internet service providers. The proposed rules would prohibit wired and wireless broadband Internet service providers from blocking or hindering lawful content, applications, or services and from unreasonably discriminating when transmitting lawful network traffic. In addition, broadband Internet service providers would have to publicly disclose certain information about their network management practices. In December 2010, the FCC adopted enforceable net neutrality rules based on its October 2009 proposal. All of the proposed rules in the October 2009 proposal applied

to wired broadband Internet providers. The FCC applied some but not all of the proposed rules to wireless broadband service. Wireless broadband Internet services providers are prohibited from blocking or hindering voice or video applications that compete with the broadband Internet service provider's voice or video services. Wireless providers are also subject to transparency requirements, but they are not subject to the prohibition on unreasonable discrimination that applies to wired broadband Internet services providers. Final rules were filed in the Federal

Register in September 2011. Shortly thereafter, a number of parties filed appeals of the rules in various federal circuit courts; some alleging that the FCC lacks authority to apply net neutrality rules to broadband service providers and some alleging that the rules did not go far enough. The D.C. Circuit Court of Appeals was selected by lottery to decide the appeals and the appeals alleging that the rules did not go far enough were dropped. The D.C. Circuit Court of Appeals heard oral arguments on the appeal on September 9, 2013. On January 14, 2014, the D.C. Circuit vacated the anti-blocking and the unreasonable discrimination provisions of the rules. A vote on the new net neutrality rules currently is expected at the February 26, 2015 FCC meeting.

Federal - Intercarrier Compensation

On February 9, 2011, the FCC released a Notice of Proposed Rulemaking on reforming universal service and the intercarrier compensation ("ICC") system that governs payments between telecommunications carriers primarily for terminating traffic. In particular, the FCC indicated that it has never determined the ICC obligations for VoIP service and sought comment on a number of proposals for how VoIP should be treated in the ICC system. The FCC's adoption of an ICC proposal will impact Vonage's costs for telecommunications services. On October 27, 2011, the FCC adopted an order reforming universal service and ICC. The FCC order provides that VoIP originated calls will be subject to interstate access charges for long distance calls and reciprocal compensation for local calls that terminate to the public switched telephone network ("PSTN"). It also subjected PSTN originated traffic directed to VoIP subscribers to similar ICC obligations. The termination charges for all traffic, including VoIP originated traffic, will transition over several years to a bill and keep arrangement (i.e., no termination charges). Numerous parties filed appeals of the FCC order in multiple federal circuit courts of appeal. The 10th Circuit Court of Appeals was selected by lottery to decide the appeals. The appeals are pending.

Federal - Universal Service Contribution Reform

On April 30, 2012, the FCC released a Further Notice of Proposed Rulemaking on reforming federal universal service fund ("USF") contributions. Currently USF contributions are assessed on the interstate and international revenue of traditional telephone carriers and interconnected VoIP providers like Vonage. The level of USF assessments on these providers has been going up over time because of decreases in the revenue subject to assessment due to substitution of non-assessable services such as non-interconnected VoIP services. If the FCC does reform USF contributions, it is likely that Vonage's contribution burden will decline.

Federal - E-Rate Reform

On December 19, 2013, the FCC released a Second Report and Order and Order on Reconsideration modernizing the E-Rate program. The E-Rate program subsidizes voice and data services for schools and libraries and is one component of the federal universal service fund. The December 19 order increased the size of the E-Rate fund to $3.9B in available annual funding. This represents an approximately $1.5B annual (17%) increase in the overall size of the universal service fund. This increase in the size of the fund will likely lead to increased USF contribution levels for Vonage services subject to assessment for federal USF.

Federal - Rural Call Completion Issues

On February 7, 2013, the FCC released a Notice of Proposed Rulemaking on rural call completion issues. The Notice of Proposed Rulemaking (NPRM) proposed new detailed reporting requirements to gauge rural call completion performance. Rural carriers have argued

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that VoIP provider call completion performance to rural areas is generally poor. On October 28, 2013, the FCC adopted an order on rural call completion that imposes new reporting obligations and restricts certain call signaling practices. The call signaling rules went into effect on January 31, 2014. We filed for extensions that the FCC granted on January 30, 2014 and February 28, 2014 and as of April 17, 2014, we were compliant with the call signaling rules. The effective date for the reporting requirements has not yet been established. We could be subject to an FCC enforcement action in the future in the event the FCC took the position that our rural call completion performance is inadequate or we were not compliant with the FCC's order.

Federal - Numbering Rights

On April 18, 2013, the FCC issued a Notice of Proposed Rulemaking (NPRM) that proposed to modify FCC rules to allow VoIP providers to directly access telephone numbers. In addition, the FCC granted a waiver from its existing rules to allow Vonage to conduct a trial of direct access to telephone numbers. The trial would allow the FCC to obtain real-world data on direct access to telephone numbers by VoIP providers to inform consideration of the NPRM. Direct access to telephone numbers would facilitate IP to IP interconnection, which may allow VoIP providers to provide higher quality, lower cost services, promote the deployment of innovative new voice services, and experience reductions in the cost of telephony services. Vonage successfully completed the trial in certain markets and filed the required reports on the trial with the FCC. On January 31, 2014, the FCC Wireline Competition Bureau issued a positive report on the trial, concluding that Vonage's successful trial confirmed the technical feasibility of interconnected VoIP providers obtaining telephone numbers directly from the numbering administrators. Given the positive report, the FCC may adopt its proposed rule to allow VoIP providers to directly access telephone numbers.

State Telecommunications Regulation

In general, the focus of interconnected VoIP telecommunications regulation is at the federal level. On November 12, 2004, the FCC issued a declaratory ruling providing that our service is subject to federal regulation and preempted the Minnesota Public Utilities Commission from imposing certain of its regulations on us. The FCC's decision was based on its conclusion that our service is interstate in nature and cannot be separated into interstate and intrastate components. On March 21, 2007, the United States Court of Appeals for the 8th Circuit affirmed the FCC's declaratory ruling preempting state regulation of our service. The 8th Circuit found that it is impossible for us to separate our interstate traffic from our intrastate traffic because of the nomadic nature of the service. As a result, the 8th Circuit held that it was reasonable for the FCC to preempt state regulation of our service. The 8th Circuit was clear, however, that the preemptive effect of the FCC's declaratory ruling may be reexamined if technological advances allow for the separation of interstate and intrastate components of the nomadic VoIP service. Therefore, the preemption of state authority over

our service under this ruling generally hinges on the inability to separate the interstate and intrastate components of the service.

While this ruling does not exempt us from all state oversight of our service, it effectively prevents state telecommunications regulators from imposing certain burdensome and inconsistent market entry requirements and certain other state utility rules and regulations on our service. State regulators continue to probe the limits of federal preemption in their attempts to apply state telecommunications regulation to interconnected VoIP service. On July 16, 2009, the Nebraska Public Service Commission and the Kansas Corporation Commission filed a petition with the FCC seeking a declaratory ruling or, alternatively, adoption of a rule declaring that state authorities may apply universal service funding requirements to nomadic VoIP providers. We participated in the FCC proceedings on the petition. On November 5, 2010, the FCC issued a declaratory ruling that allowed states to assess state USF on nomadic VoIP providers on a going forward basis provided that the states comply with certain conditions to ensure that imposing state USF does not conflict with federal law or policy. We expect that state public utility commissions and state legislators will continue their attempts to apply state telecommunications regulations to nomadic VoIP service.

State and Municipal Taxes

In accordance with generally accepted accounting principles, we make a provision for a liability for taxes when it is both probable that a liability has been incurred and the amount of the liability or range of liability can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations,

settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. For a period of time, we did not collect or remit state or municipal taxes (such as sales, excise, utility, use, and ad valorem taxes), fees or surcharges ("Taxes") on the charges to our customers for our services, except that we historically complied with the New Jersey sales tax. We have received inquiries or demands from a number of state and municipal taxing and 911 agencies seeking payment of Taxes that are applied to or collected from customers of providers of traditional public switched telephone network services. Although we have consistently maintained that these Taxes do not apply to our service for a variety of reasons depending on the statute or rule that establishes such obligations, we are now collecting and remitting sales taxes in certain of those states including a number of states that have changed their statutes to expressly include VoIP. In addition, many states address how VoIP providers should contribute to support public safety agencies, and in those states we remit fees to the appropriate state agencies. We could also be contacted by state or municipal taxing and 911 agencies regarding Taxes that do explicitly apply to VoIP and these agencies could seek retroactive payment of Taxes. As such, we have a reserve of $3,125 as of December 31, 2014 as our best estimate of the potential tax exposure for any retroactive assessment. We believe the maximum estimated exposure for retroactive assessments is approximately $5,000 as of December 31, 2014.

ITEM 4. Mine Safety Disclosures
Not Applicable.

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PART II

ITEM 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Price Range of Common Stock

Our common stock has been listed on the New York Stock Exchange under the ticker symbol "VG" since May 24, 2006. Prior to that time, there was no public market for our common stock. The

following table sets forth the high and low sales prices for our common stock as reported on the NYSE for the quarterly periods indicated.

	Price Range of Common Stock	
	High	Low
2014		
Fourth quarter	$3.96	$3.10
Third quarter	$4.01	$3.17
Second quarter	$4.50	$3.33
First quarter	$4.96	$3.25
2013		
Fourth quarter	$3.93	$3.02
Third quarter	$3.46	$2.73
Second quarter	$3.15	$2.65
First quarter	$2.92	$2.30

Holders

At January 31, 2015, we had approximately 178 stockholders of record. This number does not include beneficial owners whose shares are held in street name.

Dividends

We have never paid cash dividends on our common stock, and we do not anticipate paying any cash dividends on our common stock for at least the next 12 months. We intend to retain all of our earnings, if any, for general corporate purposes, and, if appropriate, to finance the expansion of our business.

Stock Performance Graph

The graph below compares the cumulative total return of

our common stock between December 31, 2009 and December 31, 2014, with the cumulative total return of (1) the S&P 500 Index, (2) the NASDAQ Telecom Index and (3) the NYSE Composite Index. This graph assumes the investment of $100 on December 31, 2009 in our common stock, the S&P 500 Index, the NASDAQ Telecom Index and the NYSE Composite Index, and assumes the reinvestment of dividends, if any.

The graph below and related information shall not be deemed "soliciting material" or "filed" with the Securities and Exchange Commission or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act"), nor shall such information be deemed incorporated by reference into any filing under the Securities Act of 1933 (the "Securities Act") or the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate such information by reference into a document

filed under the Securities Act or the Exchange Act.

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COMPARISON OF THE CUMULATIVE TOTAL RETURN ON COMMON STOCK BETWEEN DECEMBER 31, 2009 AND DECEMBER 31, 2014
Among Vonage Holdings Corp., the S&P 500 Index, the NASDAQ Telecom Index and the NYSE Composite Index.

	December 31,				
	2010	2011	2012	2013	2014
Vonage Holdings Corp.	$160.00	$175.00	$169.29	$237.86	$272.14
S&P 500 Index	$112.78	$112.78	$127.90	$165.76	$184.64
NASDAQ Telecom Index	$100.67	$87.97	$89.73	$111.28	$121.20
NYSE Composite Index	$107.29	$100.73	$113.75	$140.11	$146.02

Common Stock repurchases

See Note 8 – Common Stock of the Notes to Financial Statements (Part IV of this Form 10-K) for information regarding common stock repurchases by quarter. Following are our monthly

common stock repurchases (in thousands, except per share value) during the fourth quarter of 2014, all of which were purchased as part of publicly announced repurchase programs:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Program
October 1, 2014 - October 31, 2014	1,397	3.26	1,397	$8,248
November 1, 2014 - November 30, 2014 (1)	892	3.57	892	$5,065
December 1, 2014 - December 31, 2014 (2)	1,375	3.52	1,375	$219
	3,664		3,664	

(1) including 195 shares, or $678, of common stock repurchases settled in December 2014; excluding commission of $2.
(2) including 171 shares, or $660, of common stock repurchases settled in January 2015; excluding commission of $2.

On February 7, 2013, Vonage's Board of Directors discontinued the remainder of the $50,000 repurchase program, announced on July 25, 2012, effective at the close of business on February 12, 2013, with $16,682 remaining, and authorized a new program to repurchase up to $100,000 of the Company's outstanding shares. The $100,000 repurchase program expired on December 31, 2014.
During the three months ended December 31, 2014, we repurchased 3,664 shares of Vonage Holdings Corp. common stock for $12,581 excluding commission, using cash resources pursuant to the

$100,000 repurchase program. The repurchases occurred in the open market pursuant to a trading plan under Rule 10b5-1 of the Securities Exchange Act of 1934. As of December 31, 2014, approximately $219 remained of our $100,000 repurchase program.

On December 9, 2014, Vonage's Board of Directors authorized a new program for the Company to repurchase up to $100,000 of its outstanding common stock. Repurchases under the new program are expected to be made over a four-year period beginning in 2015. Under the new program, the timing and amount of repurchases will be

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determined by management based on its evaluation of market conditions, the trading price of the stock and will vary based on available capital resources and other financial and operational performance, market conditions, securities law limitations, and other factors. Repurchases may be made in the open market or through private transactions from time to time. The repurchases will be made using available cash balances. In any period, cash used in financing activities related to common stock repurchases may differ from the comparable change in stockholders' equity, reflecting timing differences between the recognition of share repurchase transactions and their settlement for cash.

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ITEM 6. Selected Financial Data

The following table sets forth our selected historical financial information. The statement of operations and cash flow data for the years ended December 31, 2014, 2013, and 2012 and the balance sheet data as of December 31, 2014 and 2013 are derived from our audited consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. The statement of operations and cash flow data for the years ended December 31, 2011 and 2010 and the balance sheet data as of

December 31, 2012, 2011 and 2010 are derived from our audited consolidated financial statements and related notes not included in this Annual Report on Form 10-K. The results included below and elsewhere are not necessarily indicative of our future performance. You should read this information together with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K.

	For the years ended December 31,				
(In thousands, except per share amounts)	2014 (1)	2013 (2)	2012	2011	2010
Statement of Operations Data:					
Revenues	$868,953	$829,067	$849,114	$870,323	$885,042
Operating Expenses:					
Cost of telephony services (3) (4)	232,053	237,294	259,224	267,338	277,753
Cost of goods sold	36,815	37,586	39,133	41,756	55,965
Selling, general and administrative (4)	274,750	238,720	215,021	203,565	205,027
Marketing	226,121	227,052	212,540	204,263	198,170
Depreciation and amortization	51,407	36,066	33,324	37,051	53,073
Loss from abandonment of software assets	—	—	25,262	—	—
	821,146	776,718	784,504	753,973	789,988
Income from operations	47,807	52,349	64,610	116,350	95,054
Other Income (Expense):					
Interest income	212	307	109	135	519
Interest expense	(6,823)	(6,557)	(5,986)	(17,118)	(48,541)
Change in fair value of embedded features within notes payable and stock warrant	—	—	—	(950)	(99,338)
Loss (gain) on extinguishment of notes	—	—	—	(11,806)	(31,023)
Other (expense) income, net	11	(104)	(11)	(271)	(18)
	(6,600)	(6,354)	(5,888)	(30,010)	(178,401)
Income (loss) before income tax (expense) benefit	41,207	45,995	58,722	86,340	(83,347)
Income tax (expense) benefit	(21,760)	(18,194)	(22,095)	322,704	(318)
Net Income (loss)	$19,447	$27,801	$36,627	$409,044	$(83,665)
Plus: Net loss attributable to noncontrolling interest	$819	$488	$—	$—	$—
Net income (loss) attributable to Vonage	$20,266	$28,289	$36,627	$409,044	$(83,665)
Net income (loss) attributable to Vonage per common share:					
Basic	$0.10	$0.13	$0.16	$1.82	$(0.40)
Diluted	$0.09	$0.13	$0.16	$1.69	$(0.40)
Weighted-average common shares outstanding:					
Basic	209,822	211,563	224,264	224,324	209,868
Diluted	219,419	220,520	232,633	241,744	209,868

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	For the years ended December 31,				
(dollars in thousands)	2014 (1)	2013 (2)	2012	2011	2010
Statement of Cash Flow Data:					
Net cash provided by operating activities	$92,542	$88,243	$119,843	$146,786	$194,212
Net cash used in investing activities	(118,528)	(120,985)	(25,472)	(37,604)	(4,686)
Net cash provided by (used in) financing activities	(14,239)	21,891	(56,257)	(130,138)	(143,762)

	December 31,				
(dollars in thousands)	2014 (1)	2013 (2)	2012	2011	2010
Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$47,959	$84,663	$97,110	$58,863	$78,934
Property and equipment, net	49,630	52,243	60,533	67,978	79,050
Goodwill and intangible assets, net	251,169	160,477	6,681	9,056	4,186
Total deferred tax assets, including current portion, net	248,939	264,900	306,113	325,601	—
Restricted cash	3,405	4,405	5,656	6,929	7,978
Total assets	675,302	642,749	547,389	566,215	260,392
Total notes payable and indebtedness under revolving credit facility, including current portion	157,000	121,666	42,500	70,833	193,004
Capital lease obligations	10,201	13,090	15,561	17,665	19,448
Total liabilities	331,805	304,713	225,974	266,648	390,039
Total stockholders' equity (deficit)	343,497	338,074	321,415	290,567	(129,647)

(1) The year ended December 31, 2014 includes the impact of the acquisition of Telesphere Networks Ltd., which was completed in the fourth quarter.

(2) The year ended December 31, 2013 includes the impact of the acquisition of Vocalocity Inc., which was completed in the fourth quarter.

(3) Excludes depreciation and amortization of $19,330 for 2014, $14,892 for 2013, $15,115 for 2012, $15,824 for 2011, and $18,725 for 2010.

(4) Reflects amounts reclassified from selling, general and administrative expense to cost of telephony services of $23,582 for 2013, $27,347 for 2012, $31,189 for 2011, and $33,959 and 2010.

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ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion together with "Selected Financial Data" and our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ materially from those we currently anticipate as a result of many factors, including the factors we describe under "Item 1A—Risk Factors," and elsewhere in this Annual Report on Form 10-K.

OVERVIEW

We are a leading provider of unified communications as a service, or UCaaS, solutions connecting people and businesses through cloud-connected devices worldwide.

Consumer Customers

For our consumer customers, we rely heavily on our network, which is a flexible, scalable Session Initiation Protocol (SIP) based Voice over Internet Protocol, or VoIP, network. This platform enables a user via a single "identity," either a number or user name, to access and utilize services and features regardless of how they are connected to the Internet, including over 3G, LTE, Cable, or DSL broadband networks. This technology enables us to offer our customers attractively priced voice and messaging services and other features around the world on a variety of devices.

Our consumer strategy is focused on the continued penetration of our core North American markets, where we will continue to provide value in international long distance and target under-served ethnic segments, and target the low-end domestic market with our flanker brand, BasicTalk, a low-priced home phone service offering unlimited calling throughout the United States.

International long distance. As a part of our strategy, our primary focus in our domestic markets is serving the under-served ethnic segments in the United States with international calling needs. The markets for international long distance allow us to leverage our VoIP network by providing customers a low-cost and convenient alternative to services offered by telecom and cable providers and international calling cards. With our Vonage World product, we have successfully grown our international calling customer base in multiple ethnic markets.

To increase the visibility of our international long distance plans, we have shifted an increasing portion of our marketing budget from broad national advertising as we target attractive segments of the international long distance market. We have direct sales channels where customers can subscribe to our services on-line or through our toll-free number, as well as a retail distribution channel through regional and national retailers and localized street teams. Our retail distribution outlets include Walmart, Best Buy, Kmart, Sears, Brandsmart, Fry's, and Microcenter.

Low-end domestic. We also provide services to address the low-end domestic market for light users, often with poor in-home wireless coverage. BasicTalk, our low-end domestic calling product, is sold in Walmart, Family Dollar, and CVS/pharmacy stores nationwide and through our direct telesales and online channels. We believe the low-end domestic segment remains a sizeable opportunity, and we expect to continue to maintain our share as we as we focus on improving overall marketing efficiency.

Our focus on operations during the past five years has led to a significantly improved cost structure. We have implemented

operational efficiencies throughout our business and have substantially reduced domestic and international termination costs per minute, as well as customer care costs. We achieved these structural costs reductions while concurrently delivering significantly improved network call quality and customer service performance. These improvements in customer experience have contributed to the stabilization in churn over recent periods. During 2014, we redoubled our focus on targeting customers with appropriate customer lifetime values. This focus has led to a reallocation of certain

marketing spend away from our assisted selling channel, which utilizes direct face-to-face selling across multiple retail chains and community and event venues. The investment in this channel has been reduced as we have focused on customer lifetime profitability and the maintenance of our strong cash flows in the consumer business.

The result of these initiatives has been to create a strong cash flow business which provides financial stability, as well as cost synergies and structural advantages to the portion of our business serving the growing small and medium business (SMB) market.

Services outside of the United States. We currently have operations in the United States, United Kingdom, and Canada and believe that our low-cost Internet based communications platform enables us to cost effectively deliver voice and messaging services to other locations throughout the world. In December 2014 we announced plans to exit the Brazilian market for consumer telephony services and wind down our joint venture operations in the country. The Company expects to complete this process by the end of the first quarter of 2015. This decision underscores the Company’s focus on providing UCaaS solutions to domestic consumers and SMBs, which offer higher investment return opportunities.

Small and Medium Business Customers

For our business customers, we provide innovative, cloud-based business communication solutions, comprised of integrated voice, text, video, data and mobile applications. Our products are enterprise-grade, however we focus on the small and medium sized business market, generally consisting of businesses with less than 1,000 users. Our products and services permit these customers to communicate with their customers and employees through any cloud-connected device, in any place, at any time. In November 2013 we acquired Vocalocity, Inc. (now rebranded Vonage Business Solutions) and in December 2014 we acquired Telesphere Networks, Ltd. These acquisitions position us as a leader in the high growth SMB market, with the ability to address the entire spectrum of SMB customers, from 1 to 1,000 seats. We now provide customers with multiple deployment options, designed to provide the reliability and quality of service they demand. Our Vonage Business Solutions customers subscribe to our cloud-based communication services, delivered through our proprietary platform. Our Vonage Business Solutions products are primarily sold through our direct sales channel and customers typically do not enter into term contracts. For larger customers that require guaranteed quality of service metrics in their service level agreements (SLAs), Telesphere offers carrier-grade performance and support for wireline and mobile devices to businesses over its private IP MPLS network, one of the largest in the nation. Telesphere’s cloud-based UCaaS services allow businesses of any size to utilize cutting edge voice, video, data and collaboration features of large enterprise systems without the often costly investment required with on-site equipment. Telesphere’s services are provided under initial three-year contracts.

Our Vonage Business Solutions products are generally sold through our direct sales channel. Our Telesphere products are generally sold through our network of authorized resellers and value-added distributors served either by national distributors or directly by us.

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Recent Developments

Acquisition of Telesphere. Pursuant to the Agreement and Plan of Merger (the “Telesphere Merger Agreement ”), dated November 4, 2014, by and among Vonage, Thunder Acquisition Corp., a Washington corporation and newly formed wholly owned subsidiary of Vonage (“Merger Sub”), Telesphere Networks Ltd. ("Telesphere"), and each of John Chapple and Gary O’Malley, as representative of the securityholders of Telesphere (collectively, the “Representative”). Pursuant to the Merger Agreement, on December 15, 2014, Merger Sub merged with and into Telesphere, and Telesphere became a wholly owned subsidiary of Vonage (the “Merger”).

Telesphere was acquired for $114,000, adjusted for $676 of excess cash as of the closing date and the decrease in value of the 6,825 shares of Vonage common stock from the signing date to the closing date of $241, resulting in a total acquisition cost of $114,435. We financed the transaction through $24,708 of cash (of which $3,610 was paid in January 2015) and $67,000 from our credit facility. The acquisition of Telesphere immediately positions Vonage as a leader in serving larger enterprises in the SMB hosted VoIP market.

Joint Venture in Brazil. In December 2014 we announced plans to exit the Brazilian market for consumer telephony services and wind down of our joint venture operations in the country. The Company expects to complete the process by the end of the first quarter of 2015.

We expect to avoid material operating losses in Brazil in 2015 and 2016 due to the significant planned incremental investment that would have been required to scale the business. In connection with the wind down, we incurred approximately $111 and $1,972 in cash and non-cash charges, respectively, in the fourth quarter of 2014 related to severance-related expenses and asset write downs. We estimate that we will incur approximately $500 in cash charges in the first quarter of 2015 related to contract terminations and severance-related expenses.

Trends in Our Industry and Key Operating Data

A number of trends in our industry have a significant effect on our results of operations and are important to an understanding of our financial statements.

Competitive landscape. We face intense competition from traditional telephone companies, wireless companies, cable companies, and alternative voice communication providers. Most traditional wireline and wireless telephone service providers and cable companies are substantially larger and better capitalized than we are and have the advantage of a large existing customer base. In addition, because our competitors provide other services, they often choose to offer VoIP services or other voice services as part of a bundle that includes other products, such as Internet access, cable television, and home telephone service, with an implied price for telephone service that may be significantly below ours. In addition, such competitors may in the future require new customers or existing customers making changes to their service to purchase voice services when purchasing high speed Internet access. Further, as wireless providers offer more minutes at lower prices, better coverage, and companion landline alternative services, their services have become more attractive to households as a replacement for wireline service. We also compete against alternative voice communication providers, such as magicJack, Skype, and Google Voice. Some of these service providers have chosen to sacrifice telephony revenue in order to gain market share and have offered their

services at low prices or for free. As we continue to introduce applications that integrate different forms of voice and messaging services over multiple devices, we are facing competition from emerging competitors focused on similar integration, as well as from alternative voice communication providers. In addition, our competitors have partnered and may in the future partner with other competitors to offer products and services, leveraging their collective competitive positions. We also are subject to the risk of future disruptive technologies. In connection with our emphasis on the international long distance market, we face competition from low-cost international calling cards and VoIP providers in addition to traditional telephone companies, cable companies, and wireless companies. In connection with our Vonage Business Solutions SMB and SOHO markets, we face competition from the traditional telephone and cable companies discussed above, as well as from SMB communications providers such as 8x8, RingCentral, and other companies.

Broadband adoption. The number of United States households with broadband Internet access has grown significantly. On March 16, 2010, the Federal Communications Commission (“FCC”) released its National Broadband Plan, which

seeks, through supporting broadband deployment and programs, to encourage broadband adoption for the approximately 100 million United States residents who do not have broadband at home. We expect the trend of greater broadband adoption to continue. We benefit from this trend because our service requires a broadband Internet connection and our potential addressable market increases as broadband adoption increases.

Regulation. Our business has developed in a relatively lightly regulated environment. The United States and other countries, however, are examining how VoIP services should be regulated. A November 2010 order by the FCC that permits states to impose state universal service fund obligations on VoIP service, discussed in Note 10 to our financial statements, is an example of efforts by regulators to determine how VoIP service fits into the telecommunications regulatory landscape. In addition to regulatory matters that directly address VoIP, a number of other regulatory initiatives could impact our business. One such regulatory initiative is net neutrality. In December 2010, the FCC adopted a revised set of net neutrality rules for broadband Internet service providers. These rules made it more difficult for broadband Internet service providers to block or discriminate against Vonage service. On January 14, 2014, the D.C. Circuit Court of Appeals vacated the anti-blocking and the unreasonable discrimination provisions of the rules. A vote on the new net neutrality rules currently is expected at the February 26, 2015 FCC meeting. In addition, on February 9, 2011, the FCC released a Notice of Proposed Rulemaking on reforming universal service and the intercarrier compensation (“ICC”) system that governs payments between telecommunications carriers primarily for terminating traffic. The FCC's adoption of an ICC proposal will impact Vonage's costs for telecommunications services. On October 27, 2011, the FCC adopted an order reforming universal service and ICC. The FCC order provides that VoIP originated calls will be subject to interstate access charges for long distance calls and reciprocal compensation for local calls that terminate to the public switched telephone network (“PSTN”). The termination charges for all traffic, including VoIP originated traffic, will transition over several years to a bill and keep arrangement (i.e., no termination charges). Numerous parties filed appeals of the FCC's ICC order. We believe that the order, if effected, will positively impact our costs over time. See also the discussion under "Regulation" in Note 10 to our financial statements for a discussion of regulatory issues that impact us.

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The table below includes key operating data that our management uses to measure the growth and operating performance of our business:

	For the Years Ended December 31,		
	2014	2013	2012
Gross subscriber line additions	661,608	652,852	652,750
Change in net subscriber lines	(42,065)	9,392	(15,071)
Subscriber lines (at period end)	2,470,832	2,542,926	2,359,816
Average monthly customer churn	2.6%	2.5%	2.6%
Average monthly operating revenues per line	$28.89	$28.18	$29.89
Average monthly cost of telephony services per line	$7.71	$8.07	$9.12
Marketing costs per gross subscriber line addition	$341.77	$347.78	$325.61
Employees (excluding temporary help) (at period end)	1,400	1,243	983

Gross subscriber line additions. Gross subscriber line additions for a particular period are calculated by taking the net subscriber line additions during that particular period and adding to that the number of subscriber lines that terminated during that period. This number does not include subscriber lines both added and terminated during the period, where termination occurred within the first 30 days after activation. The number does include, however, subscriber lines added during the period that are terminated within 30 days of activation but after the end of the period.

Change in net subscriber lines. Change in net subscriber lines for a particular period reflects the number of subscriber lines at the end of the period, less the number of subscriber lines at the beginning of the period.

Subscriber lines. Our subscriber lines include, as of a particular date, all paid subscriber lines from which a customer can make an outbound telephone call on that date. Our subscriber lines include fax lines and soft phones but do not include our virtual phone numbers or toll free numbers, which only allow inbound telephone calls to customers. Subscriber lines decreased by 42,065, which excludes a reduction of 78,949 subscriber lines associated with our extensions product for which we discontinued charging a fee and an increase of 48,920 subscriber lines from Telesphere prior to acquisition, from 2,542,926 as of December 31, 2013 to 2,470,832, as of December 31, 2014.

Average monthly customer churn. Average monthly customer churn for a particular period is calculated by dividing the number of customers that terminated during that period by the simple average number of customers during the period, and dividing the result by the number of months in the period. The simple average number of customers during the period is the number of customers on the first day of the period, plus the number of customers on the last day of the period, divided by two. Terminations, as used in the calculation of churn statistics, do not include customers terminated during the period if termination occurred within the first 30 days after activation. Our average monthly customer churn increased to 2.6% for 2014 compared to 2.5% for 2013. The increases were due primarily to the higher early life churn rate of customers acquired through retail channels without a minimum service requirement, including assisted selling and community sales channels, which have increased as a percentage of our total customer base. Our average monthly customer churn decreased sequentially from 2.7% for the three months ended September 30, 2014 to 2.5% for the three months ended December 31, 2014 based in large measure on our decision to maximize customer value by focusing marketing spend on higher return channels and away from assisted selling channels, and was flat compared to the three months ended December 31, 2013. We monitor churn on a daily basis and use it as an indicator of the level of customer satisfaction. Other companies may calculate churn differently, and their churn data may not be directly comparable to ours. Customers who have been with us for a year or more tend to have a lower churn rate than customers who have not. In addition, our customers who are residential international callers generally churn at a lower rate than residential customers who are domestic callers. Customers with service period requirements tend to have a lower churn rate than customers without service period requirements. Similar trends are seen between customers obtained

through retail sales, which generally do not include service period requirements, and those obtained through non-retail channels, which generally do include such service period requirements. In addition, business customers generally

churn at a lower rate than residential customers. Our churn will fluctuate over time due to economic conditions, competitive pressures, marketplace perception of our services, and our ability to provide high quality customer care and network quality and add future innovative products and services.

Average monthly operating revenues per line. Average monthly revenue per line for a particular period is calculated by dividing our total revenue for that period by the simple average number of subscriber lines for the period, and dividing the result by the number of months in the period. The simple average number of subscriber lines for the period is the number of subscriber lines on the first day of the period, plus the number of subscriber lines on the last day of the period, divided by two. Our average monthly revenue per line increased slightly to $28.89 for 2014 compared to $28.18 for 2013. This increase was due primarily to price increase and higher USF offset by discontinuation of charging for second extensions.

Average monthly cost of telephony services per line. Average monthly cost of telephony services per line for a particular period is calculated by dividing our cost of telephony services for that period by the simple average number of subscriber lines for the period, and dividing the result by the number of months in the period. We use the average monthly cost of telephony services per line to evaluate how effective we are at managing our costs of providing service. The Company has reclassified certain personnel and related costs for network operations and customer care that are attributable to revenue generating activities from selling, general and administrative expense to cost of telephony services for all periods presented. Our average monthly cost of telephony services per line decreased to $7.71 for 2014 compared to $8.07 for 2013, due primarily to the decrease in international usage costs.

Marketing cost per gross subscriber line addition. Marketing cost per gross subscriber line addition is calculated by dividing our marketing expense for a particular period by the number of gross subscriber line additions during the period. Marketing expense does not include the cost of certain customer acquisition activities, such as rebates and promotions, which are accounted for as an offset to revenues, or customer equipment subsidies, which are accounted for as cost of goods sold. As a result, it does not represent the full cost to us of obtaining a new customer. Our marketing cost per gross subscriber line addition decreased to $341.77 for 2014 from $347.78 in 2013, due to changes to our retail offers aimed at enhancing customer profitability and reducing customer churn, which resulted in a softening of gross subscriber line additions in our consumer business, partially offset by our investment in VBS.

Employees. Employees represent the number of personnel that are on our payroll and exclude temporary or outsourced labor.

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OPERATING REVENUES

Revenues consist of telephony services revenue and customer equipment and shipping revenue. Substantially all of our revenues are telephony services revenue. In the United States, we offer domestic and international rate plans to meet the needs of our customers, including a variety of residential plans and mobile plans. The “Vonage World” plan, available in the United States and Canada, offers unlimited calling across the United States and Puerto Rico, unlimited international calling to over 60 countries including India, Mexico, and China, subject to certain restrictions, and free voicemail to text messages with Vonage Visual Voicemail. Each of our unlimited plans other than Vonage World offers unlimited domestic calling as well as unlimited calling to Puerto Rico, Canada, and selected European countries, subject to certain restrictions. Each of our basic plans offers a limited number of domestic calling minutes per month. We offer similar plans in Canada. Under our basic plans, we charge on a per minute basis when the number of domestic calling minutes included in the plan is exceeded for a particular month. International calls (except for calls to Puerto Rico, Canada and certain European countries under our unlimited plans and a variety of countries under international calling plans and Vonage World) are charged on a per minute basis. These per minute fees are not included in our monthly subscription fees. Through our recent acquisition of Vocalocity, we offer SMB and SOHO customers several service plans with different pricing structures under the Vonage Business Solutions brand. The service plans include an array of basic and enhanced features applicable to the needs of SMB and SOHO customers. Customers also have the opportunity to purchase premium features for additional fees.

We have begun to integrate the combined operations of Vocalocity, now under the Vonage Business Solutions brand, with Vonage, eliminating overlapping processes and integrating products and sales efforts. We have also begun to optimize lead flow generated by the Vonage brand, directing prospective business customers from Vonage inbound telemarketing or websites to the Vonage Business Solutions website and inbound telesales channels. We expect these efforts to shift certain core gross subscriber line additions and revenue from the Vonage brand to Vonage Business Solutions, leading to subscriber additions with higher total lines and average monthly revenue per line.

In addition to our landline telephony business, we are leveraging our technology to offer services and applications for mobile and other connected devices to address large existing markets. We introduced our first mobile offering in late 2009 and in early 2012 we introduced Vonage Mobile, our all-in-one mobile application that provides free calling and messaging between users who have the application, as well as traditional paid international calling to any other phone. This mobile application works over WiFi, 3G and 4G and in more than 90 countries worldwide. The application consolidates the best features of our prior applications, while adding important functionality, value and ease of use including direct payment through iTunes.

We derive most of our telephony services revenue from monthly subscription fees that we charge our customers under our service plans. We also offer residential fax service, virtual phone numbers, toll free numbers and other services, and charge an additional monthly fee for each service. We automatically charge these fees to our customers’ credit cards, debit cards, or electronic check payments (“ECP”), monthly in advance. We also automatically charge the per minute fees not included in our monthly subscription fees to our customers’ credit cards, debit cards or ECP monthly in arrears unless they exceed a certain dollar threshold, in which case they are charged immediately.

By collecting monthly subscription fees in advance and certain other charges immediately after they are incurred, we are able to reduce the amount of accounts receivable that we have outstanding, thus allowing us to have lower working capital requirements. Collecting in this manner also helps us mitigate bad debt losses, which are recorded as a reduction to revenue. If a customer’s credit card, debit card or ECP is declined, we generally suspend international calling capabilities as well as the customer’s ability to incur domestic usage charges in excess

of their plan minutes. Historically, in most cases, we are able to correct the problem with the customer within the current monthly billing cycle. If the customer’s credit card, debit card or ECP could not be successfully processed during three billing cycles (i.e., the current and two subsequent monthly billing cycles), we terminate the account.

In the United States, we charge regulatory, compliance, E-911, and intellectual property-related recovery fees on a monthly basis to defray costs, and to cover taxes that we are charged by the suppliers of telecommunications services. In addition, we recognize revenue on a gross basis for contributions to the Federal Universal Service Fund (“USF”) and

related fees. All other taxes are recorded on a net basis.

In addition, historically, we charged a disconnect fee for customers who terminated their service plan within the first twelve months of service. Disconnect fees are recorded as revenue and are recognized at the time the customer terminates service. Beginning in September 2010, we eliminated the disconnect fee for new customers. In February of 2012 we re-introduced service agreements as an option for new customers.

Telephony services revenue is offset by the cost of certain customer acquisition activities, such as rebates and promotions.

Customer equipment and shipping revenue consists of revenue from sales of customer equipment to our wholesalers or directly to customers and retailers. In addition, customer equipment and shipping revenues include revenues from the sale of VoIP telephones in order to access our small and medium business services. Customer equipment and shipping revenue also includes the fees, when collected, that we charge our customers for shipping any equipment to them.

OPERATING EXPENSES

Operating expenses consists of cost of telephony services, royalties, cost of goods sold, selling, general and administrative expense, marketing expense, depreciation and amortization, and loss from abandonment of software.

Cost of telephony services. Cost of telephony services primarily consists of fees that we pay to third parties on an ongoing basis in order to provide our services. These fees include:

> Access charges that we pay to other telephone companies to terminate domestic and international calls on the public switched telephone network. These costs represented approximately 49% and 52% of our total cost of telephony services for 2014 and 2013, respectively, with a portion of these payments ultimately being made to incumbent telephone companies. When a Vonage subscriber calls another Vonage subscriber, we do not pay an access charge.

> The cost of leasing Internet transit services from multiple Internet service providers. This Internet connectivity is used to carry VoIP session initiation signaling and packetized audio media between our subscribers and our regional data centers.

> The cost of leasing from other telephone companies the telephone numbers that we provide to our customers. We lease these telephone numbers on a monthly basis.

> The cost of co-locating our regional data connection point equipment in third-party facilities owned by other telephone companies, Internet service providers or collocation facility providers.

> The cost of providing local number portability, which allows customers to move their existing telephone numbers from another provider to our service. Only regulated telecommunications providers have access to the centralized number databases that facilitate this process. Because we are not a regulated telecommunications provider, we must pay other telecommunications providers to process our local number portability requests.

> The cost of complying with the FCC regulations regarding VoIP emergency services, which require us to provide

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enhanced emergency dialing capabilities to transmit 911 calls for all of our customers.

- Taxes that we pay on our purchase of telecommunications services from our suppliers or imposed by government agencies such as Federal USF and related fees.
- License fees for use of third party intellectual property.
- The cost of certain network operations personnel and related expenses.
- The cost of certain customer care personnel and related expenses.

Cost of goods sold. Cost of goods sold primarily consists of costs that we incur when a customer first subscribes to our service. These costs include:

- The cost of the equipment that we provide to customers who subscribe to our service through our direct sales channel in excess of activation fees when an activation fee is collected. The remaining cost of customer equipment is deferred up to the activation fee collected and amortized over the estimated average customer life.
- The cost of the equipment that we sell directly to retailers.
- The cost of shipping and handling for customer equipment, together with the installation manual, that we ship to customers.
- The cost of certain products or services that we give customers as promotions.

Selling, general and administrative expense. Selling, general and administrative expense includes:

- Compensation and benefit costs for all employees, which is

the largest component of selling, general and administrative

expense and includes customer care, research and development, network engineering and operations, sales and marketing, executive, legal, finance, and human resources personnel.

- Share-based expense related to share-based awards to employees, directors, and consultants.
- Outsourced labor related to customer care, kiosk and community based events teams, and retail in-store support activities.
- Product awareness advertising.
- Transaction fees paid to credit card, debit card, and ECP companies and other third party billers such as iTunes, which may include a per transaction charge in addition to a percent of billings charge.
- Rent and related expenses.
- Professional fees for legal, accounting, tax, public relations, lobbying, and development activities.

- Acquisition related transaction and integration costs.
- Litigation settlements.

Marketing expense. Marketing expense consists of:

- Advertising costs, which comprise a majority of our marketing expense and include online, television, direct mail, alternative media, promotions, sponsorships, and inbound and outbound telemarketing.
- Creative and production costs.
- The costs to serve and track our online advertising.
- Certain amounts we pay to retailers and internal and external sales people for activation commissions.
- The cost associated with our customer referral program.

Depreciation and amortization expenses. Depreciation and amortization expenses include:

- Depreciation of our network equipment, furniture and fixtures, and employee computer equipment.
- Depreciation of Company-owned equipment in use at customer premises.
- Amortization of leasehold improvements and purchased and developed software.
- Amortization of intangible assets (developed technology, customer relationships, non-compete agreements, patents, trademarks and trade names).
- Loss on disposal or impairment of property and equipment.

Loss from abandonment of software assets. Loss from abandonment of software assets include:

- Impairment of investment in software assets.

OTHER INCOME (EXPENSE)

Other Income (Expense) consists of:

- Interest income on cash and cash equivalents.
- Interest expense on notes payable, patent litigation judgments and settlements, and capital leases.
- Amortization of debt related costs.
- Accretion of notes.
- Realized and unrealized gains (losses) on foreign currency.
- Gain (loss) on extinguishment of notes.
- Realized gains (losses) on sale of marketable securities.

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RESULTS OF OPERATION

The following table sets forth, as a percentage of consolidated operating revenues, our consolidated statement of income for the periods indicated:

	For the Years Ended December 31,		
	2014	2013	2012
Revenues	100 %	100 %	100 %
Operating Expenses:			
Cost of telephony services (excluding depreciation and amortization)	27	29	30
Cost of goods sold	4	5	5
Selling, general and administrative	31	29	25
Marketing	26	27	25
Depreciation and amortization	6	4	4
Loss from abandonment of software assets	—	—	3
	94	94	92
Income from operations	6	6	8
Other Income (Expense):			
Interest income	—	—	—
Interest expense	(1)	(1)	(1)
Other expense, net	—	—	—
	(1)	(1)	(1)
Income before income tax expense	5	5	7
Income tax expense	(3)	(2)	(3)
Net income	2 %	3 %	4 %
Plus: Net loss attributable to noncontrolling interest	— %	— %	— %
Net income attributable to Vonage	2 %	3 %	4 %

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Summary of Results for the Years Ended December 31, 2014, 2013, and 2012

Revenues, Cost of Telephony Services and Cost of Good Sold (in thousands, except percentages)	For the years ended December 31, 2014	2013	2012	Dollar Change 2014 vs. 2013	Dollar Change 2013 vs. 2012	Percent Change 2014 vs. 2013	Percent Change 2013 vs. 2012
Revenues	$868,953	$829,067	$849,114	$39,886	$(20,047)	5 %	(2)%
Cost of telephony services (1)	232,053	237,294	259,224	(5,241)	(21,930)	(2)%	(8)%
Cost of goods sold	36,815	37,586	39,133	(771)	(1,547)	(2)%	(4)%

(1) Excludes depreciation and amortization of $19,330, $14,892, and $15,115, respectively.

2014 compared to 2013

Revenues. The increase in revenues of $39,886, or 5%, was primarily driven by an increase of $43,476 in monthly subscription fees primarily due to revenue of $70,132 from VBS, partially offset by rate plan mix and lower customer acquisitions on premium plans of $26,655. There was an increase in equipment and shipping revenue of $1,598 and an increase in overage in plan minutes of $2,136, which included $2,291 from VBS. In addition, there was a decrease in credits issued to subscribers of $1,389 and an increase of $1,179 in USF fees, which included an increase of $2,892 from VBS. These increases were offset by a decrease in international minutes of use revenue of $4,938, an increase in bad debt of $1,372, a decrease in additional features revenue of $1,722, and a decrease in fees that we charged for disconnecting our service of $925. There was also a decrease in our regulatory fee revenue of $1,228, which included an increase of $10,019 from VBS.

Cost of telephony services. The Company has reclassified certain personnel and related costs for network operations and customer care that are attributable to revenue generating activities from selling, general and administrative expense to cost of telephony services. The costs reclassified were $23,582 for the year ended December 31, 2013. The decrease in cost of telephony services of $5,241, or 2%, was primarily driven by a decrease in international usage of $10,938 and a decrease in our network costs of $1,266, which includes costs for co-locating in other carriers' facilities, leasing phone numbers, routing calls on the Internet, E-911 costs, and transferring calls to and from the Internet to the public switched telephone network. These decreases were offset by an increase in domestic termination costs of $856, which are costs that we pay other phone companies for terminating phone calls and an increase of USF and related fees imposed by government agencies of $1,231. There was also an increase of $4,484 in network operations and customer care personnel and related costs due to inclusion of VBS costs.

Cost of goods sold. The decrease in cost of goods sold of $771, or 2%, was primarily due to a decrease in equipment costs for our consumer customers due to lower new customer additions of $3,469 offset by an increase in customer equipment costs of $3,041 driven by VBS.

2013 compared to 2012

Revenues. The decrease in revenues of $20,047, or 2%, was primarily driven by a decrease of $17,573 in monthly subscription fees resulting from rate plan mix, lower customer acquisitions on premium plans, prior year line losses, and retention activities partially offset by revenue from Vocalocity since the acquisition that closed on November 15, 2013. There was also a decrease in activation fees of $1,077 and a decrease in other revenue of $996 due to lower rates from our revenue sharing partners. There was an increase in credits issued to subscribers of $2,449, a decrease in additional features revenue of $1,090, and a decrease in international minutes of use revenue of $1,234. These decreases were offset by an increase in fees that we charged for disconnecting our service of $1,024 due to reinstatement of contracts for new customers beginning in February 2012, and an increase in our regulatory fee revenue of $3,784, which includes a decrease of $7,771 in USF fees offset by an increase in regulatory recovery fees and E-911 fees of $11,555.

Cost of telephony services. The Company has reclassified certain personnel and related costs for network operations and customer care that are attributable to revenue generating activities from selling, general and administrative

expense to cost of telephony services. The costs reclassified were $23,582 and $27,347 for the years ended December 31, 2013 and 2012, respectively.

The decrease in cost of telephony services of $21,930, or 8%, was primarily driven by a decrease in domestic termination costs of $1,290 due to improved termination rates, which are costs that we pay other phone companies for terminating phone calls, and fewer minutes of use and a decrease in our network costs of $5,962, which includes costs for co-locating in other carriers' facilities, leasing phone numbers, routing calls on the Internet, E-911 costs, and transferring calls to and from the Internet to the public switched telephone network. There was also a decrease in other costs of $678, a decrease in international usage of $2,413 driven by improved termination rates, and a decrease of USF and related fees imposed by government agencies of $7,775. There was also a decrease of $3,766 in network operations and customer care personnel and related costs.

Cost of goods sold. The decrease in cost of goods sold of $1,547, or 4%, was primarily due to a decrease in waived activation fees for new customers of $5,566 due to lower direct customer adds, a decrease in shipping costs of $1,598, and a decrease in amortization costs on deferred customer equipment of $585, offset by an increase in customer equipment costs of $6,204 from additional customers from our retail expansion.

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Selling, General and Administrative	For the years ended December 31,			Dollar Change	Dollar Change	Percent Change	Percent Change
(in thousands, except percentages)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	2014 vs. 2013	2013 vs. 2012
Selling, general and administrative	$274,750	$238,720	$215,021	$36,030	$23,699	15 %	11 %

2014 compared to 2013

Selling, general and administrative. The Company has reclassified $23,582 of costs for the year ended December 31, 2013 related to certain personnel and related network operations and customer care costs attributable to revenue generating activities from selling, general and administrative expense to cost of telephony services.

For the year ended 2014 compared to the year ended 2013, general and administrative expense increased by $31,504 due to an increase in compensation and employee related expense of $18,198, an increase in customer care costs of $2,778 mainly from inclusion of VBS, and higher share based cost of $3,227. There was also an increase in credit card and ECP fees of $1,063, professional fees of $1,612, telecommunications expense of $551, and facility expense of $1,426. In addition, there was a change in settlement expense of $3,150 as last year included a benefit from resolution of an insurance claim for prior period legal fees of $2,300 and settlement expenses of $715. These increases were offset by a decrease in state and municipal taxes of $682.

For the year ended 2014 compared to the year ended 2013, selling expense increased by $4,526, including $5,434 due to an increase in the number of retail stores with assisted selling and commissions paid to retailers of $3,005, offset by a decrease of $3,361 due to reduction in kiosk locations and a decrease of $552 in product marketing.

2013 compared to 2012

Selling, general and administrative. The Company has reclassified $23,582 and $27,347 of costs for the years ended December 31, 2013 and 2012, respectively, related to certain personnel and related network operations and customer care costs attributable to revenue generating activities from selling, general and administrative expense to cost of telephony services.

For the year ended 2013 compared to the year ended 2012, general and administrative expense increased by $11,058 due mainly to higher share based cost of $5,868, an increase in compensation and employee related expense of $9,273 including expense from Vocalocity since the acquisition that closed on November 15, 2013, and an increase in professional fees of $1,798. There was also an increase in taxes of $2,082 and an increase in acquisition related costs of $2,768 related to the acquisition of Vocalocity, primarily related to professional fees. These increases were offset by a resolution of an insurance claim for prior period legal fees and settlement expenses of $2,300, lower customer care costs of $4,949, and a decrease in telecommunications expenses of $1,100. There was also a decrease in settlement cost of $972 and a decrease in other expense of $1,122.

For the year ended 2013 compared to the year ended 2012, selling expense increased by $12,641 including $3,701 due to the expansion of the number of community sales teams, and $10,749 due to an increase in the number of retail stores with assisted selling and the nationwide BasicTalk launch, offset by a decrease of $2,158 related to product awareness advertising of our mobile offering launched in February 2012.

Marketing	For the years ended December 31,			Dollar Change	Dollar Change	Percent Change	Percent Change
(in thousands, except percentages)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	2014 vs. 2013	2013 vs. 2012

Marketing	$226,121	$227,052	$212,540	$(931)	$14,512	— %	7 %

2014 compared to 2013
Marketing. The decrease in marketing expense of $931, was primarily due to lower television advertising as we adjusted our media investment to optimize efficiency and changes to our retail offers aimed at enhancing customer profitability and reducing customer churn. These actions resulted in a softening of gross subscriber line additions in our consumer business partially offset by our investment in the VBS business. This decrease was offset by an increase in direct mail.

2013 compared to 2012
Marketing. The increase in marketing expense of $14,512, or 7%, as a result of our investment for the nationwide launch of BasicTalk included a portion of costs that were fixed and not variable with subscriber line additions.

Depreciation and Amortization	For the years ended December 31,			Dollar Change	Dollar Change	Percent Change	Percent Change
(in thousands, except percentages)	2014	2013	2012	2014 vs. 2013	2013 vs. 2012	2014 vs. 2013	2013 vs. 2012
Depreciation and amortization	$51,407	$36,066	$33,324	$15,341	$2,742	43 %	8 %

2014 compared to 2013
Depreciation and amortization. The increase in depreciation and amortization of $15,341, or 43%, was primarily due to an increase in intangibles amortization of $12,084 which included $12,552 acquisition-related intangibles for VBS, an increase in software amortization of $894, an increase in depreciation of network equipment, computer hardware, and furniture of $412, and impairment of $1,951 driven by Brazil closure.

2013 compared to 2012
Depreciation and amortization. The increase in depreciation and amortization of $2,742, or 8%, was primarily due to the amortization of acquisition-related intangibles of $2,483 and an increase in software amortization of $1,553 partially offset by lower depreciation of network equipment, computer hardware, and furniture of $1,295.

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Loss from abandonment of software assets	For the years ended December 31,			Dollar Change 2014 vs. 2013	Dollar Change 2013 vs. 2012	Percent Change 2014 vs. 2013	Percent Change 2013 vs. 2012
(in thousands, except percentages)	2014	2013	2,012				
Loss from abandonment of software assets	$—	$—	$25,262	$—	$(25.262)	— %	(100)%

2014 compared to 2013
Loss from abandonment of software assets. None.

2013 compared to 2012
Loss from abandonment of software assets. The loss from abandonment of software assets of $25,262 in 2012 was due to the write-off of our investment in the Amdocs system, net of settlement amounts to the Company, during the second quarter of 2012.

Other Income (Expense)	For the years ended December 31,			Dollar Change 2014 vs. 2013	Dollar Change 2013 vs. 2012	Percent Change 2014 vs. 2013	Percent Change 2013 vs. 2012
(in thousands, except percentages)	2014	2013	2012				
Interest income	$212	$307	$109	$(95)	$198	(31)%	182 %
Interest expense	(6,823)	(6,557)	(5,986)	(266)	(571)	(4)%	(10)%
Other income (expense), net	11	(104)	(11)	115	(93)	111 %	(845)%
	$(6,600)	$(6,354)	$(5,888)				

2014 compared to 2013
Interest income. Interest income decreased $95, or 31%.
Interest expense. The increase in interest expense of $266, or 4%, was due mainly to the funds we borrowed from the 2013 Revolving Credit Facility in November 2013 in connection with the acquisition of Vocalocity and our refinancing in August 2014.
Other income (expense), net. Other income (expense), net increased by $115 in 2014 compared to 2013.

2013 compared to 2012
Interest income. Interest income increased $198, or 182%.
Interest expense. The increase in interest expense of $571, or 10%, was due mainly to a higher principal balance on our credit facility entered into in connection with our refinancing in February 2013 than the remaining principal balance on our credit facility entered into in connection with our refinancing in July 2011 and the funds we borrowed from the 2013 revolving credit facility in November 2013 in connection with the acquisition of Vocalocity.
Other expense, net. Other expense, net increased by $93 in 2013 compared to 2012.

Income Tax Expense	For the years ended December 31,			Dollar Change	Dollar Change	Percent Change	Percent Change
(in thousands, except percentages)	2014	2013	2012				

				2014 vs. 2013	2013 vs. 2012	2014 vs. 2013	2013 vs. 2012
Income tax expense	$(21,760)	$(18,194)	$(22,095)	$(3,566)	$3,901	(20)%	18 %
Effective tax rate	53 %	39 %	38 %				

We recognize income tax expense equal to pre-tax income multiplied by our effective income tax rate. In addition, adjustments are recorded for discrete period items related to stock compensation and changes to our state effective tax rate.

The provision also includes the federal alternative minimum tax and state and local income taxes in 2014, 2013, and 2012.

The effective tax rate is calculated by dividing income tax expense by income before income tax expense. In 2014, our effective tax rate was impacted by the effect of losses incurred in certain foreign jurisdictions for which we may not realize a tax benefit. The losses reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate.

As of December 31, 2014, we had net operating loss carry forwards for United States federal and state tax purposes, including the NOLs of Vocalocity as of the date of acquisition, of $639,981 and $214,238, respectively, expiring at various times from years ending 2013 through 2033. In addition, we had net operating loss carry forwards for Canadian tax purposes of $4,458 expiring through 2027. We also had net operating loss carry forwards for United Kingdom tax purposes of $44,853 with no expiration date.

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Net Income	For the years ended December 31,			Dollar Change 2014 vs. 2013	Dollar Change 2013 vs. 2012	Percent Change 2014 vs. 2013	Percent Change 2013 vs. 2012
(in thousands, except percentages)	2014	2013	2012				
Net income	$19,447	$27,801	$36,627	$(8,354)	$(8,826)	(30)%	(24)%

2014 compared to 2013
Net Income. Based on the activity described above, our net income of $19,447 for the year ended December 31, 2014 decreased by $8,354, or 30%, from net income of $27,801 for the year ended December 31, 2013.

2013 compared to 2012
Net Income. Based on the activity described above, our net income of $27,801 for the year ended December 31, 2013 decreased by $8,826, or 24%, from net income of $36,627 for the year ended December 31, 2012.

Net loss attributable to noncontrolling interest	For the years ended December 31,			Dollar Change 2014 vs. 2013	Dollar Change 2013 vs. 2012	Percent Change 2014 vs. 2013	Percent Change 2013 vs. 2012
	2014	2013	2012				
Net loss attributable to noncontrolling interest	$819	$488	$—	$331	$488	68 %	100 %

2014 compared to 2013
Net loss attributable to noncontrolling interest. The net loss attributable to noncontrolling interest of $819 for the year ended December 31, 2014 represented our joint venture partner's share of the net loss of a consolidated subsidiary in Brazil.

2013 compared to 2012
Net loss attributable to noncontrolling interest. The net loss attributable to noncontrolling interest of $488 for the year ended December 31, 2013 represented 30% of the net loss of a consolidated subsidiary in Brazil.

Net income attributable to Vonage	For the years ended December 31,			Dollar Change 2014 vs. 2013	Dollar Change 2013 vs. 2012	Percent Change 2014 vs. 2013	Percent Change 2013 vs. 2012
	2014	2013	2012				
Net income attributable to Vonage	$20,266	$28,289	$36,627	$(8,023)	$(8,338)	(28)%	(23)%

2014 compared to 2013
Net Income attributable to Vonage. Based on the activity described above, our net income attributable to Vonage of $20,266 for the year ended December 31, 2014 decreased by $8,023, or 28%, from net income of $28,289 for the year ended December 31, 2013.

2013 compared to 2012
Net Income attributable to Vonage. Based on the activity described above, our net income attributable to Vonage of $28,289 for the year ended December 31, 2013 decreased by $8,338, or 23%, from net income of $36,627 for the year ended December 31, 2012.

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QUARTERLY RESULTS OF OPERATIONS

The following table sets forth quarterly statement of operations data. We derived this data from our unaudited consolidated financial statements, which we believe have been prepared on substantially the same basis as our audited consolidated financial statements. The operating results in any quarter are not necessarily indicative of the results that may be expected for any future period.

(dollars in thousands, except operating data)	For the quarter ended Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep
Revenues	$209,087	$204,776	$203,984	$211,220	$220,733	$218,882	$214
Operating expenses:							
Cost of telephony services (1) (2)	61,572	59,324	58,500	57,898	59,442	59,059	56,8
Cost of goods sold	8,878	9,217	9,535	9,956	9,739	9,450	9,20
Selling, general and administrative (2)	56,519	55,684	59,134	67,383	71,628	66,895	66,4
Marketing	51,669	58,330	59,133	57,920	57,264	59,003	58,3
Depreciation and amortization	7,975	8,205	8,459	11,427	12,338	12,459	12,3
	186,613	190,760	194,761	204,584	210,411	206,866	203,
Income from operations	22,474	14,016	9,223	6,636	10,322	12,016	11,6
Other income (expense):							
Interest income	37	74	97	99	91	31	37
Interest expense	(1,457)	(1,732)	(1,509)	(1,859)	(2,077)	(1,434)	(1,68
Other, net	(39)	(17)	(15)	(33)	(13)	36	(2
	(1,459)	(1,675)	(1,427)	(1,793)	(1,999)	(1,367)	(1,64
Income before income tax expense	21,015	12,341	7,796	4,843	8,323	10,649	9,99
Income tax expense	(7,968)	(4,894)	(3,811)	(1,521)	(4,118)	(5,266)	(5,62
Net income	13,047	7,447	3,985	3,322	4,205	5,383	4,36
Plus: Net loss attributable to noncontrolling interest	—	—	222	266	383	135	191
Net income attributable to Vonage	$13,047	$7,447	$4,207	$3,588	$4,588	$5,518	$4,5
Net income attributable to Vonage per common share:							
Basic	$0.06	$0.04	$0.02	$0.02	$0.02	$0.03	$0.0
Diluted	$0.06	$0.03	$0.02	$0.02	$0.02	$0.02	$0.0
Weighted-average common shares outstanding:							
Basic	214,639	212,169	209,589	209,928	212,195	211,390	208,
Diluted	223,202	219,837	217,059	219,600	225,187	221,002	217,
Operating Data:							
Gross subscriber line additions	148,003	155,412	174,670	174,767	191,413	172,346	159,
Change in net subscriber line	(12,400)	2,541	10,738	8,513	12,503	(6,695)	(19,0
Subscriber lines at end of period	2,347,416	2,349,957	2,360,695	2,542,926	2,555,429	2,548,734	2,52
Average monthly customer churn	2.5%	2.4%	2.6%	2.5%	2.6%	2.6%	2.7
Average monthly operating revenues per line	$29.61	$29.06	$28.87	$28.72	$28.86	$28.59	$28.
	$8.72	$8.42	$8.28	$7.87	$7.77	$7.71	$7.4

Average monthly costs of telephony services per line							
Marketing costs per gross subscriber line additions	$349.11	$375.32	$338.54	$331.41	$299.16	$342.35	$365
Employees at end of period	966	946	933	1,243	1,287	1,279	1,25

(1) Excludes depreciation and amortization of $3,452, $3,510, $3,522, and $4,408 for the quarters ended March 31, June 30, September 30 and December 31, 2013, respectively, and $5,154, $5,098, $4,704, and $4,374 for the quarters ended March 31, June 30, September 30 and December 31, 2014, respectively.

(2) Reflects amounts reclassified from selling, general and administrative expense to cost of telephony services of $6,391, $5,797, $5,618, and $5,776 for the quarters ended March 31, June 30, September 30 and December 31, 2013, respectively, and $6,825, $6,674, and $6,977 for the quarters ended March 31, June 30, September 30, 2014, respectively.

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LIQUIDITY AND CAPITAL RESOURCES

Overview

The following table sets forth a summary of our cash flows for the periods indicated:

	For the years ended December 31,		
(dollars in thousands)	2014	2013	2012
Net cash provided by operating activities	$92,542	$88,243	$119,843
Net cash used in investing activities	(118,528)	(120,985)	(25,472)
Net cash provided by (used in) financing activities	(14,239)	21,891	(56,257)

For the three years ended December 31, 2014, 2013, and 2012 we generated income from operations. We expect to continue to balance efforts to grow our customer base while consistently achieving profitability. To grow our customer base, we continue to make investments in marketing and application development as we seek to launch new services, network quality and expansion, and customer care. Although we believe we will maintain consistent profitability in the future, we ultimately may not be successful and we may not achieve consistent profitability. We believe that cash flow from operations and cash on hand will fund our operations for at least the next twelve months.

Acquisition of Telesphere

Telesphere was acquired for $114,000, adjusted for $676 of excess cash as of the closing date and the decrease in value of the 6,825 shares of Vonage common stock from the signing date to the closing date of $241, resulting in a total acquisition cost of $114,435. We financed the transaction through $24,708 of cash (of which $3,610 was paid in January 2015) and $67,000 from our credit facility.

Acquisition of Vocalocity

Vocalocity was acquired for $130,000 adjusted for $2,869 of excess cash as of the closing date and the increase in value of the 7,983 shares of Vonage common stock from the signing date to the closing date of $1,298, resulting in a total acquisition cost of $134,167. We financed the transaction through $32,981 of cash and $75,000 from our credit facility.

August 2014 Financing

On August 13, 2014, we entered into a credit agreement (the “2014 Credit Facility”) consisting of a $100,000 senior secured term loan and a $125,000 revolving credit facility. The co-borrowers under the 2014 Credit Facility are us and Vonage America Inc., our wholly owned subsidiary. Obligations under the 2014 Credit Facility are guaranteed, fully and unconditionally, by our other material United States subsidiaries and are secured by substantially all of the assets of each borrower and each guarantor. The lenders under the 2014 Credit Facility are JPMorgan Chase Bank, N.A., Citizens Bank, N.A., Silicon Valley Bank, SunTrust Bank, Fifth Third Bank, Keybank National Association, and MUFG Union Bank, N.A. JPMorgan Chase Bank, N.A. is a party to the agreement as administrative agent, Citizens Bank, N.A. as syndication agent, and Silicon Valley Bank and SunTrust Bank as documentation agents. J.P. Morgan Securities LLC and Citizens Bank, N.A. acted as joint lead bookrunners, and J.P. Morgan Securities LLC, Citizens Bank, N.A., Silicon Valley Bank, and SunTrust Robinson Humphrey Inc. acted as joint lead arrangers.

Use of Proceeds

We used $90,000 of the net available proceeds of the 2014 Credit Facility to retire all of the debt under our 2013 Credit Facility. Remaining proceeds from the senior secured term loan and the undrawn revolving credit facility under the 2014 Credit Facility will be used for general corporate purposes. We also incurred $1,910 of fees in

connection with the 2014 Credit Facility, which is amortized, along with the unamortized fees of $668 in connection with the 2013 Credit Facility, to interest expense over the life of the debt using the effective interest method.

2014 Credit Facility Terms

The following description summarizes the material terms of the 2014 Credit Facility:

The loans under the 2014 Credit Facility mature in August 2018. Principal amounts under the 2014 Credit Facility are repayable in quarterly installments of $5,000 per quarter for the senior secured term loan. The unused portion of our revolving credit facility incurs a 0.40% commitment fee.

Outstanding amounts under the 2014 Credit Facility, at our option, will bear interest at:

- LIBOR (applicable to one-, two-, three-, six-, or twelve-month periods) plus an applicable margin equal to 2.875% if our consolidated leverage ratio is less than 0.75 to 1.00, 3.125% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 3.375% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last day of each relevant interest period or, if the interest period is longer than three months, each day that is three months after the first day of the interest period, or
- the base rate determined by reference to the highest of (a) the federal funds effective rate from time to time plus 0.50% , (b) the prime rate of JPMorgan Chase Bank, N.A., and (c) the adjusted LIBO rate applicable to one month interest periods plus 1.00% , plus an applicable margin equal to 1.875% if our consolidated leverage ratio is less than 0.75 to 1.00, 2.125% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 2.375% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last business day of each March, June, September, and December and the maturity date of the 2014 Credit Facility.

The 2014 Credit Facility provides greater flexibility to us in funding acquisitions and restricted payments, such as stock buybacks, than the 2013 Credit Facility.

We may prepay the 2014 Credit Facility at our option at any time without premium or penalty. The 2014 Credit Facility is subject to mandatory prepayments in amounts equal to:

- 100% of the net cash proceeds from any non-ordinary course sale or other disposition of our property and assets for consideration in excess of a certain amount subject to customary reinvestment provisions and certain other exceptions, and
- 100% of the net cash proceeds received in connection with other non-ordinary course transactions, including insurance proceeds not otherwise applied to the relevant insurance loss.

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Subject to certain restrictions and exceptions, the 2014 Credit Facility permits us to obtain one or more incremental term loans and/or revolving credit facilities in an aggregate principal amount of up to $60,000 plus an amount equal to repayments of the senior secured term loan upon providing documentation reasonably satisfactory to the administrative agent. The 2014 Credit Facility includes customary representations and warranties and affirmative covenants of the borrowers. In addition, the 2014 Credit Facility contains customary negative covenants, including, among other things, restrictions on the ability of us and our subsidiaries to consolidate or merge, create liens, incur additional indebtedness, dispose of assets, consummate acquisitions, make investments, and pay dividends and other distributions. We must also comply with the following financial covenants:

- a consolidated leverage ratio of no greater than 2.25 to 1.00;
- a consolidated fixed coverage charge ratio of no less than 1.75 to 1.00 subject to adjustment to exclude up to $80,000 in specified restricted payments;
- minimum cash of $25,000 including the unused portion of the revolving credit facility; and
- maximum capital expenditures not to exceed $55,000 during any fiscal year, provided that the unused amount of any permitted capital expenditures in any fiscal year may be carried forward to the next following fiscal year.

In addition, annual excess cash flow up to $8,000 increases permitted capital expenditures.

The 2014 Credit Facility contains customary events of default that may permit acceleration of the debt. During the continuance of a payment default, interest will accrue at a default interest rate of 2% above the interest rate which would otherwise be applicable, in the case of loans, and at a rate equal to the rate applicable to base rate loans plus 2% , in the case of all other amounts.

February 2013 Financing

On February 11, 2013 we entered into Amendment No. 1 to the 2011 Credit Agreement (as further amended by Amendment No. 2 to our 2011 Credit Facility, the "2013 Credit Facility"). The 2013 Credit Facility consists of a $70,000 senior secured term loan and a $75,000 revolving credit facility. The co-borrowers under the 2013 Credit Facility are us and Vonage America Inc., our wholly owned subsidiary. Obligations under the 2013 Credit Facility are guaranteed, fully and unconditionally, by our other United States subsidiaries and are secured by substantially all of the assets of each borrower and each of the guarantors. On July 26, 2013 we entered into Amendment No. 2 to our 2011 Credit Agreement, which amends our financial covenant related to our consolidated fixed charge coverage ratio by increasing the amount of restricted payments excluded from such calculation from $50,000 to $80,000.

Use of Proceeds

We used $42,500 of the net available proceeds of the 2013 Credit Facility to retire all of the debt under our 2011 Credit Facility. Remaining net proceeds of $27,500 from the senior secured term loan and the undrawn revolving credit facility under the 2013 Credit Facility will be used for general corporate purposes. We used $75,000 from the 2013 revolving credit facility in connection with the acquisition of Vocalocity on November 15, 2013. We also incurred $2,009 of fees in connection with the 2013 Credit Facility, which is amortized, along with the unamortized fees of $670 in connection with the 2011 Credit Facility, to interest expense over the life of the debt using the effective interest method.

State and Local Sales Taxes

We also have contingent liabilities for state and local sales taxes. As of December 31, 2014, we had a reserve of $3,125. If our ultimate liability exceeds this amount, it could affect our liquidity unfavorably. However, we do not believe it would significantly impair our liquidity.

Capital expenditures

For 2014, capital expenditures were primarily for the implementation of software solutions and purchase of network equipment as we continue to expand our network. Our capital expenditures for the year ended 2014 were $24,255, of which $11,819 was for software acquisition and development. The majority of these expenditures are comprised of investments in information technology and systems infrastructure, including an electronic data warehouse, online customer service, and customer management platforms. For 2015, we believe our capital and software expenditures will be approximately $30,000.

Operating Activities

Cash provided by operating activities increased to $92,542 during the year ended December 31, 2014 compared to $88,243 for the year ended December 31, 2013, primarily due to higher revenues and changes in working capital. Changes in working capital requirements include changes in accounts receivable, inventory, prepaid and other assets, other assets, accounts payable, accrued and other liabilities, and deferred revenue and costs. Cash used for working capital increased by $7,962 during the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily due to the timing of payments.

Cash provided by operating activities decreased to $88,243 during the year ended December 31, 2013 compared to $119,843 for the year ended December 31, 2012, primarily due to planned investments in our growth initiatives, lower revenues and changes in working capital.

Changes in working capital requirements include changes in accounts receivable, inventory, prepaid and other assets, other assets, accounts payable, accrued and other liabilities, and deferred revenue and costs. Cash used for working capital increased by $2,663 during the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily due to the timing of payments.

Investing Activities

Cash used in investing activities for 2014 of $118,528 was attributable to the acquisition of Telesphere of $88,098, capital expenditures of $12,436, software acquisition and development of $11,819, and purchase of marketable securities of $7,170, offset by a decrease in restricted cash of $995 due primarily to the return of part of the security deposit on our leased office property in Holmdel, New Jersey.

Cash used in investing activities for 2013 of $120,985 was attributable to the acquisition of Vocalocity of $100,057, capital expenditures of $9,889, and software acquisition and development of $12,291, offset by a decrease in restricted cash of $1,252 due primarily to the return of part of the security deposit on our leased office property in Holmdel, New Jersey.

Cash used in investing activities for 2012 of $25,472 was attributable to capital expenditures of $13,763 and software acquisition and development of $12,987, offset by a decrease in restricted cash of $1,278 due primarily to the return of part of the security deposit on our leased office property in Holmdel, New Jersey.

Financing Activities

Cash used in financing activities for 2014 of $14,239 was primarily attributable to $41,666 in 2014 Credit Facility, 2013 Credit Facility, and 2013 revolving credit facility principal payments, $2,889 in capital lease and other liability payments, $49,338 in common stock repurchases, and $1,910 in 2014 Credit Facility debt related costs, partially offset by $67,000 borrowed under the 2014 revolving credit facility and $10,000 in proceeds from our 2014 Credit Facility, and $4,564 in net proceeds received from the exercise and cancellation of stock options.

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Cash provided by financing activities for 2013 of $21,891 was primarily attributable to $75,000 borrowed under the 2013 revolving credit facility and $27,500 in proceeds from our 2013 Credit Facility, and $4,091 in net proceeds received from the exercise and cancellation of stock options partially offset by $23,334 in 2013 Credit Facility principal payments, $3,471 in capital lease and other liability payments, $56,294 in common stock repurchases, and $2,056 in 2013 Credit Facility debt related costs.

Cash used in financing activities for 2012 of $56,257 was primarily attributable to $28,333 in 2011 Credit Facility principal payments, $2,104 in capital lease payments, and $27,545 in common stock repurchases, offset by $1,725 in proceeds received from the exercise of stock options.

CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

The table below summarizes our contractual obligations at December 31, 2014, and the effect such obligations are expected to have on our liquidity and cash flow in future periods.

	Payments Due by Period				
(dollars in thousands)	Total	Less than 1 year	2-3 years	4-5 years	After 5 years
	(unaudited)				
Contractual Obligations:					
2014 Credit Facility	$90,000	$20,000	$40,000	$30,000	$—
2014 Revolving Credit Facility	$67,000	—	—	67,000	
Interest related to 2014 Credit Facility	6,760	2,769	3,532	459	—
Interest related to 2014 Revolving Credit Facility	7,916	2,250	4,519	1,147	
Capital lease obligations	12,073	4,457	7,616	—	—
Operating lease obligations	15,167	4,487	4,558	4,280	1,842
Purchase obligations	234,390	128,809	85,577	20,004	—
Other obligations	1,419	—	416	717	286
Total contractual obligations	$434,725	$162,772	$146,218	$123,607	$2,128
Other Commercial Commitments:					
Standby letters of credit	$3,311	$3,311	$—	$—	$—
Total contractual obligations and other commercial commitments	$438,036	$166,083	$146,218	$123,607	$2,128

Credit Facility. On August 13, 2014, we entered into a credit agreement (the “2014 Credit Facility”) consisting of a $100,000 senior secured term loan and a $125,000 revolving credit facility. See Note 6 in the notes to the consolidated financial statements.

Capital lease obligations. At December 31, 2014, we had capital lease obligations of $12,073 related to our corporate headquarters in Holmdel, New Jersey.

Operating lease obligations. At December 31, 2014, we had future commitments for operating leases for co-location facilities mainly in the United States that accommodate a portion of our network equipment, for kiosks leased in various locations throughout the United States, for office space leased for our London, United Kingdom office, for office space leased in Atlanta, Georgia for our Vonage Business Solutions office, for office space in Scottsdale, Arizona, Denver, Colorado, Minneapolis, Minnesota, and Murray, Utah for our Telesphere offices, for office space leased in Tel Aviv, Israel for application

development, and for apartment space leased in New Jersey for certain executives.

Purchase obligations. The purchase obligations reflected above are primarily commitments to vendors who will provide local inbound, customer care, carrier operation, networks and telephone related services, process our credit card billings, license patents to us, sell us communication devices, supply us energy, provide marketing infrastructure and services, and partner with us in international operations. In certain cases, we may terminate these arrangements early upon payment of specified fees. These amounts do not represent our entire anticipated purchases in the future, but represent only those items for which we are contractually committed. We also purchase products and services as needed with no firm commitment. For this reason, the amounts presented do not provide a reliable indicator of our expected future cash outflows or changes in our expected cash position. See also Note 10 to our consolidated financial statements.

SUMMARY OF CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our significant accounting policies are summarized in Note 1 to our consolidated financial statements. The following describes our critical accounting policies and estimates:

Use of Estimates

Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates.

On an ongoing basis, we evaluate our estimates, including the following:

- the useful lives of property and equipment, software costs, and intangible assets;
- assumptions used for the purpose of determining share-based compensation using the Black-Scholes option pricing model and Monte Carlo simulation model (“Models”), and various other assumptions that we believe to be reasonable; the key inputs for these Models include our stock price at valuation date, exercise price, the dividend yield, risk-free interest

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rate, life in years, and historical volatility of our common stock; and
>assumptions used in determining the need for, and amount of, a valuation allowance on net deferred tax assets;
We base our estimates on historical experience, available market information, appropriate valuation methodologies, and on various other assumptions that we believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.
Revenue Recognition
Operating revenues consist of telephony services revenues and customer equipment (which enables our telephony services) and shipping revenues. The point in time at which revenues are recognized is determined in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition, and Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605, Revenue Recognition.
At the time a customer signs up for our telephony services, there are the following deliverables:
>Providing equipment, if any, to the customer that enables our telephony services and
> Providing telephony services.
The equipment is generally provided free of charge to our customers and in most instances there are no fees collected at sign-up. We record the fees collected for shipping the equipment to the customer, if any, as shipping and handling revenue at the time of shipment.
A further description of our revenues is as follows:
Substantially all of our revenues are telephony services revenues, which are derived primarily from monthly subscription fees that customers are charged under our service plans. We also derive telephony services revenues from per minute fees for international calls if not covered under a plan, including calls made via applications for mobile devices and other stand-alone products, and for any calling minutes in excess of a customer's monthly plan limits. Monthly subscription fees are automatically charged to customers' credit cards, debit cards or electronic check payments, or ECP, in advance and are recognized over the following month when services are provided. Revenues generated from international calls and from customers exceeding allocated call minutes under limited minute plans are recognized as services are provided, that is, as minutes are used, and are billed to a customer's credit cards, debit cards or ECP in arrears. As a result of multiple billing cycles each month, we estimate the amount of revenues earned from international calls and from customers exceeding allocated call minutes under limited minute plans but not billed from the end of each billing cycle to the end of each reporting period and record these amounts as accounts receivable. These estimates are based primarily upon historical minutes and have been consistent with our actual results.
We also provide rebates to customers who purchase their customer equipment from retailers and satisfy minimum service period requirements. These rebates in excess of activation fees are recorded as a reduction of revenues over the service period based upon the estimated number of customers that will ultimately earn and claim the rebates.
Customer equipment and shipping revenues consist of revenues from sales of customer equipment to wholesalers or directly to customers for replacement devices, or for upgrading their device at the time of customer sign-up for which we charge an additional fee. In addition, customer equipment and shipping revenues include revenues from the sale of VoIP telephones in order to access our small and medium business services on a net basis rather than a gross basis. Customer equipment and shipping revenues also include the fees that customers are charged for shipping their customer equipment to them. Customer equipment and shipping revenues include sales to our

retailers, who subsequently resell this customer equipment to customers. Revenues are reduced for payments to retailers and rebates to customers, who purchased their customer equipment through these retailers, to the extent of customer equipment and shipping revenues. In addition, customer equipment and shipping revenues include revenues from the sale of VoIP telephones in order to access our small and medium business services.
Inventory
Inventory consists of the cost of customer equipment and is stated at the lower of cost or market, with cost determined using the average cost method. We provide an inventory allowance for customer equipment that has been returned by customers but may not be able to be reissued to new customers or returned to the manufacturer for credit.
Goodwill and Purchased-Intangible Assets

Goodwill acquired in acquisition of a business is accounted for based upon the excess fair value of consideration transferred over the fair value of net assets acquired in the business combination. Goodwill is tested for impairment on an annual basis on October 1st and, when specific circumstances dictate, between annual tests. When impaired, the carrying value of goodwill is written down to fair value. The goodwill impairment test involves evaluating qualitative information to determine if it is more than 50% likely that the fair value of a reporting unit is less than its carrying value in determining if the traditional two-step goodwill impairment test described below must be applied. The first step, identifying a potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step would need to be conducted; otherwise, no further steps are necessary as no potential impairment exists. The second step, measuring the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. Any excess of the reporting unit goodwill carrying value over the respective implied fair value is recognized as an impairment loss. There was no impairment of goodwill for the year ended December 31, 2014.

Purchased-intangible assets are accounted for based upon the fair value of assets received. Purchased-intangible assets are amortized on a straight-line or accelerated basis over the periods of benefit, ranging from two to ten years. We perform a review of purchased-intangible assets whenever events or changes in circumstances indicate that the useful life is shorter than we had originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess the recoverability of purchased-intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the useful life of the asset is shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life. There was no impairment of purchased-intangible assets identified for the years ended December 31, 2014, 2013, or 2012.

Income Taxes

We recognize deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of our assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. Our net deferred tax assets primarily consist of net operating loss carry forwards (“NOLs”). We are required to record a valuation allowance against our net deferred tax assets if we conclude that it is more likely than not that taxable income generated in the future will be insufficient to utilize the future income tax benefit from our net deferred tax assets (namely, the NOLs) prior to expiration. We periodically review this conclusion, which requires significant management judgment. If we are able to conclude in a future period that a future income tax benefit from our net deferred tax assets has a greater than 50 percent likelihood of being realized, we are required in that period to reduce the related valuation allowance with a corresponding decrease in income tax expense. This would result in a

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non-cash benefit to our net income in the period of the determination. In the future, if available evidence changes our conclusion that it is more likely than not that we will utilize our net deferred tax assets prior to their expiration, we will make an adjustment to the related valuation allowance and income tax expense at that time. In the fourth quarter of 2011, we released $325,601 of valuation allowance (see Note 5. Income Taxes). In subsequent periods, we would expect to recognize income tax expense equal to our pre-tax income multiplied by our effective income tax rate, an expense that was not recognized prior to the reduction of the valuation allowance.

Net Operating Loss Carryforwards

As of December 31, 2014, we had NOLs for United States federal and state tax purposes, including the NOLs of Vocalocity as of the date of acquisition, of $639,981 and $214,238, respectively, expiring at various times from years ending 2013 through 2033. In addition, we had NOLs for Canadian tax purposes of $4,458 expiring through 2027. We also had NOLs for United Kingdom tax purposes of $44,853 with no expiration date.

Under Section 382 of the Internal Revenue Code, if we undergo an “ownership change” (generally defined as a greater than 50% change (by value) in our equity ownership over a three-year period), our ability to use our pre-change of control NOLs and other pre-change tax attributes against our post-change income may be limited. The Section 382 limitation is applied annually so as to limit the use of our pre-change NOLs to an amount that generally equals the value of our stock immediately before the ownership change multiplied by a designated federal long-term tax-exempt rate. At December 31, 2014, there were no limitations on the use of our NOLs except for the NOLs of Vocalocity as of the date of acquisition.

Share-Based Compensation

We account for share-based compensation in accordance with FASB ASC 718, “Compensation-Stock Compensation”. Under the fair value recognition provisions of this pronouncement, share-based compensation cost is measured at the grant date based on the fair value of the award, reduced as appropriate based on estimated forfeitures, and is recognized as expense over the applicable vesting period of the stock award using the accelerated method. The excess tax benefit associated with stock compensation deductions have not been recorded in additional paid-in capital. When evaluating whether an excess tax benefit has been realized, share based compensation deductions are not considered realized until NOLs are no longer sufficient to offset taxable income. Such excess tax benefits will be recorded when realized.

Recent Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers". This ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of good or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted. Accordingly, we will adopt this ASU on January 1, 2017. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU and our management is currently evaluating which transition approach to use. We are currently evaluating the impact of adopting ASU 2014-09 on our consolidated financial statements and related disclosures.

OFF-BALANCE SHEET ARRANGEMENTS

We do not have any off-balance sheet arrangements.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to financial market risks, including changes in currency exchange rates and interest rates.

Foreign Exchange Risk

We sell our products and services in the United States, Canada, and the United Kingdom. Changes in currency exchange rates affect the valuation in our financial statements of the assets and liabilities of these operations. We also

have a portion of our sales denominated in Euros, the Canadian Dollar, and the British Pound, which are also affected by changes in currency exchange rates. Our financial results could be affected by changes in foreign currency exchange rates, although foreign exchange risks have not been material to our financial position or results of operations to date.

We prepared a sensitivity analysis to determine the impact of hypothetical changes foreign currency exchange rates have on our results of operations. The foreign currency rate analysis assumed a uniform movement in currencies by 10% relative to the U.S. Dollar on our results. Based upon the results of this analysis, a 10% change in currency rates would have resulted in an increase or decrease in our earnings for the year ended December 31, 2014 of approximately $500.

Interest Rate and Debt Risk

Our exposure to market risk for changes in interest rates primarily relates to our long-term debt.

Our 2014 Credit Facility consists of a $100,000 senior secured term loan and a $125,000 revolving credit facility. We are

exposed to interest rate risk since amounts payable under the 2014 Credit Facility, at our option, bear interest at:

- LIBOR (applicable to one-, two-, three- or six-month periods) plus an applicable margin equal to 2.875% if our consolidated leverage ratio is less than 0.75 to 1.00, 3.125% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 3.375% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last day of each relevant interest period or, if the interest period is longer than three months, each day that is three months after the first day of the interest period, or
- the base rate determined by reference to the highest of (a) the federal funds effective rate from time to time plus 0.50%, (b) the prime rate of JPMorgan Chase Bank, N.A., and (c) the adjusted LIBO rate applicable to one month interest periods plus 1.00%, plus an applicable margin equal to 1.875% if our consolidated leverage ratio is less than 0.75 to 1.00, 2.125% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 2.375% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last business day of each March, June, September, and December and the maturity date of the 2014 Credit Facility.

As of December 31, 2014, if the interest rate on our variable rate debt changed by 1% on our 2014 Credit Facility, our annual debt service payment would change by approximately $900. As of December 31, 2014, if the interest rate on our variable rate debt changed

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by 1% on our 2014 Revolving Credit Facility, our annual debt service payment would change by approximately $700.

ITEM 8. Financial Statements and Supplementary Data

The information required by this Item is contained on pages F-1 through F-32 of this Annual Report on Form 10-K and incorporated herein by reference.

ITEM 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
N/A.

ITEM 9A. Controls and Procedures

Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"), as amended, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 31, 2014, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management's Report on Internal Control Over Financial Reporting.

February 13, 2015

To the Stockholders of Vonage Holdings Corp.:

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and

the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the

company are being made only in accordance with authorizations of our management and directors; and
> Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013).

We acquired Telesphere in December 2014. Our management has excluded the operations of this business from our evaluation of, and conclusion regarding, the effectiveness of our internal control over financial reporting as of December 31, 2014. This business represents 2% and 0.2% of our total assets and revenues, respectively, as of December 31, 2014. Our management plans to fully integrate the operations of this business into its assessment of the effectiveness of our internal control over financial reporting in 2015.

Based on our assessment, management concluded that, as of December 31, 2014, our internal control over financial reporting is effective based on those criteria.

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Our independent registered public accounting firm has issued an attestation report on our internal control over financial reporting. This report appears on page F-3.

/s/ ALAN MASAREK

Alan Masarek
Director, Chief Executive Officer

/s/ DAVID PEARSON
David T. Pearson
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

Report of the Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting.
See Report of Independent Registered Public Accounting Firm on page F-3.

Changes in Internal Control Over Financial Reporting

There were no changes to controls during the quarter ended December 31, 2014 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. Other Information

None.

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PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

The discussion under the headings “Election of Directors,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Director Nomination Process”, “Corporate Governance – Board Committees – Audit Committee”, and “Executive Officers of Vonage” in our Proxy Statement for the 2015 Annual Meeting of Stockholders is hereby incorporated by reference. We have adopted a Vonage Code of Conduct applicable to all our officers and employees and a Vonage Finance Code of Ethics applicable to our chief financial officer and other employees in our

finance organization. The Vonage Code of Conduct and Vonage Finance Code of Ethics are posted in the Investor Relations section of our website, www.vonage.com. We will provide you with print copies of our codes free of charge on written request to Vonage Investor Relations, 23 Main Street, Holmdel NJ, 07733. We intend to disclose any amendments to, or waivers from, provisions of our codes that apply to our principal executive officer, principal financial officer, principal accounting officer or controller, or any person performing in similar functions, on our website promptly following the date of such amendment or waiver.

ITEM 11. Executive Compensation

The discussion under the headings “Compensation”, “Director Compensation”, “Corporate Governance – Compensation Committee Interlocks and Insider Participation”, and “Corporate Governance – Compensation Committee Report” in our Proxy Statement for the 2015 Annual Meeting of Stockholders is hereby incorporated by reference.

The “Compensation Committee Report” contained in our Proxy Statement shall not be deemed “soliciting material” or “filed” with

the Securities and Exchange Commission or otherwise subject to the liabilities of Section 18 of the Securities Exchange Act of 1934 (the “Exchange Act”), nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933 (the “Securities Act”) or the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate such information by reference into a document filed under the Securities Act or the Exchange Act.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The discussion under the headings “Stock Ownership Information” and “Equity Compensation Plan Information” in our Proxy

Statement for the 2015 Annual Meeting of Stockholders is hereby incorporated by reference.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

The discussion under the headings “Election of Directors – Transactions with Related Persons”, and “Corporate Governance –

Board Determination of Independence” in our Proxy Statement for the 2015 Annual Meeting of Stockholders is hereby incorporated by reference.

ITEM 14. Principal Accountant Fees and Services

The discussion under the heading “Ratification of Independent Registered Public Accounting Firm” in our Proxy Statement for the 2015 Annual Meeting of Stockholders is hereby incorporated by reference.

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PART IV

Report of Independent Registered Public Accounting Firm
Board of Directors and Stockholders
Vonage Holdings Corp.
Holmdel, New Jersey 07733

The audits referred to in our report dated February 13, 2015 relating to the consolidated financial statements of Vonage Holdings Corp., which is contained in Item 8 of this Form 10-K also included the audit of the financial statement schedule listed in the accompanying index. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audits.

In our opinion such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ BDO USA, LLP
Woodbridge, New Jersey
February 13, 2015

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ITEM 15. Exhibits, Financial Statement Schedules

(a)

(1) Financial Statements. The index to our financial statements is found on page F-1 of this Form 10-K.

(2) Financial Statement Schedule. Schedule II—Valuation and Qualifying Accounts is as follows:

	Balance at Beginning of Period	Additions Revenue	Additions Expense	Less Deductions	Other	Balance at End of Period
Allowance for Doubtful Accounts:						
Year ended December 31, 2014	$683	$117	$(193)	$—	$—	$607
Year ended December 31, 2013	753	186	(256)	—	—	683
Year ended December 31, 2012	591	(764)	926	—	—	753
Inventory Obsolescence						
Year ended December 31, 2014	$229	$—	$757	$(805)	$—	$181
Year ended December 31, 2013	268	—	663	(702)	—	229
Year ended December 31, 2012	269	—	527	(528)	—	268
Valuation Allowance for Deferred Tax						
Year ended December 31, 2014	$16,922	$—	$4,865 (1)	$—	$(4,336) (2)	17,451
Year ended December 31, 2013	12,590	—	(4) (1)	—	4,336 (3)	16,922
Year ended December 31, 2012	17,683	—	(5,093) (1)	—	—	12,590

(1) Amounts charged (credited) to expense represent change in valuation allowance.

(2) Represents reversal of estimated valuation allowance on Vocalocity's deferred tax assets at date of acquisition.

(3) Represents estimated valuation allowance on Vocalocity's deferred tax assets at date of acquisition.

(3) Exhibits.

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Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated October 9, 2013, by and among Vonage, Vista Merger Corp., Vocalocity and the Representative (15).
2.2	Agreement and Plan of Merger, dated November 4, 2014, by and among Vonage, Thunder Acquisition Corp., Telesphere and the Representative (28)
3.1	Restated Certificate of Incorporation of Vonage Holdings Corp.(4)
3.2	Second Amended and Restated By-laws of Vonage Holdings Corp.(9)
4.1	Form of Certificate of Vonage Holdings Corp. Common Stock(3)
4.2	Tax Benefits Preservation Plan, dated as of June 7, 2012, by and between Vonage Holdings Corp. and American Stock Transfer & Trust Company, LLC, as Rights Agent, including as Exhibit A the form of Certificate of Designation of the Company's Series A Participating Preferred Stock and as Exhibit B the forms of Right Certificate and of Election to Purchase (20)
10.1	2001 Stock Incentive Plan of Vonage Holdings Corp.(1)*
10.2	Form of Nonqualified Stock Option Agreement for Employees under the 2001 Stock Incentive Plan(1)*
10.3	Form of Nonqualified Stock Option Agreement for Outside Directors under the 2001 Stock Incentive Plan(1)*
10.4	Vonage Holdings Corp. 2006 Incentive Plan (Amended and Restated through June 6, 2013)(13)*
10.5	Form of Restricted Stock Unit Agreement under the Vonage Holdings Corp. 2006 Incentive Plan(6)*
10.6	Form of Nonqualified Stock Option Agreement under the Vonage Holdings Corp. 2006 Incentive Plan(16)*
10.7	Form of Restricted Stock Agreement under the Vonage Holdings Corp. 2006 Incentive Plan(6)*
10.8	Form of Restricted Stock Agreement for Non-Executive Directors under the Vonage Holdings Corp. 2006 Incentive Plan (10)*
10.9	Form of Nonqualified Stock Option Agreement for Non-Executive Directors (Quarterly Grants) under the Vonage Holdings Corp. 2006 Incentive Plan (10)*
10.10	Form of Nonqualified Stock Option Agreement for Non-Executive Directors (Sign-on Grant) under the Vonage Holdings Corp. 2006 Incentive Plan (10)*
10.11	Vonage Holdings Corp. 401(k) Retirement Plan(1)*
10.12	Lease Agreement, dated March 24, 2005, between 23 Main Street Holmdel Associates LLC and Vonage USA Inc.(1)
10.13	Second Amended and Restated Employment Agreement dated April 3, 2014 between Vonage Holdings Corp. and Marc P. Lefar(18)*
10.14	Indemnification Agreement dated as of July 29, 2008 by and between Vonage Holdings Corp. and Marc. P. Lefar(9)*
10.15	Amended and Restated Non-Compete Agreement dated as of October 17, 2008 by and between Vonage Holdings Corp. and Jeffrey A. Citron(11)
10.16	Form of Nonqualified Stock Option Agreement for Jeffrey A. Citron under the Vonage Holdings Corp. 2006 Incentive Plan(9)*
10.17	Letter Agreement, dated February 6, 2012, between Vonage Holdings Corp. and Graham McGonigal(19)*
10.18	Employment Agreement dated as of April 25, 2013 by and between Vonage Holdings Corp. and David T. Pearson (25)*
10.19	Letter Agreement dated as of October 9, 2013 by and between Vonage Holdings Corp. and Wain Kellum (27)*
10.20	Employment Agreement dated as of December 2, 2013 by and between Vonage Holdings Corp. and Joseph Redling (27)*
10.21	Letter Agreement, dated November 19, 2008, between Vonage Holdings Corp. and Michael A. Tempora(12)*
10.22	

	Amendment to Letter Agreement, dated December 23, 2010, between Vonage Holdings Corp. and Michael A. Tempora(17)*
10.23	Letter Agreement, dated July 15, 2009, between Vonage Holdings Corp. and Kurt Rogers(14)*
10.24	Amendment to Letter Agreement, dated December 22, 2010, between Vonage Holdings Corp. and Kurt Rogers(17)*
10.25	Second Amendment to Letter Agreement, dated March 27, 2012, between Vonage Holdings Corp. and Kurt Rogers(19)*
10.26	Amendment to Letter Agreement between Vonage Holdings Corp. and Kurt Rogers (24)
10.27	Letter Agreement, dated June 25, 2012, between Vonage Holdings Corp. and Barbara Goodstein(22)*
10.28	Non-Executive Director Compensation Program (27)*
10.29	Form of Indemnification Agreement between Vonage Holdings Corp. and its directors and certain officers(7)*
10.30	Employment Agreement dated as of October 6, 2014 by and between Vonage Holdings Corp. and Alan Masarek (31)*
10.31	Letter Agreement dated as of September 18, 2014 by and between Vonage Holdings Corp. and Pablo Calamera (29)*
10.32	Letter Agreement dated as of November 4, 2014 by and between Vonage Holdings Corp. and Clark Peterson (31)*
10.33	Settlement Agreement, dated July, 30, 2012, by and among Vonage Network LLC, Amdocs Software Systems Limited, and Amdocs, Inc. (21)
10.34†	Stock Option Cancellation Agreement, dated February 19, 2013, between Vonage Holdings Corp. and Marc P. Lefar (23)
10.35	Settlement and Patent License Agreement, dated December 21, 2007, between Vonage Holdings Corp. and AT&T Corp.(8)
10.36†	Route Management Services Addendum (the “Addendum”), by and between Vonage America Inc., a wholly-owned subsidiary of Vonage Holdings Corp., and Tata Communications (America) Inc., effective as of July 1, 2013. (25)

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Exhibit Number	Description of Exhibit
10.37	Credit Agreement, dated as of July 29, 2011 among Vonage Holdings Corp. and Vonage America Inc., as borrowers, various lenders, JPMorgan Chase Bank, N.A., as Administrative Agent, and RBS Citizens, N.A., as Syndication Agent.(30)
10.38	Amendment No. 1, dated February 11, 2013, by and among Vonage America Inc. and Vonage Holdings Corp., as borrowers, various lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent, under that certain Credit Agreement dated as of July 29, 2011 by and among the Borrowers, the Lenders and the Administrative Agent (24)
10.39	Amendment No. 2, dated July 26, 2013, by and among Vonage America Inc. and Vonage Holdings Corp., as borrowers, various lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent, under that certain Credit Agreement dated as of July 29, 2011 by and among the Borrowers, the Lenders and the Administrative Agent (26)
10.40	Credit Agreement, dated August 13, 2014, by and among Vonage America Inc. and Vonage Holdings Corp., as borrowers, various lenders, and JPMorgan Chase Bank, N.A., as Administrative Agent, Citizens Bank, N.A., as Syndication Agent, and Silicon Valley Bank and Suntrust Bank, as Documentation Agents (29)
10.41	Form of Restricted Stock Unit Agreement for Vocalocity Executives under the Vonage Holdings Corp. 2006 Incentive Plan(27)*
21.1	List of Subsidiaries of Vonage Holdings Corp.(31)
23.1	Consent of BDO USA, LLP, independent registered public accounting firm(31)
31.1	Certification of our Chief Executive Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(31)
31.2	Certification of our Chief Financial Officer pursuant to Securities Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002(31)
32.1	Certification of our Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002(31)

(1) Incorporated by reference to Amendment No. 1 to Vonage Holdings Corp.'s Registration Statement on Form S-1 (File No. 333-131659) filed on April 7, 2006.

(2) Incorporated by reference to Amendment No. 4 to Vonage Holdings Corp.'s Registration Statement on Form S-1 (File No. 333-131659) filed on April 28, 2006.

(3) Incorporated by reference to Amendment No. 5 to Vonage Holdings Corp.'s Registration Statement on Form S-1 (File No. 333-131659) filed on May 8, 2006.

(4) Incorporated by reference to Vonage Holdings Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on August 4, 2006.

(5) Incorporated by reference to Vonage Holding Corp.'s Current Report on Form 8-K (File No. 001-32887) filed on November 14, 2006.

(6) Incorporated by reference to Vonage Holding Corp.'s Annual Report on Form 10-K (File No. 001-32887) filed on April 17, 2007.

(7) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on November 14, 2007.

(8) Incorporated by reference to Vonage Holding Corp.'s Annual Report on Form 10-K (File No. 001-32887) filed on March 17, 2008.

(9) Incorporated by reference to Vonage Holding Corp.'s Current Report on Form 8-K (File No. 001-32887) filed on August 4, 2008.

(10) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on August 11, 2008.

(11)

Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on November 10, 2008.

(12) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on August 6, 2009.

(13) Incorporated by reference to Vonage Holding Corp.'s Current Report on Form 8-K (File No. 001-32887) filed on June 6, 2013.

(14) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on November 6, 2009.

(15) Incorporated by reference to the Current Report on Form 8-K (File No. 001-32887) filed by on October 10, 2013.

(16) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on May 7, 2010.

(17) Incorporated by reference to Vonage Holding Corp.'s Annual Report on Form 10-K (File No. 001-32887) filed on February 17, 2011

(18) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on July 31, 2014.

(19) Incorporated by reference to Vonage Holding Corp.'s Current Report on Form 10-Q (File No. 001-32887) filed on May 3, 2012.

(20) Incorporated by reference to Vonage Holding Corp.'s Current Report on Form 8-K (File No. 001-32887) filed on June 8, 2012.

(21) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on November 1, 2012.

(22) Incorporated by reference to Vonage Holding Corp.'s Annual Report on Form 10-K (File No. 001-32887) filed on February 13, 2013.

(23) Incorporated by reference to Vonage Holding Corp.'s Current Report on Form 8-K (File No. 001-32887) filed on February 21, 2013.

(24) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on May 1, 2013.

(25) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on July 31, 2013.

(26) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on November 6, 2013.

(27) Incorporated by reference to Vonage Holding Corp.'s Annual Report on Form 10-K (File No. 001-32887) filed on February 13, 2014.

(28) Incorporated by reference to Vonage Holding Corp.'s Current Report on Form 8-K (File No. 001-32887) filed on November 5, 2014.

(29) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on November 5, 2014.

(30) Incorporated by reference to Vonage Holding Corp.'s Quarterly Report on Form 10-Q (File No. 001-32887) filed on August 4, 2011.

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(31) Filed herewith.

† Portions of this Exhibit have been omitted and filed separately with the Securities and Exchange Commission as part of an order or application for confidential treatment pursuant to the Securities Act of 1933, as amended or the Securities Exchange Act of 1934, as amended.

* Management contract or compensatory plan or arrangement.

(b) Exhibits Filed Herewith

Refer to (a)(3) above.

(c) Financial Statement Schedule

Report of Independent Registered Public Accounting Firm

Schedule II – Valuation and Qualifying Accounts.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, in the city of Holmdel, State of New Jersey, on February 13, 2015.

VONAGE HOLDINGS CORP.

Dated: February 13, 2015

By: /S/ DAVID PEARSON
David Pearson
David T. Pearson
Chief Financial Officer and Treasurer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities and as of the dates indicated.

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Signature	Title	Date
/S/ ALAN MASAREK Alan Masarek	Director, Chief Executive Officer (principal executive officer)	February 13, 2015
/S/ DAVID T. PEARSON David T. Pearson	Chief Financial Officer and Treasurer (principal financial officer and principal accounting officer)	February 13, 2015
/S/ JEFFREY A. CITRON Jeffrey A. Citron	Director, Chairman	February 13, 2015
/S/ NAVEEN CHOPRA Naveen Chopra	Director	February 13, 2015
/S/ MORTON DAVID Morton David	Director	February 13, 2015
/S/ STEPHEN FISHER Stephen Fisher	Director	February 13, 2015
/S/ CAROLYN KATZ Carolyn Katz	Director	February 13, 2015
/S/ MICHAEL A. KRUPKA Michael A. Krupka	Director	February 13, 2015
/S/ DAVID C. NAGEL David C. Nagel	Director	February 13, 2015
/S/ JOHN J. ROBERTS John J. Roberts	Director	February 13, 2015
/S/ MARGARET M. SMYTH Margaret M. Smyth	Director	February 13, 2015
/S/ CARL SPARKS Carl Sparks	Director	February 13, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Vonage Holdings Corp.
Holmdel, New Jersey

We have audited the accompanying consolidated balance sheets of Vonage Holdings Corp. as of December 31, 2014 and 2013, and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and redeemable noncontrolling interest and cash flows for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vonage Holdings Corp. as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Vonage Holdings Corp.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 13, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP
Woodbridge, New Jersey
February 13, 2015

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
Vonage Holdings Corp.
Holmdel, New Jersey

We have audited Vonage Holdings Corp.'s (the "Company") internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A. Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Item 9A, Management's Report on Internal Control over Financial Reporting", management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Telesphere Networks Ltd., which was acquired on December 15, 2014, and which is included in the consolidated balance sheets of Vonage Holdings Corp. as of December 31, 2014, and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and redeemable noncontrolling interest and cash flows for the year then ended. Telesphere Networks Ltd. constituted 2% of total assets as of December 31, 2014 and 0.2% of revenues for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of Telesphere because of the timing of the acquisition which was completed on December 15, 2014. Our audit of internal control over financial reporting of Vonage Holdings Corp. also did not include an evaluation of the internal control over financial reporting of Telesphere Networks Ltd.

In our opinion, Vonage Holdings Corp. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Vonage Holdings Corp. as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, stockholders' equity (deficit) and redeemable noncontrolling interest, and cash flows for each of the three years in the period ended December 31, 2014 and our

report dated February 13, 2015 expressed an unqualified opinion thereon.
/s/ BDO USA, LLP
Woodbridge, New Jersey
February 13, 2015

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VONAGE HOLDINGS CORP. CONSOLIDATED BALANCE SHEETS
VONAGE HOLDINGS CORP. CONSOLIDATED BALANCE SHEETS

(In thousands, except par value)	December 31, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$40,797	$84,663
Marketable securities	7,162	—
Accounts receivable, net of allowance of $607 and $683, respectively	17,990	19,649
Inventory, net of allowance of $181 and $229, respectively	10,081	10,584
Deferred customer acquisition costs, current	4,854	4,991
Deferred tax assets, current	21,849	18,361
Prepaid expenses and other current assets	12,665	16,892
Total current assets	115,398	155,140
Property and equipment, net	49,630	52,243
Goodwill	191,262	83,627
Software, net	18,624	20,557
Deferred customer acquisition costs, non-current	87	193
Debt related costs, net	2,151	1,313
Restricted cash	3,405	4,405
Intangible assets, net	59,907	76,850
Deferred tax assets, non-current	227,090	246,539
Other assets	7,748	1,882
Total assets	$675,302	$642,749
Liabilities and Stockholders' Equity		
Liabilities		
Current liabilities:		
Accounts payable	$42,564	$49,867
Accrued expenses	84,196	81,127
Deferred revenue, current portion	35,570	36,899
Current maturities of capital lease obligations	3,365	2,889
Current portion of notes payable	20,000	23,333
Total current liabilities	185,695	194,115
Indebtedness under revolving credit facility	67,000	75,000
Notes payable, net of current portion	70,000	23,333
Deferred revenue, net of current portion	855	436
Capital lease obligations, net of current maturities	6,836	10,201
Other liabilities, net of current portion in accrued expenses	1,419	1,628
Total liabilities	331,805	304,713
Commitments and Contingencies	—	—
Redeemable noncontrolling interest	—	(38)
Stockholders' Equity		
Common stock, par value $0.001 per share; 596,950 shares authorized at December 31, 2014 and December 31, 2013; 262,423 and 246,741 shares issued at December 31, 2014 and December 31, 2013, respectively; 211,994 and 212,339 shares outstanding at December 31, 2014 and December 31, 2013, respectively	264	247
Additional paid-in capital	1,184,662	1,136,289
Accumulated deficit	(677,675)	(697,941)
	(159,775)	(101,040)

Treasury stock, at cost, 50,429 shares at December 31, 2014 and 34,402 shares at December 31, 2013		
Accumulated other comprehensive (loss) income	(3,131)	519
Noncontrolling interest	(848)	—
Total stockholders' equity	343,497	338,074
Total liabilities and stockholders' equity	$675,302	$642,749

The accompanying notes are an integral part of these financial statements

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VONAGE HOLDINGS CORP. CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)	For the years ended December 31, 2014	2013	2012
Revenues	$868,953	$829,067	$849,114
Operating Expenses:			
Cost of telephony services (excluding depreciation and amortization of $19,330, $14,892, and $15,115, respectively)	232,053	237,294	259,224
Cost of goods sold	36,815	37,586	39,133
Selling, general and administrative	274,750	238,720	215,021
Marketing	226,121	227,052	212,540
Depreciation and amortization	51,407	36,066	33,324
Loss from abandonment of software assets	—	—	25,262
	821,146	776,718	784,504
Income from operations	47,807	52,349	64,610
Other Income (Expense):			
Interest income	212	307	109
Interest expense	(6,823)	(6,557)	(5,986)
Other expense, net	11	(104)	(11)
	(6,600)	(6,354)	(5,888)
Income before income tax expense	41,207	45,995	58,722
Income tax expense	(21,760)	(18,194)	(22,095)
Net income	19,447	27,801	36,627
Plus: Net loss attributable to noncontrolling interest	819	488	—
Net income attributable to Vonage	$20,266	$28,289	$36,627
Net income attributable to Vonage per common share:			
Basic	$0.10	$0.13	$0.16
Diluted	$0.09	$0.13	$0.16
Weighted-average common shares outstanding:			
Basic	209,822	211,563	224,264
Diluted	219,419	220,520	232,633

The accompanying notes are an integral part of these financial statements

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VONAGE HOLDINGS CORP. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,		
(In thousands)	2014	2013	2012
Net income	$19,447	$27,801	$36,627
Other comprehensive (loss) income:			
Foreign currency translation adjustment	(3,633)	(2,058)	335
Unrealized loss on available-for-sale securities	(8)	—	—
Total other comprehensive (loss) income	(3,641)	(2,058)	335
Comprehensive income	15,806	25,743	36,962
Comprehensive loss attributable to noncontrolling interest:			
Add: Net loss	(819)	(488)	—
Foreign currency translation adjustment	9	(5)	—
Total comprehensive loss attributable to noncontrolling interest	(810)	(493)	—
Comprehensive income attributable to Vonage	$16,616	$26,236	$36,962

The accompanying notes are an integral part of these financial statements

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VONAGE HOLDINGS CORP. CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the years ended December 31,		
(In thousands)	2014	2013	2012
Cash flows from operating activities:			
Net income	$19,447	$27,801	$36,627
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization and impairment charges	34,464	31,208	30,949
Amortization of intangibles	16,943	4,858	2,375
Loss from abandonment of software assets	—	—	25,262
Deferred tax expense (benefit)	19,128	16,795	19,488
Allowance for doubtful accounts	(193)	(256)	926
Allowance for obsolete inventory	757	663	527
Amortization of debt related costs	1,072	1,515	1,235
Share-based expense	21,070	17,843	11,975
Changes in operating assets and liabilities, net of acquisitions:			
Accounts receivable	4,887	1,236	(3,461)
Inventory	36	(5,835)	748
Prepaid expenses and other current assets	4,106	(662)	1,345
Deferred customer acquisition costs	230	621	(66)
Other assets	(5,790)	1,970	(788)
Accounts payable	(8,454)	(26,335)	7,801
Accrued expenses	(13,042)	17,869	(10,719)
Deferred revenue	(1,910)	(1,111)	(3,517)
Other liabilities	(209)	63	(864)
Net cash provided by operating activities	92,542	88,243	119,843
Cash flows from investing activities:			
Capital expenditures	(12,436)	(9,889)	(13,763)
Purchase of marketable securities	(7,170)	—	—
Acquisition and development of software assets	(11,819)	(12,291)	(12,987)
Acquisition of business, net of cash acquired	(88,098)	(100,057)	—
Decrease in restricted cash	995	1,252	1,278
Net cash used in investing activities	(118,528)	(120,985)	(25,472)
Cash flows from financing activities:			
Principal payments on capital lease obligations and other liability	(2,889)	(3,471)	(2,104)
Principal payments on notes and revolving credit facility	(41,666)	(23,334)	(28,333)
Proceeds from issuance of notes payable and revolving credit facility	77,000	102,500	—
Debt related costs	(1,910)	(2,056)	—
Common stock repurchases	(49,338)	(56,294)	(27,545)
Acquisition of redeemable noncontrolling interest	—	455	—
Proceeds from exercise of stock options and stock warrant	4,564	4,091	1,725
Net cash provided by (used in) financing activities	(14,239)	21,891	(56,257)
Effect of exchange rate changes on cash	(3,641)	(1,596)	133
Net change in cash and cash equivalents	(43,866)	(12,447)	38,247
Cash and cash equivalents, beginning of period	84,663	97,110	58,863
Cash and cash equivalents, end of period	$40,797	$84,663	$97,110

Supplemental disclosures of cash flow information:			
Cash paid during the periods for:			
Interest	$5,252	$4,722	$4,653
Income taxes	$2,491	$2,323	$2,329
Non-cash financing transactions during the periods for:			
Common stock repurchases	$661	$736	$644
Issuance of Common Stock in connection with acquisition of business	$22,727	$26,186	$—

The accompanying notes are an integral part of these financial statements

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VONAGE HOLDINGS CORP. CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT) AND REDEEMABLE NONCONTROLLING INTEREST

(In thousands)	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Non-controlling interest	Total	Redeemable non-controlling interest	Net Income
Balance at December 31, 2011	$228	$1,074,488	$(762,857)	$(14,529)	$2,237	$ —	$299,567		
Stock option exercises	2	1,723					1,725		
Share-based expense		11,975					11,975		
Share-based award activity				(625)			(625)		
Warrant exercise				(28,189)			(28,189)		
Foreign currency translation adjustment					335		335		
Net income			36,627				36,627		
Balance at December 31, 2012	230	1,088,186	(726,230)	(43,343)	2,572	—	321,415	—	
Stock option exercises	9	9,545					9,554		
Stock option cancellation		(5,463)					(5,463)		
Share-based expense		17,843					17,843		
Share-based award activity				(1,311)			(1,311)		
Common stock repurchases				(56,386)			(56,386)		
Acquisition of business	8	26,178					26,186		
Investment by redeemable noncontrolling interest							—	455	
Foreign currency translation adjustment					(2,053)		(2,053)	(5)	
Net income			28,289				28,289	(488)	27,801
Balance at December 31, 2013	247	1,136,289	(697,941)	(101,040)	519	—	338,074	(38)	
Stock option exercises	10	4,554					4,564		

Share-based expense		21,070					21,070		
Share-based award activity				(9,004)			(9,004)		
Common stock repurchases				(49,263)			(49,263)		
Acquisition of business	7	22,749		(468)			22,288		
Foreign currency translation adjustment					(3,642)	9	(3,633)		
Unrealized loss on available-for-sale securities					(8)		(8)		
Transfer of noncontrolling interest						(706)	(706)	706	
Net income (loss)			20,266			(151)	20,115	(668)	19,447
Balance at December 31, 2014	$264	$1,184,662	$(677,675)	$(159,775)	$(3,131)	$ (848)	$343,497	$ —	

The accompanying notes are an integral part of these financial statements

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(In thousands, except per share amounts)

Note 1. Basis of Presentation and Significant Accounting Policies

NATURE OF OPERATIONS

Vonage Holdings Corp. (“Vonage”, “Company”, “we”, “our”, “us”) is incorporated as a Delaware corporation. We are a leadin provider of communications services connecting people through cloud-connected devices worldwide. Customers in the United States represented 93% of our subscriber lines for our broadband telephone replacement services at December 31, 2014, with the balance primarily in Canada and the United Kingdom.

SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation
The consolidated financial statements include the accounts of Vonage and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. We also consolidate a majority-owned entity in Brazil where we have the ability to exercise controlling influence. The ownership interest of the noncontrolling party is presented as noncontrolling interest.
Use of Estimates
Our consolidated financial statements are prepared in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported and disclosed in the consolidated financial statements and the accompanying notes. Actual results could differ materially from these estimates.
On an ongoing basis, we evaluate our estimates, including the following:
- the useful lives of property and equipment, software costs, and intangible assets;
- assumptions used for the purpose of determining share-based compensation using the Black-Scholes option pricing model and Monte Carlo simulation model (“Models”), and various other assumptions that we believe to be reasonable; the key inputs for these Models include our stock price at valuation date, exercise price, the dividend yield, risk-free interest rate, life in years, and historical volatility of our common stock; and
- assumptions used in determining the need for, and amount of, a valuation allowance on net deferred tax assets;

We base our estimates on historical experience, available market information, appropriate valuation methodologies, and on various other assumptions that we believe to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.
Revenue Recognition
Operating revenues consist of telephony services revenues and customer equipment (which enables our telephony services) and shipping revenues. The point in time at which revenues are recognized is determined in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104, Revenue Recognition, and Financial

Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 605, Revenue Recognition.
At the time a customer signs up for our telephony services, there are the following deliverables:
- Providing equipment, if any, to the customer that enables our telephony services and
- Providing telephony services.

The equipment is generally provided free of charge to our customers and in most instances there are no fees collected at sign-up. We record the fees collected for shipping the equipment to the customer, if any, as shipping and handling revenue at the time of shipment.
Telephony Services Revenue

Substantially all of our revenues are telephony services revenues, which are derived primarily from monthly subscription fees that customers are charged under our service plans. We also derive telephony services revenues from per minute fees for international calls if not covered under a plan, including calls made via applications for mobile devices and other stand-alone products, and for any calling minutes in excess of a customer's monthly plan limits. Monthly subscription fees are automatically charged to customers' credit cards, debit cards or electronic check payments ("ECP"), in advance and are recognized over the following month when services are provided. Revenues generated from international calls and from customers exceeding allocated call minutes under limited minute plans are recognized as services are provided, that is, as minutes are used, and are billed to a customer's credit cards, debit cards or ECP in arrears. As a result of multiple billing cycles each month, we estimate the amount of revenues earned from international calls and from customers exceeding allocated call minutes under limited minute plans but not billed from the end of each billing cycle to the end of each reporting period and record these amounts as accounts receivable. These estimates are based primarily upon historical minutes and have been consistent with our actual results.

We also provide rebates to customers who purchase their customer equipment from retailers and satisfy minimum service period requirements. These rebates in excess of activation fees are recorded as a reduction of revenues over the service period based upon the estimated number of customers that will ultimately earn and claim the rebates.

In the United States, we charge regulatory, compliance, E-911, and intellectual property-related fees on a monthly basis to defray costs, and to cover taxes that we are charged by the suppliers of telecommunications services. In addition, we charge customers Federal Universal Service Fund ("USF") fees. We recognize revenue on a gross basis for USF and related fees. We record these fees as revenue when billed. All other taxes are recorded on a net basis.

In addition, historically, we charged a disconnect fee for customers who terminated their service plan within the first twelve months of service. Disconnect fees are recorded as revenue and are recognized at the time the customer terminates service. Beginning in September 2010, we eliminated the disconnect fee for new customers. In February of 2012 we re-introduced service agreements as an option for new customers.

Customer Equipment and Shipping Revenue

Customer equipment and shipping revenues consist of revenues from sales of customer equipment to wholesalers or directly

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to customers for replacement devices, or for upgrading their device at the time of customer sign-up for which we charge an additional fee. In addition, customer equipment and shipping revenues include revenues from the sale of VoIP telephones in order to access our small and medium business services. Customer equipment and shipping revenues also include the fees that customers are charged for shipping their customer equipment to them. Customer equipment and shipping revenues include sales to our retailers, who subsequently resell this customer equipment to customers. Revenues are reduced for payments to retailers and rebates to customers, who purchased their customer equipment through these retailers, to the extent of customer equipment and shipping revenues. In addition, historically, we charged an equipment recovery fee for customers who terminated their service plan within the first twelve months of service. Equipment recovery fees are recorded as revenue and are recognized at the time the customer terminates service. Beginning in September 2010, we eliminated the equipment recovery fees for new customers.

Cost of Telephony Services

Cost of telephony services consists primarily of costs that we pay to third parties in order to provide telephony services. These costs include access and interconnection charges that we pay to other telephone companies to terminate domestic and international phone calls on the public switched telephone network. In addition, these costs include the cost to lease phone numbers, to co-locate in other telephone companies' facilities, to provide enhanced emergency dialing capabilities to transmit 911 calls, and to provide local number portability. These costs also include taxes that we pay on telecommunications services from our suppliers or are imposed by government agencies such as Federal USF and royalties for use of third parties' intellectual property. In addition, the Company has reclassified certain personnel and related costs for network operations and customer care that are attributable to revenue generating activities from selling, general and administrative expense to cost of telephony services for all periods presented.

Cost of Goods Sold

Cost of goods sold consists primarily of costs that we incur when a customer signs up for our service. These costs include the cost of customer equipment for customers who subscribe through the direct sales channel in excess of activation fees. In addition, these costs include the amortization of deferred customer equipment, the cost of shipping and handling for customer equipment, the installation manual that accompanies the customer equipment, and the cost of certain promotions.

Research and Development Expenses

Costs for research, including predevelopment efforts prior to establishing technological feasibility of software expected to be marketed, are expensed as incurred.

Development costs are capitalized when technological feasibility has been established and anticipated future revenues support the recoverability of the capitalized amounts. Capitalization stops when the product is available for general release to customers. Due to the short time period between achieving technological feasibility and product release and the insignificant amount of costs incurred during such periods, we have not capitalized any software development, and have expensed these costs as incurred.

Research and development costs are not significant and are included in selling, general and administrative expense.

Cash, Cash Equivalents and Marketable Securities

We maintain cash with several investment grade financial institutions. Highly liquid investments, which are readily convertible into cash, with original maturities of three months or less, are recorded as cash equivalents.

Management determines the appropriate classification of our investments in debt and marketable equity securities at the time of purchase and reevaluates such designation at each balance sheet date. Our debt and marketable equity securities have been classified and accounted for as available for sale. We may or may not hold securities with stated maturities until maturity. In response to changes in the availability of and the yield on alternative investments as well as liquidity requirements, we may sell these securities prior to their stated maturities. These securities are carried at fair value, with the unrealized gains and losses reported as a component of other comprehensive income (loss). Any realized gains or losses on the sale of marketable securities are determined on a specific identification method, and such gains and losses are reflected as a component of other income or expense.

Certain Risks and Concentrations

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash equivalents, marketable securities, and accounts receivable. They are subject to fluctuations in both market value and yield based upon changes in market conditions, including interest rates, liquidity, general economic conditions, and conditions specific to the issuers. Accounts receivable are typically unsecured and are derived from revenues earned from customers primarily located in the United States. A portion of our accounts receivable represents the timing difference between when a customer's credit card is billed and the subsequent settlement of that transaction with our credit card processors. This timing difference is generally three days for substantially all of our credit card receivables. We have never experienced any accounts receivable write-offs due to this timing difference. In addition, we collect subscription fees in advance, minimizing our accounts receivable and bad debt exposure. If a customer's credit card, debit card or ECP is declined, we generally suspend international calling capabilities as well as their ability to incur domestic usage charges in excess of their plan minutes. If the customer's credit card, debit card or ECP could not be successfully processed during three billing cycles (i.e., the current and two subsequent monthly billing cycles), we terminate the account. In addition, we automatically charge any per minute fees to our customers' credit card, debit card or ECP monthly in arrears. To further mitigate our bad debt exposure, a customer's credit card, debit card or ECP will be charged in advance of their monthly billing if their international calling or overage charges exceed a certain dollar threshold.

Inventory

Inventory consists of the cost of customer equipment and is stated at the lower of cost or market, with cost determined using the average cost method. We provide an inventory allowance for customer equipment that has been returned by customers but may not be able to be reissued to new customers or returned to the manufacturer for credit.

Property and Equipment

Property and equipment includes acquired assets and those accounted for under capital leases and consist principally of network equipment and computer hardware, furniture, software, and leasehold improvements. Company-owned equipment in use at customer premises is also included in property and equipment. In addition, the lease of our corporate headquarters has been accounted for as a capital lease and is included in property and equipment. Network equipment and computer hardware and furniture are stated at cost with depreciation provided using the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Leasehold

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improvements are amortized over their estimated useful life of the related assets or the life of the lease, whichever is shorter. The cost of renewals and substantial improvements is capitalized while the cost of maintenance and repairs is charged to operating expenses as incurred. Company-owned customer premises equipment is depreciated on a straight-line basis over three years.

Our network equipment and computer hardware, which consists of routers, gateways, and servers that enable our telephony services, is subject to technological risks and rapid market changes due to new products and services and changing customer demand. These changes may result in future adjustments to the estimated useful lives or the carrying value of these assets, or both.

Software Costs

We capitalize certain costs, such as purchased software and internally developed software that we use for customer acquisition and customer care automation tools, in accordance with FASB ASC 350-40, “Internal-Use Software”. Computer software is stated at cost less accumulated amortization and the estimated useful life is two to five years. As previously disclosed, we experienced delays and incremental costs during the course of the development and implementation of a new billing and ordering system by Amdocs Software Systems Limited and Amdocs, Inc. (collectively, "Amdocs") and the transition of customers to the system. We conducted discussions with Amdocs to resolve the issues associated with the billing and ordering system. Based on these discussions, and after our consideration of the progress made improving our overall IT infrastructure, the incremental time and costs to develop and implement the Amdocs system, as well as the expected reduction in capital expenditures, in June 2012 we and Amdocs determined that terminating the program was in the best interest of both parties. On July 30, 2012, we entered into a Settlement Agreement with Amdocs terminating the related license agreement. As a result, we wrote off our investment in the system of $25,262, net of settlement amounts to us, in the second quarter of 2012. This charge is recorded as loss from abandonment of software assets in the statement of income.

Goodwill and Purchased-Intangible Assets

Goodwill acquired in acquisition of a business is accounted for based upon the excess fair value of consideration transferred over the fair value of net assets acquired in the business combination. Goodwill is tested for impairment on an annual basis on October 1st and, when specific circumstances dictate, between annual tests. When impaired, the carrying value of goodwill is written down to fair value. The goodwill impairment test involves evaluating qualitative information to determine if it is more than 50% likely that the fair value of a reporting unit is less than its carrying value in determining if the traditional two-step goodwill impairment test described below must be applied. The first step, identifying a potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the carrying value of the reporting unit exceeds its fair value, the second step would need to be conducted; otherwise, no further steps are necessary as no potential impairment exists. The second step, measuring the impairment loss, compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. Any excess of the reporting unit goodwill carrying value over the respective implied fair value is recognized as an impairment loss. There was no impairment of goodwill for the year ended December 31, 2014.

Purchased-intangible assets are accounted for based upon the fair value of assets received. Purchased-intangible assets are amortized on a straight-line or accelerated basis over the periods of benefit, ranging from two to ten years. We perform a review of purchased-intangible assets whenever events or changes in circumstances indicate that the useful life is shorter than we had

originally estimated or that the carrying amount of assets may not be recoverable. If such facts and circumstances exist, we assess the recoverability of purchased-intangible assets by comparing the projected undiscounted net cash flows associated with the related asset or group of assets over their remaining lives against their respective carrying amounts. Impairments, if any, are based on the excess of the carrying amount over the fair value of those assets. If the

useful life of the asset is shorter than originally estimated, we accelerate the rate of amortization and amortize the remaining carrying value over the new shorter useful life. There was no impairment of purchased-intangible assets identified for the years ended December 31, 2014, 2013, or 2012.

Intangible Assets and Goodwill

Intangible assets acquired in the settlement of litigation or by direct purchase are accounted for based upon the fair value of assets received. Goodwill acquired in acquisition of a business is accounted for based upon the excess fair value of consideration transferred over the fair value of net assets acquired in the business combinations.

Patents and Patent Licenses

Patent rights acquired in the settlement of litigation or by direct purchase are accounted for based upon the fair value of assets received.

Long-Lived Assets

We evaluate impairment losses on long-lived assets used in operations when events and changes in circumstances indicate that the assets might be impaired. If our review indicates that the carrying value of an asset will not be recoverable, based on a comparison of the carrying value of the asset to the undiscounted future cash flows, the impairment will be measured by comparing the carrying value of the asset to its fair value. Fair value will be determined based on quoted market values, discounted cash flows or appraisals. Impairments of property and equipment are recorded in the statement of income as part of depreciation expense.

Debt Related Costs

Costs incurred in raising debt are deferred and amortized as interest expense using the effective interest method over the life of the debt.

Noncontrolling Interest and Redeemable Noncontrolling Interest

We consolidate a majority-owned entity where we have the ability to exercise controlling influence. The ownership interest of the noncontrolling party is presented as noncontrolling interest in the Consolidated Balance Sheet as Stockholders' Equity. If we are required to repurchase the noncontrolling interest at fair value, subject to adjustment, under a put option or other contractual redemption requirement, we will report the noncontrolling interest as redeemable in the Consolidated Balance Sheets between liabilities and equity. We adjust the redeemable noncontrolling interest to the redemption values on each balance sheet date with changes recognized as an adjustment to retained earnings, or in the absence of retained earnings, as an adjustment to additional paid-in capital when it becomes probable the noncontrolling interest will become redeemable.

Restricted Cash and Letters of Credit

We had a cash collateralized letter of credit for $3,311 and $4,306 as of December 31, 2014 and 2013, respectively, related to lease deposits for our Holmdel offices. In the aggregate, cash reserves and

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collateralized letters of credit of $3,405 and $4,405 were recorded as long-term restricted cash at December 31, 2014 and 2013, respectively.

Derivatives

We do not hold or issue derivative instruments for trading purposes. However, in accordance with FASB ASC 815, "Derivatives and Hedging" ("FASB ASC 815"), we review our contractual obligations to determine whether there are terms that possess the characteristics of derivative financial instruments that must be accounted for separately from the financial instrument in which they are embedded. We recognize these features as liabilities in our consolidated balance sheet at fair value each period and recognize any change in the fair value in our statement of operations in the period of change. We estimate the fair value of these liabilities using available market information and appropriate valuation methodologies.

Income Taxes

We recognize deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of our assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. Our net deferred tax assets primarily consist of net operating loss carry forwards ("NOLs"). We are required to record a valuation allowance against our net deferred tax assets if we conclude that it is more likely than not that taxable income generated in the future will be insufficient to utilize the future income tax benefit from our net deferred tax assets (namely, the NOLs) prior to expiration. We periodically review this conclusion, which requires significant management judgment. If we are able to conclude in a future period that a future income tax benefit from our net deferred tax assets has a greater than 50 percent likelihood of being realized, we are required in that period to reduce the related valuation allowance with a corresponding decrease in income tax expense. This would result in a non-cash benefit to our net income in the period of the determination. In the fourth quarter of 2011, we released $325,601 of valuation allowance (see Note 5. Income Taxes). We periodically review this conclusion, which requires significant management judgment. In the future, if available evidence changes our conclusion that it is more likely than not that we will utilize our net deferred tax assets prior to their expiration, we will make an adjustment to the related valuation allowance and income tax expense at that time. In subsequent periods, we would expect to recognize income tax expense equal to our pre-tax income multiplied by our effective income tax rate, an expense that was not recognized prior to the reduction of the valuation allowance. Our effective rate may differ from the federal statutory rate due, in part, to our foreign operations and certain discrete period items, which in 2012 primarily consisted of adjustments related to stock compensation, including a non-cash deferred tax adjustment totaling $4,077 in 2012 for certain stock compensation previously considered nondeductible under Section 162(m) of the Internal Revenue Code.

We file income tax returns in the U.S. on a federal basis and in U.S. state and foreign jurisdictions. Our federal tax return remains subject to examination by the Internal Revenue Service from 2010 to present, our New Jersey tax returns remain open from 2008 to present, our Canada tax return remains open from 2009 to present, and other domestic and foreign tax returns remain open for all periods to which those filings relate. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate resolution.

We have not had any unrecognized tax benefits. We recognize interest and penalties accrued related to unrecognized tax

benefits as components of our income tax provision. We have not had any interest and penalties accrued related to unrecognized tax benefits.

Business Combinations

We account for business combinations using the acquisition method of accounting. The acquisition method of accounting requires that the purchase price, including the fair value of contingent consideration, of the acquisition be allocated to the assets acquired and liabilities assumed using the fair values determined by management as of the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred over the net of the acquisition date fair values of assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, the Company's estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill to the extent the Company identifies adjustments to the preliminary purchase price allocation. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of operations. We include the results of all acquisitions in our Consolidated Financial Statements from the date of acquisition.

Acquisition related transaction costs, such as banking, legal, accounting and other costs incurred in connection with an acquisition are expensed as incurred in selling, general and administrative expense.

Acquisition related integration costs include costs associated with exit or disposal activities, which do not meet the criteria of discontinued operations, including costs for employee, lease, and contract terminations, facility closing or other exit activities. Additionally, these costs include expenses directly related to integrating and reorganizing acquired businesses and include items such as employee retention costs, recruiting costs, certain moving costs, certain duplicative costs during integration and asset impairments. These costs are expensed as incurred in selling, general and administrative expense.

Foreign Currency

Generally, the functional currency of our non-United States subsidiaries is the local currency. The financial statements of these subsidiaries are translated to United States dollars using month-end rates of exchange for assets and liabilities, and average rates of exchange for revenues, costs, and expenses. Translation gains and losses are deferred and recorded in accumulated other comprehensive income as a component of stockholders' equity.

Share-Based Compensation

We account for share-based compensation in accordance with FASB ASC 718, "Compensation-Stock Compensation". Under the fair value recognition provisions of this pronouncement, share-based compensation cost is measured at the grant date based on the fair value of the award, reduced as appropriate based on estimated forfeitures, and is recognized as expense over the applicable vesting period of the stock award using the accelerated method. The excess tax benefit associated with stock compensation deductions have not been recorded in additional paid-in capital. When evaluating whether an excess tax benefit has been realized, share based compensation deductions are not considered realized until NOLs are no longer sufficient to offset taxable income. Such excess tax benefits will be recorded when realized.

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

Earnings per Share

Net income per share has been computed according to FASB ASC 260, “Earnings per Share”, which requires a dual presentation of basic and diluted earnings per share (“EPS”). Basic EPS represents net income divided by the weighted average number of common shares outstanding during a reporting period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock, including stock options and restricted stock units under our 2001

Stock Incentive Plan and 2006 Incentive Plan were exercised or converted into common stock. The dilutive effect of outstanding, stock options and restricted stock units is reflected in diluted earnings per share by application of the treasury stock method. In applying the treasury stock method for stock-based compensation arrangements, the assumed proceeds are computed as the sum of the amount the employee must pay upon exercise and the amounts of average unrecognized compensation cost attributed to future services.

The following table sets forth the computation for basic and diluted net income per share:

	For the years ended December 31,		
	2014	2013	2012
Numerator			
Numerator for basic earnings per share-net income attributable to Vonage	$20,266	$28,289	$36,627
Numerator for diluted earnings per share-net income attributable to Vonage	$20,266	$28,289	$36,627
Denominator			
Basic weighted average common shares outstanding	209,822	211,563	224,264
Dilutive effect of stock options and restricted stock units	9,597	8,957	8,369
Diluted weighted average common shares outstanding	219,419	220,520	232,633
Basic net income per share			
Basic net income per share	$0.10	$0.13	$0.16
Diluted net income per share			
Diluted net income per share	$0.09	$0.13	$0.16

The following shares were excluded from the calculation of diluted income per share because of their anti-dilutive effects:

	For the years ended December 31,		
	2014	2013	2012
Restricted stock units	5,454	3,625	2,468
Employee stock options	18,428	25,437	32,746
	23,882	29,062	35,214

Comprehensive Income

Comprehensive income consists of net income (loss) and other comprehensive items. Other comprehensive items include foreign currency translation adjustments and unrealized gains (losses) on available for sale securities.

Recent Accounting Pronouncements

In May 2014, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers". This ASU is a comprehensive new revenue recognition model that

requires a company to recognize revenue to depict the transfer of good or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. This ASU is effective for annual reporting periods beginning after December 15, 2016 and early adoption is not permitted.

Accordingly, we will adopt this ASU on January 1, 2017. Companies may use either a full retrospective or modified retrospective approach to adopt this ASU and our management is currently evaluating which transition approach to use. We are currently evaluating the impact of adopting ASU 2014-09 on our consolidated financial statements and related disclosures.

Reclassifications

The Company has reclassified certain personnel and related costs for network operations and customer care that are attributable to revenue generating activities from selling, general and administrative expense to cost of telephony services for all periods presented. The amounts reclassified were $23,582 and $27,347 for the years ended December 31, 2013 and 2012, respectively. The reclassifications had no impact on net earnings previously reported.

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

Note 2. Supplemental Balance Sheet Account Information

Prepaid expenses and other current assets

	December 31, 2014	December 31, 2013
Nontrade receivables	$ 2,511	$ 7,402
Services	7,415	7,084
Telecommunications	459	479
Insurance	803	757
Marketing	519	312
Other prepaids	958	858
Prepaid expenses and other current assets	$ 12,665	$ 16,892

Property and equipment, net

	December 31, 2014	December 31, 2013
Building (under capital lease)	$ 25,709	$ 25,709
Network equipment and computer hardware	73,599	78,312
Leasehold improvements	48,574	44,141
Customer premise equipment	3,220	—
Furniture	1,914	812
Vehicles	195	109
	153,211	149,083
Less: accumulated depreciation and amortization	(103,581)	(96,840)
Property and equipment, net	$ 49,630	$ 52,243

Customer premise equipment, net

	December 31, 2014	December 31, 2013
Customer premise equipment	$ 3,220	$ —
Less: accumulated depreciation	(74)	—
Customer premise equipment, net	$ 3,146	$ —

Software, net

	December 31, 2014	December 31, 2013
Purchased	$ 55,636	$ 45,178
Licensed	909	909
Internally developed	36,088	36,088
	92,633	82,175
Less: accumulated amortization	(74,009)	(61,618)
Software, net	$ 18,624	$ 20,557

The total expected future annual amortization of software is as follows:

2015	$11,354
2016	5,258
2017	1,976
2018	36
Total	$18,624

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

Debt related costs, net

	December 31, 2014	December 31, 2013
Senior secured term loan	$ 6,617	$ 4,706
Less: accumulated amortization	(4,466)	(3,393)
Debt related costs, net	$ 2,151	$ 1,313

Restricted cash

	December 31, 2014	December 31, 2013
Letter of credit-lease deposits	$ 3,311	$ 4,306
Cash reserves	94	99
Restricted cash	$ 3,405	$ 4,405

Other assets

	December 31, 2014	December 31, 2013
Long term non-trade receivable	$ 6,623	$ —
Others	1,125	1,882
Other assets	$ 7,748	$ 1,882

Accrued expenses

	December 31, 2014	December 31, 2013
Compensation and related taxes and temporary labor	$ 25,555	$ 20,276
Marketing	17,871	23,277
Taxes and fees	17,300	18,207
Litigation and settlements	23	89
Telecommunications	8,134	7,942
Other accruals	9,645	6,063
Customer credits	1,883	1,719
Professional fees	2,178	2,490
Accrued interest	133	12
Inventory	1,267	769
Credit card fees	207	283
Accrued expenses	$ 84,196	$ 81,127

Accumulated other comprehensive (loss) income

	December 31, 2014	December 31, 2013
Foreign currency translation adjustment	$ (3,123)	$ 519
Unrealized loss on available-for-sale securities	(8)	—
Accumulated other comprehensive (loss) income	$ (3,131)	$ 519

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

Note 3. Goodwill and Intangible Assets

Goodwill

The following table provides a summary of the changes in the carrying amounts of goodwill:

Balance at January 1, 2013	$—
Increase in goodwill related to acquisition of VBS	83,627
Balance at December 31, 2013	83,627
Increase in goodwill related to acquisition of Telesphere	111,028
Tax adjustment related to VBS	(3,393)
Balance at December 31, 2014	$191,262

Intangible assets, net

The carrying values of intangible assets were as follows:

	December 31, 2014	December 31, 2013
Customer relationships	$39,100	$39,100
Developed technology	35,200	35,200
Patents and patent licenses	12,764	18,264
Trademark	560	560
Trade names	500	500
Non-compete agreements	200	200
Gross Carrying Amount	88,324	93,824
Customer relationships	(10,185)	(1,644)
Developed technology	(7,108)	(813)
Patents and patent licenses	(10,426)	(14,089)
Trademark	(113)	(13)
Trade names	(472)	(402)
Non-compete agreements	(113)	(13)
Accumulated Amortization	(28,417)	(16,974)
Customer relationships	28,915	37,456
Developed technology	28,092	34,387
Patents and patent licenses	2,338	4,175
Trademark	447	547
Trade names	28	98
Non-compete agreements	87	187
Net Carrying Amount	$59,907	$76,850

Represents customer relationships, developed technology, trade names and non-compete agreements identified in the acquisition of a business. In addition, includes patents and trademarks we have purchased and licensed, including in connection with the settlement of litigation.

The intangible assets are being amortized over periods which reflect the pattern in which economic benefits of the assets are expected to be realized. The customer relationships and developed technology are being amortized on an accelerated basis over an estimated useful life of ten years; patents and patent licenses are being amortized over their weighted average remaining lives; trademark is being amortized on a straight-line basis over eight years; trade names are being amortized on a straight-line basis over five years; and the non-compete agreements are being amortized on a straight-line basis over two years.

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The total expected future annual amortization is as follows:

2015	$14,184
2016	12,560
2017	9,480
2018	7,505
2019	5,796
Thereafter	10,382
Total	$59,907

Note 4. Supplemental Income Statement Account Information

Amounts included in revenues

	For the years ended December 31,		
	2014	2013	2012
USF fees	$71,188	$70,009	$77,781
Disconnect fee	$3,228	$4,152	$3,128
Initial activation fees	$1,085	$1,278	$2,079
Customer equipment fees	$715	$418	$614
Equipment recovery fees	$80	$103	$102
Shipping and handling fees	$2,374	$1,178	$1,385

Amounts included in cost of telephony services

	For the years ended December 31,		
	2014	2013	2012
USF costs	$71,188	$70,009	$77,781

Amounts included in cost of goods sold

	For the years ended December 31,		
	2014	2013	2012
Shipping and handling cost	$6,028	$5,188	$7,064

Amounts included in selling, general and administrative expense

	For the years ended December 31,		
	2014	2013	2012
Advertising costs	$328	$1,012	$2,053
Acquisition related transaction costs	$2,466	$2,681	$—
Acquisition related integration costs	$100	$87	$—

Amounts included in marketing

	For the years ended December 31,		
	2014	2013	2012
Advertising costs	$140,810	$142,094	$129,665

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

Depreciation and amortization expense

	For the years ended December 31,		
	2014	2013	2012
Network equipment and computer hardware	$13,449	$13,475	$14,943
Software	12,009	10,843	9,621
Capital leases	2,200	2,200	2,199
Other leasehold improvements	4,434	4,167	3,986
Customer premise equipment	75	—	—
Furniture	194	120	130
Vehicles	31	10	16
Patents	1,833	2,304	2,306
Trademarks	72	70	70
Customer relationships	8,539	1,644	—
Acquired technology	6,296	813	—
Trade names	100	13	—
Non-compete agreements	101	13	—
	49,333	35,672	33,271
Property and equipment impairments	1,959	9	(2)
Software impairments	115	385	55
Depreciation and amortization expense	$51,407	$36,066	$33,324

Amounts included in interest expense

	For the years ended December 31,		
	2014	2013	2012
Debt related costs amortization	$1,072	$1,515	$1,235

Amounts included in other expense, net

	For the years ended December 31,		
	2014	2013	2012
Net gains (losses) resulting from foreign exchange transactions	$10	$(109)	$(11)

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

Note 5. Income Taxes

The components of income (loss) before income tax expense are as follows:

	For the years ended December 31,		
	2014	2013	2012
United States	$44,044	$39,650	$46,904
Foreign	(2,837)	6,345	11,818
	$41,207	$45,995	$58,722

The components of the income tax (expense) benefit are as follows:

	For the years ended December 31,		
	2014	2013	2012
Current:			
Federal	$(1,452)	$(907)	$(979)
Foreign	(377)	(155)	(142)
State and local taxes	(803)	(337)	(1,486)
	$(2,632)	$(1,399)	$(2,607)
Deferred:			
Federal	$(15,239)	$(14,954)	$(12,642)
Foreign	(2,985)	(1,603)	(3,479)
State and local taxes	(904)	(238)	(3,367)
	$(19,128)	$(16,795)	$(19,488)
	$(21,760)	$(18,194)	$(22,095)

The following table summarizes deferred taxes resulting from differences between financial accounting basis and tax basis of assets and liabilities.

	December 31, 2014	December 31, 2013
Current assets and liabilities:		
Deferred revenue	$13,265	$14,846
Accounts receivable and inventory allowances	289	335
Accrued expenses	8,295	3,180
Deferred tax assets, net, current	$21,849	$18,361
Non-current assets and liabilities:		
Acquired intangible assets and property and equipment	$(11,876)	$(23,762)
Accrued expenses	(1,937)	—
Research and development and alternative minimum tax credit	4,952	3,613
Stock option compensation	17,802	17,317
Capital leases	(5,401)	(4,486)
Deferred revenue	(524)	(627)
Net operating loss carryforwards	241,525	271,406
	244,541	263,461

Valuation allowance	(17,451)	(16,922)
Deferred tax assets, net, non-current	$227,090	$246,539

We recognize deferred tax assets and liabilities at enacted income tax rates for the temporary differences between the financial reporting bases and the tax bases of our assets and liabilities. Any effects of changes in income tax rates or tax laws are included in the provision for income taxes in the period of enactment. Our net deferred tax assets primarily consist of net operating loss carry forwards ("NOLs"). We are required to record a valuation allowance against our net deferred tax

assets if we conclude that it is more likely than not that taxable income generated in the future will be insufficient to utilize the future income tax benefit from our net deferred tax assets (namely, the NOLs), prior to expiration. We periodically review this conclusion, which requires significant management judgment. Until the fourth quarter of 2011, we recorded a valuation allowance fully against our net deferred tax assets. In 2011, we completed our first full year of taxable income and completed

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our budgetary process for periods subsequent to 2011, which anticipates continued taxable income in the future. Based upon these factors and our sustained profitable operating performance over the past three years excluding certain losses associated with our prior convertible notes and our December 2010 debt refinancing, our evaluation determined that the benefit resulting from our net deferred tax assets (namely, the NOLs), are likely to be realized prior to their expiration. Accordingly, we released the related valuation allowance against our United States federal and Canada net deferred tax assets, and a portion of the allowance against our state net deferred tax assets as certain NOLs may expire prior to utilization due to shorter utilization periods in certain states, resulting in a one-time non-cash income tax benefit of $325,601 and a corresponding net deferred tax asset of $325,601 in the fourth quarter of 2011. We still maintain a full valuation allowance against our United Kingdom net deferred tax assets as we are unable to conclude that it is more likely than not that some or all of the related United Kingdom net deferred tax assets will be realized.

In connection with the acquisition of Vocalocity, we recorded a net deferred tax liability of $24,000 related to the $75,000 of identified intangible assets that will be amortized for financial reporting purposes but not for tax purposes and a deferred tax asset of $10,336 primarily consisting of NOLs. We had recorded a valuation allowance of $4,336 against Vocalocity's deferred tax assets based upon our preliminary assessment of the utilization of the NOLs as the NOLs are subject to Section 382 limitations. Subsequent to the acquisition date, we increased the deferred tax assets by $3,393 based upon updated information with respect to NOL utilization.
In the future, if available evidence changes our conclusion that it is more likely than not that we will utilize our net deferred tax assets prior to their expiration, we will make an adjustment to the related valuation allowance and income tax expense at that time. In subsequent periods, we would expect to recognize income tax expense equal to our pre-tax income multiplied by our effective income tax rate, an expense that was not recognized prior to the reduction of the valuation allowance.

The reconciliation between the United States statutory federal income tax rate and the effective rate is as follows:

	For the years ended December 31,					
	2014		2013		2012	
U.S. Federal statutory tax rate	35	%	35	%	35	%
Permanent items	3	%	4	%	1	%
State and local taxes, net of federal benefit	3	%	—	%	5	%
International tax (reflects effect of losses for which tax benefit not realized)	11	%	(1	)%	(1	)%
Valuation reserve for income taxes and other	1	%	1	%	(2	)%
Effective tax rate	53	%	39	%	38	%

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As of December 31, 2014, we had NOLs for United States federal and state tax purposes of $639,981 and $214,238, respectively, expiring at various times from years ending 2015 through 2033 as follows:

	Federal	State
2015	$—	$21,668
2016	—	6,015
2017	—	2,433
2018	—	2,866
2019	—	14
2020	—	356
2021	—	4,388
2022	—	18,408
2023	—	12,448
2024	—	1,374
2025	84,670	7,087
2026	190,275	12,914
2027	232,525	37,213
2028	29,166	13,253
2029	4,664	4,516
2030	96,056	45,830
2031	1,908	5,371
2032	—	7,769
2033	717	10,315
Total	$639,981	$214,238

United States federal and state NOLs of $15,482 represent excess tax benefits from the exercise of share based awards which will be recorded in additional paid-in capital when realized. In addition, we had NOLs for Canadian tax purposes of $4,458 expiring in 2027. We also had NOLs for United Kingdom tax purposes of $44,853 with no expiration date.

Under Section 382 of the Internal Revenue Code, if we undergo an “ownership change” (generally defined as a greater than 50% change (by value) in our equity ownership over a three-year period), our ability to use our pre-change of control NOLs and other pre-change tax attributes against our post-change income may be limited. The Section 382 limitation is applied annually so as to limit the use of our pre-change NOLs to an amount that generally equals the value of our stock immediately before the ownership change multiplied by a designated federal long-term tax-exempt rate. At December 31, 2014, there were no limitations on the use of our NOLs except for certain of the NOLs of Vocalocity as of the date of acquisition.

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Note 6. Long-Term Debt and Revolving Credit Facility
A schedule of long-term debt at December 31, 2014 and 2013 is as follows:

	December 31, 2014	December 31, 2013
2.875-3.375% 2014 Credit Facility - due 2018	$ 70,000	$ —
2.875-3.375% Revolving Credit Facility - due 2018	$ 67,000	$ —
3.125-3.625% 2013 Credit Facility - due 2016	$ —	$ 23,333
3.125-3.625% 2013 Revolving Credit Facility - due 2016	$ —	$ 75,000
Total Long-Term Debt and Revolving Credit Facility	$ 137,000	$ 98,333

At December 31, 2014, future payments under long-term debt obligations over each of the next five years and thereafter are as follows:

	2014 Credit Facility
2015	20,000
2016	20,000
2017	20,000
2018	30,000
Minimum future payments of principal	90,000
Current portion	20,000
Long-term portion	$70,000

Acquisition of Telesphere

In connection with our acquisition of Telesphere, we financed the transaction with $67,000 from our revolving credit facility.

August 2014 Financing
On August 13, 2014, we entered into a credit agreement (the “2014 Credit Facility”) consisting of a $100,000 senior secured term loan and a $125,000 revolving credit facility. The co-borrowers under the 2014 Credit Facility are us and Vonage America Inc., our wholly owned subsidiary. Obligations under the 2014 Credit Facility are guaranteed, fully and unconditionally, by our other material United States subsidiaries and are secured by substantially all of the assets of each borrower and each guarantor. The lenders under the 2014 Credit Facility are JPMorgan Chase Bank, N.A., Citizens Bank, N.A., Silicon Valley Bank, SunTrust Bank, Fifth Third Bank, Keybank National Association, and MUFG Union Bank, N.A. JPMorgan Chase Bank, N.A. is a party to the agreement as administrative agent, Citizens Bank, N.A. as syndication agent, and Silicon Valley Bank and SunTrust Bank as documentation agents. J.P. Morgan Securities LLC and Citizens Bank, N.A. acted as joint lead bookrunners, and J.P. Morgan Securities LLC, Citizens Bank, N.A., Silicon Valley Bank, and SunTrust Robinson Humphrey Inc. acted as joint lead arrangers.
Use of Proceeds

We used $90,000 of the net available proceeds of the 2014 Credit Facility to retire all of the debt under our 2013 Credit Facility. Remaining proceeds from the senior secured term loan and the undrawn revolving credit facility under the 2014 Credit Facility will be used for general corporate purposes. We also incurred $1,910 of fees in connection with the 2014 Credit Facility, which is amortized, along with the unamortized fees of $668 in connection with the 2013 Credit Facility, to interest expense over the life of the debt using the effective interest method.

2014 Credit Facility Terms

The following description summarizes the material terms of the 2014 Credit Facility:

The loans under the 2014 Credit Facility mature in August 2018. Principal amounts under the 2014 Credit Facility are repayable in quarterly installments of $5,000 per quarter for the senior secured term loan. The unused portion of our revolving credit facility incurs a 0.40% commitment fee.

Outstanding amounts under the 2014 Credit Facility, at our option, will bear interest at:

> LIBOR (applicable to one-, two-, three-, six-, or twelve-month periods) plus an applicable margin equal to 2.875% if our consolidated leverage ratio is less than 0.75 to 1.00, 3.125% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 3.375% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last day of each relevant interest period or, if the interest period is longer than three months, each day that is three months after the first day of the interest period, or

> the base rate determined by reference to the highest of (a) the federal funds effective rate from time to time plus 0.50%, (b) the prime rate of JPMorgan Chase Bank, N.A., and (c) the adjusted LIBO rate applicable to one month interest periods plus 1.00%, plus an applicable margin equal to 1.875% if our consolidated leverage ratio is less than 0.75 to 1.00, 2.125% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 2.375% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last business day of each March, June, September, and December and the maturity date of the 2014 Credit Facility.

The 2014 Credit Facility provides greater flexibility to us in funding acquisitions and restricted payments, such as stock buybacks, than the 2013 Credit Facility.

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We may prepay the 2014 Credit Facility at our option at any time without premium or penalty. The 2014 Credit Facility is subject to mandatory prepayments in amounts equal to:

- 100% of the net cash proceeds from any non-ordinary course sale or other disposition of our property and assets for consideration in excess of a certain amount subject to customary reinvestment provisions and certain other exceptions, and
- 100% of the net cash proceeds received in connection with other non-ordinary course transactions, including insurance proceeds not otherwise applied to the relevant insurance loss.

Subject to certain restrictions and exceptions, the 2014 Credit Facility permits us to obtain one or more incremental term loans and/or revolving credit facilities in an aggregate principal amount of up to $60,000 plus an amount equal to repayments of the senior secured term loan upon providing documentation reasonably satisfactory to the administrative agent. The 2014 Credit Facility includes customary representations and warranties and affirmative covenants of the borrowers. In addition, the 2014 Credit Facility contains customary negative covenants, including, among other things, restrictions on the ability of us and our subsidiaries to consolidate or merge, create liens, incur additional indebtedness, dispose of assets, consummate acquisitions, make investments, and pay dividends and other distributions. We must also comply with the following financial covenants:

- a consolidated leverage ratio of no greater than 2.25 to 1.00;
- a consolidated fixed coverage charge ratio of no less than 1.75 to 1.00 subject to adjustment to exclude up to $80,000 in specified restricted payments;
- minimum cash of $25,000 including the unused portion of the revolving credit facility; and
- maximum capital expenditures not to exceed $55,000 during any fiscal year, provided that the unused amount of any permitted capital expenditures in any fiscal year may be carried forward to the next following fiscal year.

In addition, annual excess cash flow up to $8,000 increases permitted capital expenditures.
As of December 31, 2014, we were in compliance with all covenants, including financial covenants, for the 2014 Credit Facility.
The 2014 Credit Facility contains customary events of default that may permit acceleration of the debt. During the continuance of a payment default, interest will accrue at a default interest rate of 2% above the interest rate which would otherwise be applicable, in the case of loans, and at a rate equal to the rate applicable to base rate loans plus 2%, in the case of all other amounts.

Acquisition of Vocalocity

In connection with our acquisition of Vocalocity, we financed the transaction with $75,000 from our revolving credit facility.

February 2013 Financing
On February 11, 2013 we entered into Amendment No. 1 to the 2011 Credit Agreement (as further amended by Amendment No. 2 to our 2011 Credit Facility, the "2013 Credit Facility"). The 2013 Credit Facility consists of a $70,000 senior secured term loan and a $75,000 revolving credit facility. The co-borrowers under the 2013 Credit Facility are us and Vonage America Inc., our wholly owned subsidiary. Obligations under the 2013 Credit Facility are guaranteed, fully and unconditionally, by our other United States subsidiaries and are secured by substantially all of the assets of each borrower and each of the guarantors. On July 26, 2013 we entered into Amendment No. 2 to our

2011 Credit Agreement, which amends our financial covenant related to our consolidated fixed charge coverage ratio by increasing the amount of restricted payments excluded from such calculation from $50,000 to $80,000.

Use of Proceeds

We used $42,500 of the net available proceeds of the 2013 Credit Facility to retire all of the debt under our 2011 Credit Facility. Remaining net proceeds of $27,500 from the senior secured term loan and the undrawn revolving credit facility under the 2013 Credit Facility will be used for general corporate purposes. We also incurred $2,009 of fees in connection with the 2013 Credit Facility, which is amortized, along with the pre-existing unamortized fees of $670 in connection with the 2011 Credit Facility, to interest expense over the life of the debt using the effective interest method. We used $75,000 from the 2013 revolving credit facility in connection with the acquisition of Vocalocity on November 15, 2013.

2013 Credit Facility Terms

The following description summarizes the material terms of the 2013 Credit Facility:

The loans under the 2013 Credit Facility mature in February 2016. Principal amounts under the 2013 Credit Facility are repayable in quarterly installments of $5,833 per quarter for the senior secured term loan. The unused portion of our revolving credit facility incurs a 0.45% commitment fee.

Outstanding amounts under the 2013 Credit Facility, at our option, will bear interest at:

- LIBOR (applicable to one-, two-, three- or six-month periods) plus an applicable margin equal to 3.125% if our consolidated leverage ratio is less than 0.75 to 1.00, 3.375% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 3.625% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last day of each relevant interest period or, if the interest period is longer than three months, each day that is three months after the first day of the interest period, or
- the base rate determined by reference to the highest of (a) the federal funds effective rate from time to time plus 0.50%, (b) the prime rate of JPMorgan Chase Bank, N.A., and (c) the LIBOR rate applicable to one month interest periods plus 1.00%, plus an applicable margin equal to 2.125% if our consolidated leverage ratio is less than 0.75 to 1.00, 2.275% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 2.625% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last business day of each March, June, September, and December and the maturity date of the 2013 Credit Facility.

July 2011 Financing

On July 29, 2011, we entered into a credit agreement (the "2011 Credit Facility") consisting of an $85,000 senior secured term loan and a $35,000 revolving credit facility. The co-borrowers under the 2011 Credit Facility were us and Vonage America Inc., our wholly owned subsidiary. Obligations under the 2011 Credit Facility were guaranteed, fully and unconditionally, by our other United States subsidiaries and are secured by substantially all of the assets of each borrower and each of the guarantors.

Use of Proceeds

We used $100,000 of the net available proceeds of the 2011 Credit Facility, plus $31,000 of cash on hand, to retire all of the debt under the credit facility that we entered into in December 2010 (the "2010

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Credit Facility"), including a $1,000 prepayment fee to holders of the 2010 Credit Facility. We also incurred $2,697 of fees in connection with the 2011 Credit Facility, which is amortized to interest expense over the life of the debt using the effective interest method.

2011 Credit Facility Terms

The following description summarizes the material terms of the 2011 Credit Facility:

The loans under the 2011 Credit Facility mature in July 2014. Principal amounts under the 2011 Credit Facility are repayable in installments of $7,083 per quarter for the senior secured term loan. The unused portion of our revolving credit facility incurs a 0.50% commitment fee.

Outstanding amounts under each of the senior secured term loan and the revolving credit facility, at our option, will bear interest at:

> LIBOR (applicable to one-, two-, three- or six-month periods) plus an applicable margin equal to 3.25% if our consolidated leverage ratio is less than 0.75 to 1.00, 3.5% if our

consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 3.75% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last day of each relevant interest period or, if the interest period is longer than three months, each day that is three months after the first day of the interest period, or

> the base rate determined by reference to the highest of (a) the federal funds effective rate from time to time plus 0.50%, (b) the prime rate of JPMorgan Chase Bank, N.A., and (c) the LIBOR rate applicable to one month interest periods plus 1.00%, plus an applicable margin equal to 2.25% if our consolidated leverage ratio is less than 0.75 to 1.00, 2.5% if our consolidated leverage ratio is greater than or equal to 0.75 to 1.00 and less than 1.50 to 1.00, and 2.75% if our consolidated leverage ratio is greater than or equal to 1.50 to 1.00, payable on the last business day of each March, June, September, and December and the maturity date of the 2011 Credit Facility.

NOTE 7. Fair Value of Financial Instruments

Effective January 1, 2008, we adopted FASB ASC 820-10-25, “Fair Value Measurements and Disclosures”. This standard establishes a framework for measuring fair value and expands disclosure about fair value measurements. We did not elect fair value accounting for any assets and liabilities allowed by FASB ASC 825, “Financial Instruments”. FASB ASC 820-10 defines fair value as the amount that would be received for an asset or paid to transfer a liability (i.e., an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also establishes a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. FASB ASC 820-10 describes the following three levels of inputs that may be used:

> Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets and

liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

>Level 2: Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

> Level 3: Unobservable inputs when there is little or no market data available, thereby requiring an entity to develop its own assumptions. The fair value hierarchy gives the lowest priority to Level 3 inputs.

Although management believed its valuation methods were appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could have resulted in a different fair value measurement at the reporting date.

The following table presents the assets that are measured and recognized at fair value on a recurring basis classified under the appropriate level of the fair value hierarchy as of December 31, 2014 and December 31, 2013:

	December 31, 2014	December 31, 2013
Level 1 Assets		
Money market fund (1)	$2,786	$—
Level 2 Assets		
Available-for-sale securities (2)	$7,162	$—

(1) Included in cash and cash equivalents on our consolidated balance sheet.
(2) Included in marketable securities on our consolidated balance sheet.

Fair Value of Other Financial Instruments

The carrying amounts of our financial instruments, including cash and cash equivalents, accounts receivable, and accounts payable, approximate fair value because of their short maturities. The carrying amounts of our capital leases approximate fair value of these obligations based upon management’s best estimates of interest rates that would

be available for similar debt obligations at December 31, 2014 and 2013. We believe the fair value of our debt at December 31, 2014 was approximately the same as its carrying amount as market conditions, including available interest rates, credit spread relative to our credit rating, and illiquidity, remain relatively unchanged from the issuance date of our debt on August 13, 2014 for a similar debt instrument.

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Note 8. Common Stock

Net Operating Loss Rights Agreement

On June 7, 2012, we entered into a Tax Benefits Preservation Plan ("Preservation Plan") designed to preserve stockholder value and tax assets. Our ability to use our tax attributes to offset tax on U.S. taxable income would be substantially limited if there were an "ownership change" as defined under Section 382 of the U.S. Internal Revenue Code. In general, an ownership change would occur if one or more "5-percent shareholders," as defined under Section 382, collectively increase their ownership in us by more than 50 percent over a rolling three-year period.

In connection with the adoption of the Preservation Plan, our board of directors declared a dividend of one preferred share purchase right for each outstanding share of the Company’s common stock. The preferred share purchase rights were distributed to stockholders of record as of June 18, 2012, as well as to holders of the Company's common stock issued after that date, but will only be activated if certain triggering events under the Preservation Plan occur.

Under the Preservation Plan, preferred share purchase rights will work to impose significant dilution upon any person or group which acquires beneficial ownership of 4.9% or more of the outstanding common stock, without the approval of our board of directors, from and after June 7, 2012. Stockholders that own 4.9% or more of the

outstanding common stock as of the opening of business on June 7, 2012, will not trigger the preferred share purchase rights so long as they do not (i) acquire additional shares of common stock or (ii) fall under 4.9% ownership of common stock and then re-acquire shares that in the aggregate equal 4.9% or more of the common stock.

The Preservation Plan was scheduled to expire no later than the close of business June 7, 2013, unless extended by our board of directors. On April 4, 2013, our board of directors determined to extend the Preservation Plan through June 7, 2015, subject to ratification of the extension by stockholders at the Vonage 2013 annual meeting of stockholders. On June 6, 2013, at the Vonage 2013 annual meeting of stockholders, stockholders ratified the extension of the Preservation Plan through June 7, 2015.

Common Stock Repurchases

On July 25, 2012, our board of directors authorized a program to repurchase up to $50,000 of Vonage common stock through December 31, 2013. The specific timing and amount of repurchases would vary based on available capital resources and other financial and operational performance, market conditions, securities law limitations, and other factors. The repurchases would be made using our cash resources.

We repurchased the following shares of common stock with cash resources under the $50,000 repurchase program as of December 31, 2013:

	December 31, 2013
Shares of common stock repurchased	2,189
Value of common stock repurchased	$5,374

On February 7, 2013, our board of directors discontinued the remainder of our existing $50,000 repurchase program effective at the close of business on February 12, 2013 with $16,682 of availability remaining, and authorized a new program to repurchase up to $100,000 of Vonage common stock by December 31, 2014. The specific timing and amount of repurchases will vary based on available capital

resources and other financial and operational performance, market conditions, securities law limitations, and other factors. The repurchases will be made using our cash resources. The $100,000 repurchase program may be suspended or discontinued at any time without prior notice.

We repurchased the following shares of common stock with cash resources under the $100,000 repurchase program as of December 31, 2014 and December 31, 2013:

	December 31, 2014 (1)	December 31, 2013 (2)
Shares of common stock repurchased	13,475	16,954
Value of common stock repurchased	$49,128	$50,653

(1) including 171 shares, or $660, of common stock repurchases settled in January 2015; excluding commission of $2.
(2) including 220 shares, or $734, of common stock repurchases settled in January 2014; excluding commission of $2.

As of December 31, 2014, approximately $219 remained of our $100,000 repurchase program. The repurchase program expired on December 31, 2014.
On December 9, 2014, Vonage's Board of Directors authorized a new program for the Company to repurchase up to $100,000 of its outstanding common stock. Repurchases under the new program are expected to be made over a four-year period beginning in 2015.

Under the new program, the timing and amount of repurchases will be determined by management based on its evaluation of market conditions, the trading price of the stock and will vary based on available capital resources and other financial and operational performance, market conditions, securities law limitations, and other factors. Repurchases may be made in the open market or through private transactions from time to time. The repurchases will be made using available cash balances. In any period, under each repurchase program, cash used in financing activities related to common stock repurchases

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may differ from the comparable change in stockholders' equity, reflecting timing differences between the recognition of share repurchase transactions and their settlement for cash.

Stock Option Cancellation

As part of our strategy to build shareholder value and to facilitate our goal of reducing the number of shares of common stock outstanding,

on February 19, 2013, we entered into an agreement with our Chief Executive Officer to cancel a total of 4,500 of his vested stock options for $5,463. The payment reflects a discount, in favor of the Company, from the closing price of the common stock on the New York Stock Exchange on February 19, 2013.

Note 9. Employee Benefit Plans

Share-Based Compensation

Our stock option program is a long-term retention program that is intended to attract, retain and provide incentives for talented employees, officers and directors, and to align stockholder and employee interests. Currently, we grant options from our 2006 Incentive Plan. Our 2001 Stock Incentive Plan was terminated by our board of directors in 2008. As such, share-based awards are no longer granted

under the 2001 Stock Incentive Plan. Under the 2006 Incentive Plan, share-based awards can be granted to all employees, including executive officers, outside consultants, and non-employee directors. Vesting periods for share-based awards are generally three or four years for both plans. Awards granted under each plan expire in five or ten years from the effective date of grant. As of April 2010, the Company began routinely granting awards with a ten year expiration period.

The fair value for these options was estimated at the date of grant using a Black-Scholes option-pricing model. The assumptions used to value options are as follows:

	2014	2013	2012
Risk-free interest rate	1.78-2.19%	1.13-2.02%	0.94-1.36%
Expected stock price volatility	85.28-86.93%	86.94-90.39%	90.37-93.57%
Dividend yield	0.00 %	0.00 %	0.00 %
Expected life (in years)	6.25	6.25	6.25

Beginning January 1, 2006, we estimated the volatility of our stock using historical volatility of comparable public companies in accordance with guidance in FASB ASC 718, “Compensation-Stock Compensation”. Beginning in the first quarter of 2008, we used the historical volatility of our common stock to measure expected volatility for future option grants.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of our employee stock options. The expected term of employee stock options represents the weighted-average period that the stock options are expected to remain outstanding, which we derive based on our historical settlement experience.

Beginning in 2014, we issued restricted performance stock units with vesting that is contingent on both total shareholder return ("TSR") compared to members of our peer group and continued service. For the market-based restricted performance stock units issued during the year ended December 31, 2014, the payouts at vesting which are linearly interpolated between the percentiles specified below are as follows:

Payout Schedule

Percentile Ranking	% of Target Earned
80%	200%
50%	100%
30%	50%
<30%	—%

Notwithstanding the foregoing, if our TSR is negative for the performance period, then the vesting percentage shall not exceed 100%. In addition, we reduce the shares available for grant to cover the potential payout of 200%.

To value these market-based restricted performance stock units, we used a Monte Carlo simulation model on the date of grant. Fair value of $6.56 was determined using the Monte Carlo simulation model based on the assumptions used for the expected stock price volatility, the correlation coefficient between us and our peer group, risk free interest rates, and future dividend payments. We used the historical volatility of 48.91% and correlation of our stock based on the period equal to the remaining performance period as of the grant date. The risk-free interest rate was 0.69% based on upon interpolation between the yields of a 2.00-year and 3.00-year maturity U.S. Treasury Bonds as of the grant date. The dividend yield was 0.00% based on our history and expectation of future dividend payout. The expected life was 2.79 years. Compensation expense for restricted stock units with performance and market conditions is recognized over the requisite service period using the straight-line method and includes the impact of estimated forfeitures.

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Our stock incentive plans as of December 31, 2014 are summarized as follows (in thousands):

	Shares Authorized	Shares Available for Grant	Stock Options Outstanding	Restricted Stock and Restricted Stock Units
2001 Incentive Plan	—	—	1,058	—
2006 Incentive Plan	77,400	10,235	24,593	7,828
Total as of December 31, 2014	77,400	10,235	25,651	7,828

2001 Stock Incentive Plan
In February 2001, we adopted the 2001 Stock Incentive Plan, which is an amendment and restatement of the 2000 Stock Incentive Plan of MIN-X.COM, INC. There have not been any options available for future grant under the 2001 Stock Incentive Plan since our board of directors terminated the plan in 2008.
2006 Incentive Plan
In May 2006 we adopted the 2006 Incentive Plan. The 2006 Incentive Plan permits the grant of stock options, restricted stock, restricted stock units, stock appreciation rights, performance stock, performance units, annual awards, and other awards based on, or related to, shares of our common stock. Options awarded under our 2006 Incentive Plan may be non-statutory stock options or may qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended. Our 2006 Incentive Plan contains various limits with respect to the types of awards, as follows:

- a maximum of 20,000 shares may be issued under the plan pursuant to incentive stock options;
- a maximum of 10,000 shares may be issued pursuant to options and stock appreciation rights granted to any participant in a calendar year;
- a maximum of $5,000 may be paid pursuant to annual awards granted to any participant in a calendar year; and
- a maximum of $10,000 may be paid (in the case of awards denominated in cash) and a maximum of 10,000 shares may be issued (in the case of awards denominated in shares) pursuant to awards, other than options, stock appreciation rights or annual awards, granted to any participant in a calendar year.

Based upon June 2010 and June 2013 amendments to the plan, the maximum number of shares of our common stock that are authorized for issuance under our 2006 Incentive Plan is 77,400 shares. Shares issued under the plan may be authorized and unissued shares or may be issued shares that we have reacquired. Shares covered by awards that are forfeited, canceled or otherwise expire without having been exercised or settled, or that are settled by cash or other non-share consideration, will become available for issuance pursuant to a new award. Shares that are tendered or withheld to pay the exercise price of an award or to satisfy tax withholding obligations will not be available for issuance pursuant to new awards. At December 31, 2014, 10,235 shares were available for future grant under the 2006 Stock Incentive Plan.

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The following table summarizes the activity for all awards under both of our stock incentive plans:

	Stock Options Outstanding		Restricted Stock and Restricted Stock Units Outstanding	
	Number of Shares	Weighted Average Exercise Price Per Share	Number of Shares	Weighted Average Grant Date Fair Market Value Per Share
	(in thousands)		(in thousands)	
Balance at December 31, 2011	37,282	$2.51	2,275	$2.79
Stock options granted	8,701	2.22		
Stock options exercised	(1,237)	1.39		
Stock options canceled	(4,506)	3.99		
Restricted stocks and restricted stock units granted			2,400	2.29
Restricted stocks and restricted stock units exercised			(1,022)	2.31
Restricted stocks and restricted stock units canceled			(310)	2.58
Balance at December 31, 2012	40,240	2.32	3,343	2.59
Stock options granted	9,315	2.89		
Stock options exercised	(7,842)	1.47		
Stock options canceled	(8,876)	2.14		
Restricted stocks and restricted stock units granted			3,896	3.01
Restricted stocks and restricted stock units exercised			(1,549)	2.48
Restricted stocks and restricted stock units canceled			(508)	2.84
Balance at December 31, 2013	32,837	2.73	5,182	2.92
Stock options granted	6,865	3.47		
Stock options exercised	(10,504)	1.65		
Stock options canceled	(3,547)	3.19		
Restricted stocks and restricted stock units granted			5,240	4.71
Restricted stocks and restricted stock units exercised			(1,734)	2.83
Restricted stocks and restricted stock units canceled			(860)	3.32
Balance at December 31, 2014-stock options	25,651	$3.31		
Balance at December 31, 2014-Restricted stock and restricted stock units			7,828	$4.09
Exercisable at December 31, 2014	10,708	$3.60		
Unvested shares at December 31, 2013	17,048	$2.71		
Unvested shares at December 31, 2014	14,943	$3.10		

The weighted average exercise price of options granted was $3.47, $2.89, and $2.22 for the years ended December 31, 2014, 2013, and 2012, respectively. The weighted average grant date fair market value of restricted stock and restricted stock units granted was $4.71, $3.01, and $2.29 during the year ended December 31, 2014, 2013, and 2012,

respectively.

The aggregate intrinsic value of exercised stock options for the years ended December 31, 2014, 2013, and 2012 was $22,962, $9,891, and $1,042, respectively. The aggregate intrinsic value of exercised restricted stock and restricted stock units for the years ended December 31, 2014, 2013, and 2012 was $4,909, $3,788, and $2,250, respectively.

The weighted average grant date fair market value of stock options granted was $2.55, $2.16, and $1.58 for the years ended December 31, 2014, 2013, and 2012.

Total share-based compensation expense recognized for the years ended December 31, 2014, 2013, and 2012 was $21,070, $17,843, and $11,975, respectively, which were recorded to selling, general and administrative expense in the consolidated statement of income. As of December 31, 2014, total unamortized share-based compensation was $27,130, net of estimated forfeitures, which is expected to be amortized over the remaining vesting period of each grant, up to the next 48 months. Compensation costs for all share-based awards are recognized using the ratable single-option approach on an accrual basis and are amortized using an accelerated amortization schedule. Our current policy is to issue new shares to settle the exercise of stock options and prospectively, the vesting of restricted stock units.

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Information regarding the options outstanding as of December 31, 2014 is summarized below:

	Stock Options Outstanding				Stock Options Exercisable			
Range of Exercise Prices	Stock Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value	Stock Options Vested and Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Aggregate Intrinsic Value
	(in thousands)	(in years)		(in thousands)	(in thousands)	(in years)		(in thousands)
$0.33 to $1.43	3,092		1.37		3,092		1.37	
$1.44 to $1.99	164		1.69		102		1.68	
$2.00 to $4.00	18,434		2.92		4,238		2.56	
$4.01 to $7.34	2,826		4.73		2,141		4.77	
$7.35 to $35.00	1,135		11.47		1,135		11.47	
	25,651	7.2	3.31	$ 24,203	10,708	5.3	3.60	$ 13,033

The aggregate intrinsic value of restricted stock units outstanding was $29,825 as of December 31, 2014.

Retirement Plan

In March 2001, we established a 401(k) Retirement Plan (the “Retirement Plan”) available to employees who meet the plan’s eligibility requirements. Participants may elect to contribute a percentage of their

compensation to the Retirement Plan up to a statutory limit. We may make a contribution to the Retirement Plan in the form of a matching contribution. The employer matching contribution is 50% of each employee’s contributions not to exceed $6 in 2012, 2013, and 2014. Our expense related to the Retirement Plan was $2,959, $2,554, and $2,160 in 2014, 2013, and 2012, respectively.

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Note 10. Commitments and Contingencies

Capital Leases

Assets financed under capital lease agreements are included in property and equipment in the consolidated balance sheet and related depreciation and amortization expense is included in the consolidated statements of operations.

On March 24, 2005, we entered into a lease for our headquarters in Holmdel, New Jersey. We took possession of a portion of the office space at the inception of the lease, another portion on August 1, 2005 and took over the remainder of the office space in early 2006. The overall lease term is twelve years and five months. In connection with the lease, we issued a letter of credit which requires $7,350 of cash as collateral, which is classified as restricted cash. Part

of the cash was released, leaving a balance of $3,311 at December 31, 2014. The gross amount of the building recorded under capital leases totaled $25,709 as of December 31, 2014 and accumulated depreciation was approximately $19,846 as of December 31, 2014.

Operating Leases

We have entered into various non-cancelable operating lease agreements for certain of our existing office and telecommunications co-location space in the United States and for international subsidiaries with original lease periods expiring between 2014 and 2015. We are committed to pay a portion of the buildings' operating expenses as determined under the agreements.

At December 31, 2014, future payments under capital leases and minimum payments under non-cancelable operating leases are as follows over each of the next five years and thereafter:

	December 31, 2014	
	Capital Leases	Operating Leases
2015	$4,457	$4,487
2016	4,545	2,336
2017	3,071	2,222
2018	—	2,144
2019	—	2,136
Thereafter	—	1,842
Total minimum payments required	12,073	$15,167
Less amounts representing interest	(1,872)	
Minimum future payments of principal	10,201	
Current portion	3,365	
Long-term portion	$6,836	

Rent expense was $7,007 for 2014, $6,071 for 2013, and $4,995 for 2012.

Stand-by Letters of Credit

We have stand-by letters of credit totaling $3,311 and $4,306, as of December 31, 2014 and 2013, respectively.

End-User Commitments

We are obligated to provide telephone services to our registered end-users. The costs related to the potential utilization of minutes sold are expensed as incurred. Our obligation to provide this service is dependent on the proper functioning of systems controlled by third-party service providers. We do not have a contractual service relationship with some of these providers.

Vendor Commitments

We have several commitments primarily commitments to vendors who will provide local inbound, customer care, carrier operation, networks and telephone related services, process our credit card billings, license patents to us, sell us communication devices, supply us energy, provide marketing infrastructure and services, and

partner with us in international operations. In certain cases, we may terminate these arrangements early upon payment of specified fees. These commitments total $234,390. Of this total amount, we expect to purchase $128,809 in 2015, $67,891 in 2016, $17,686 in 2017, and $14,158 in 2018, and 5,846 in 2019 respectively. These amounts do not represent our entire anticipated purchases in the future, but represent only those items for which we are contractually committed. We also purchase products and services as needed with no firm commitment. For this reason, the amounts presented do not provide a reliable indicator of our expected future cash outflows or changes in our expected cash position.

Litigation

From time to time, in addition to those identified below, we are subject to legal proceedings, claims, investigations, and proceedings in the ordinary course of business, including claims of alleged infringement of third-party patents and other intellectual property rights, commercial, employment, and other matters. From time to time, we also receive letters or other communications from third parties inviting us to obtain patent licenses that might be relevant to our business or alleging that our services infringe upon third party patents or other intellectual property. In accordance with generally accepted accounting principles, we make a provision for a liability when it is both probable

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that a liability has been incurred and the amount of the loss or range of loss can be reasonably estimated. These provisions, if any, are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. Litigation is inherently unpredictable. We believe that we have valid defenses with respect to the legal matters pending against us and are vigorously defending these matters. Given the uncertainty surrounding litigation and our inability to assess the likelihood of a favorable or unfavorable outcome in the above noted matters and our inability to reasonably estimate the amount of loss or range of loss, it is possible that the resolution of one or more of these matters could have a material adverse effect on our consolidated financial position, cash flows or results of operations.

IP Matters

Bear Creek Technologies, Inc. On February 22, 2011, Bear Creek Technologies, Inc. (“Bear Creek”) filed a lawsuit against Vonage Holdings Corp., Vonage America, Inc., Vonage Marketing LLC, and Aptela Inc. (a subsidiary of Vocalocity, Inc., a wholly-owned subsidiary of the Company which was acquired on November 15, 2013 pursuant to an Agreement and Plan of Merger dated October 9, 2013) in the United States District Court for the Eastern District of Virginia (Norfolk Division) alleging that Vonage’s and Aptela’s products and services are covered by United States Patent No. 7,889,722, entitled “System for Interconnecting Standard Telephony Communications Equipment to Internet Protocol Networks” (the “"722 Patent”). The suit also named numerous other defendants, including Verizon Communications, Inc., Comcast Corporation, Time-Warner Cable, Inc., AT&T, Inc., and T-Mobile USA Inc. On August 17, 2011, the Court dismissed Bear Creek’s case against the Vonage entities and Aptela, as well as all the other defendants, except for one defendant. Later, on August 17, 2011, Bear Creek re-filed its complaint concerning the ‘722 Patent in the United States District Court for the District of Delaware against the same Vonage entities; and also re-filed a separate complaint concerning the ‘722 Patent in the United States District Court for the Eastern District of Virginia against Aptela. In each complaint, Bear Creek alleges that Vonage and Aptela, respectively, are infringing one or more claims of the ‘722 Patent. In addition, Bear Creek alleges that each party is contributing to and inducing infringement of one or more claims of the ‘722 Patent. On January 25, 2012, Bear Creek filed a motion with the United States Judicial Panel on Multidistrict Litigation seeking to transfer and consolidate its litigations against Vonage and Aptela with twelve other separate actions Bear Creek filed in the U.S. District Courts for Delaware and the Eastern District of Virginia. On May 2, 2012, the Multidistrict Litigation Panel granted Bear Creek’s motion and ordered the coordination or consolidation for pretrial proceedings of all fourteen actions in the U.S. District Court for the District of Delaware. On October 11, 2012, Vonage filed an answer to Bear Creek’s complaint, including counterclaims of non-infringement and invalidity of the ‘722 patent. Aptela, which filed a motion to dismiss Bear Creek’s complaint on September 27, 2011, has not yet answered, as its motion remains pending and awaiting disposition by the court. On November 5, 2012, Bear Creek filed an answer to Vonage’s counterclaims. On March 1, 2013, several defendants including Vonage moved the Court to stay the case pending resolution of the reexamination of the ‘722 patent requested by Cisco Systems, Inc. (“Cisco”) as described below; the motion was granted on July 17, 2013, and the case is now stayed pending the resolution of the reexamination. On November 8, 2013, the Court granted Bear Creek’s request to terminate and substitute counsel representing it in the litigation.

A request for reexamination of the ‘722 Patent was filed on September 12, 2012 by Cisco, challenging the validity of the ‘722 Patent. Cisco’s request was granted by the USPTO on November 28, 2012. On March 24, 2014, the Patent Office issued an Action Closing Prosecution, confirming its rejection of all claims of the ‘722 patent on multiple independent grounds. Bear Creek filed comments to the Action Closing

Prosecution on April 24, 2014. Cisco filed responsive comments on May 22, 2014. On September 15, 2014, Bear Creek filed a Notice of Appeal to the Patent Office’s rejection of its patent. On November 14, 2014, Bear Creek

submitted its Appeal to the Patent Trial and Appeal Board. Cisco filed its responsive brief on December 12, 2014; the brief was defective and, at the direction of the Patent Office, Cisco re-filed an amended brief on December 31, 2014.

RPost Holdings, Inc. On August 24, 2012, RPost Holdings, Inc., RPost Communications Limited, and RMail Limited (collectively, "RPost") filed a lawsuit against StrongMail Systems, Inc. ("StrongMail") in the United States District Court for the Eastern District of Texas (Marshall Division) alleging that StrongMail's products and services, including its electronic mail marketing services, are covered by United States Patent Nos. 8,224,913, 8,209,389, 8,161,104, 7,966,372, and 6,182,219. On January 16, 2013, StrongMail moved the Court to transfer the venue of the lawsuit to the Northern District of California. That motion was denied by the Court on August 19, 2013. On February 11, 2013, RPost filed an amended complaint, adding 27 new defendants, including Vonage America Inc. RPost's amended complaint alleges willful infringement of the RPost patents by Vonage and each of the other new defendants because they are customers of StrongMail. StrongMail has agreed to fully defend and indemnify Vonage in this lawsuit. Vonage answered the complaint on May 7, 2013. On January 30, 2014, RPost informed the Court that it is ready for a scheduling conference; the Court has not yet scheduled a conference.

AIP Acquisition LLC. On January 3, 2014, AIP Acquisition LLC ("AIP"), filed a lawsuit against Vonage Holdings Corp., Vonage America, Inc., and Vonage Marketing LLC in the U.S. District Court for the District of Delaware (Norfolk Division) alleging that Vonage's products and services are covered by United States Patent No. 7,269,247. Vonage filed an answer and counterclaims on February 25, 2014. AIP filed an amended complaint on March 18, 2014, which Vonage answered on April 4, 2014. On April 8, 2014, the Court ordered a stay of the case pending final resolution of non-party Level 3's inter partes review request of United States Patent No. 7,724,879, which is a continuation of the '247 patent. On October 8, 2014, the Patent Office issued a Final Written Decision, finding all challenged claims of the '879 patent to be invalid. On December 9, 2014, AIP filed a Notice of Appeal to the Patent Office's rejection of its patent. On December 15, 2014, AIP moved to replace its attorneys and the Patent Office granted the request on December 23, 2014.

A second request for inter partes review of the '879 patent was made by Cisco on December 12, 2013 and granted by the Patent Office on May 27, 2014. AIP filed its response on August 18, 2014, and Cisco filed its reply on November 14, 2014. An oral hearing was held on January 7, 2015. The proceeding remains pending before the Patent Office. Cisco petitioned for inter partes review of the '247 patent on November 25, 2014. The Patent Office has not yet determined whether to grant this petition.

Spansion. On April 28, 2014, Spansion LLC ("Spansion"), filed a lawsuit against Vonage Holdings Corp., Vonage America, Inc., Vonage Marketing LLC, and 20 other defendants in the U.S. District Court for the Northern District of California alleging that Macronix's flash memory chips and products containing those chips, including Vonage analog telephone adapter products, each are covered by one or more Spansion patents. On April 29, 2014, Spansion filed a complaint at the International Trade Commission containing substantially similar allegations, requesting that the ITC institute an investigation pursuant to Section 337 of the Tariff Act of 1930 against the respondents, including Vonage. Spansion's complaints allege that Vonage's telephone adapters are covered by United States Patent No. 6,246,611. Macronix agreed to fully defend and indemnify Vonage in the district court and ITC proceedings. On January 27, 2015, Macronix and Spansion announced a global

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settlement of all outstanding patent disputes, including the California action and the ITC complaint. The parties have agreed to dismiss all patent cases between themselves and their downstream customers (including Vonage) worldwide, granting to each other licenses under their respective patents.

Commercial Litigation

Merkin & Smith, et als. On September 27, 2013, Arthur Merkin and James Smith filed a putative class action lawsuit against Vonage America, Inc. in the Superior Court of the State of California, County of Los Angeles, alleging that Vonage violated California's Unfair Competition Law by charging its customers fictitious 911 taxes and fees. On October 30, 2013, Vonage filed a notice removing the case to the United States District Court for the Central District of California. On October 30, 2013 the case was assigned to a United States District Judge and a Magistrate Judge. On November 26, 2013, Vonage filed its Answer to the Complaint. On December 4, 2013, Vonage filed a Motion to Compel Arbitration. On February 4, 2014, the Court denied Vonage's Motion to Compel Arbitration. On March 5, 2014, Vonage filed an appeal with the United States Court of Appeals for the Ninth Circuit of the decision denying Vonage's Motion to Compel Arbitration. On March 6, 2014, Vonage moved to stay the district court proceedings pending its appeal; the Court granted Vonage's stay motion on March 26, 2014. Briefing on the appeal is now complete, though oral argument has not yet been scheduled.

Regulation

Telephony services are subject to a broad spectrum of state and federal regulations. Because of the uncertainty over whether Voice over Internet Protocol ("VoIP") should be treated as a telecommunications or information service, we have been involved in a substantial amount of state and federal regulatory activity. Implementation and interpretation of the existing laws and regulations is ongoing and is subject to litigation by various federal and state agencies and courts. Due to the uncertainty over the regulatory classification of VoIP service, there can be no assurance that we will not be subject to new regulations or existing regulations under new interpretations, and that such change would not introduce material additional costs to our business.

Federal - Net Neutrality

Clear and enforceable net neutrality rules would make it more difficult for broadband Internet service providers to block or discriminate against Vonage service. Also explicitly applying net neutrality rules to wireless broadband Internet service could create greater opportunities for VoIP applications that run on wireless broadband Internet service. In October 2009, the FCC proposed the adoption of enforceable net neutrality rules for both wired and wireless broadband Internet service providers. The proposed rules would prohibit wired and wireless broadband Internet service providers from blocking or hindering lawful content, applications, or services and from unreasonably discriminating when transmitting lawful network traffic. In addition, broadband Internet service providers would have to publicly disclose certain information about their network management practices. In December 2010, the FCC adopted enforceable net neutrality rules based on its October 2009 proposal. All of the proposed rules in the October 2009 proposal applied to wired broadband Internet providers. The FCC applied some but not all of the proposed rules to wireless broadband service. Wireless broadband Internet services providers are prohibited from blocking or hindering voice or video applications that compete with the broadband Internet service provider's voice or video services. Wireless providers are also subject to transparency requirements, but they are not subject to the prohibition on unreasonable discrimination that applies to wired broadband Internet services providers. Final rules were filed in the Federal Register in September 2011. Shortly thereafter, a number of

parties filed appeals of the rules in various federal circuit courts; some alleging that the FCC lacks authority to apply net neutrality rules to broadband service providers and some alleging that the rules did not go far enough. The D.C. Circuit Court of Appeals was selected by lottery to decide the appeals and the appeals alleging that the rules did not go far enough were dropped. The D.C. Circuit Court of Appeals heard oral arguments on the appeal on September 9,

2013. On January 14, 2014, the D.C. Circuit vacated the anti-blocking and the unreasonable discrimination provisions of the rules. A vote on the new net neutrality rules currently is expected at the February 26, 2015 FCC meeting.

Federal - Intercarrier Compensation

On February 9, 2011, the FCC released a Notice of Proposed Rulemaking on reforming universal service and the intercarrier compensation ("ICC") system that governs payments between telecommunications carriers primarily for terminating traffic. In particular, the FCC indicated that it has never determined the ICC obligations for VoIP service and sought comment on a number of proposals for how VoIP should be treated in the ICC system. The FCC's adoption of an ICC proposal will impact Vonage's costs for telecommunications services. On October 27, 2011, the FCC adopted an order reforming universal service and ICC. The FCC order provides that VoIP originated calls will be subject to interstate access charges for long distance calls and reciprocal compensation for local calls that terminate to the public switched telephone network ("PSTN"). It also subjected PSTN originated traffic directed to VoIP subscribers to similar ICC obligations. The termination charges for all traffic, including VoIP originated traffic, will transition over several years to a bill and keep arrangement (i.e., no termination charges). Numerous parties filed appeals of the FCC order in multiple federal circuit courts of appeal. The 10th Circuit Court of Appeals was selected by lottery to decide the appeals. The appeals are pending.

Federal - Universal Service Contribution Reform

On April 30, 2012, the FCC released a Further Notice of Proposed Rulemaking on reforming federal universal service fund ("USF") contributions. Currently USF contributions are assessed on the interstate and international revenue of traditional telephone carriers and interconnected VoIP providers like Vonage. The level of USF assessments on these providers has been going up over time because of decreases in the revenue subject to assessment due to substitution of non-assessable services such as non-interconnected VoIP services. If the FCC does reform USF contributions, it is likely that Vonage's contribution burden will decline.

Federal - E-Rate Reform

On December 19, 2013, the FCC released a Second Report and Order and Order on Reconsideration modernizing the E-Rate program. The E-Rate program subsidizes voice and data services for schools and libraries and is one component of the federal universal service fund. The December 19 order increased the size of the E-Rate fund to $3.9B in available annual funding. This represents an approximately $1.5B annual (17%) increase in the overall size of the universal service fund. This increase in the size of the fund will likely lead to increased USF contribution levels for Vonage services subject to assessment for federal USF.

Federal - Rural Call Completion Issues

On February 7, 2013, the FCC released a Notice of Proposed Rulemaking on rural call completion issues. The Notice of Proposed Rulemaking (NPRM) proposed new detailed reporting requirements to gauge rural call completion performance. Rural carriers have argued that VoIP provider call completion performance to rural areas is generally poor. On October 28, 2013, the FCC adopted an order on rural call completion that imposes new reporting obligations and restricts certain call signaling practices. The call signaling rules went into effect on January 31, 2014. We filed for extensions that the FCC granted on

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January 30, 2014 and February 28, 2014 and as of April 17, 2014, we were compliant with the call signaling rules. The effective date for the reporting requirements has not yet been established. We could be subject to an FCC enforcement action in the future in the event the FCC took the position that our rural call completion performance is inadequate or we were not compliant with the FCC's order.

Federal - Numbering Rights

On April 18, 2013, the FCC issued a Notice of Proposed Rulemaking (NPRM) that proposed to modify FCC rules to allow VoIP providers to directly access telephone numbers. In addition, the FCC granted a waiver from its existing rules to allow Vonage to conduct a trial of direct access to telephone numbers. The trial would allow the FCC to obtain real-world data on direct access to telephone numbers by VoIP providers to inform consideration of the NPRM. Direct access to telephone numbers would facilitate IP to IP interconnection, which may allow VoIP providers to provide higher quality, lower cost services, promote the deployment of innovative new voice services, and experience reductions in the cost of telephony services. Vonage successfully completed the trial in certain markets and filed the required reports on the trial with the FCC. On January 31, 2014, the FCC Wireline Competition Bureau issued a positive report on the trial, concluding that Vonage's successful trial confirmed the technical feasibility of interconnected VoIP providers obtaining telephone numbers directly from the numbering administrators. Given the positive report, the FCC may adopt its proposed rule to allow VoIP providers to directly access telephone numbers.

State Telecommunications Regulation

In general, the focus of interconnected VoIP telecommunications regulation is at the federal level. On November 12, 2004, the FCC issued a declaratory ruling providing that our service is subject to federal regulation and preempted the Minnesota Public Utilities Commission from imposing certain of its regulations on us. The FCC's decision was based on its conclusion that our service is interstate in nature and cannot be separated into interstate and intrastate components. On March 21, 2007, the United States Court of Appeals for the 8th Circuit affirmed the FCC's declaratory ruling preempting state regulation of our service. The 8th Circuit found that it is impossible for us to separate our interstate traffic from our intrastate traffic because of the nomadic nature of the service. As a result, the 8th Circuit held that it was reasonable for the FCC to preempt state regulation of our service. The 8th Circuit was clear, however, that the preemptive effect of the FCC's declaratory ruling may be reexamined if technological advances allow for the separation of interstate and intrastate components of the nomadic VoIP service. Therefore, the preemption of state authority over our service under this ruling generally hinges on the inability to separate the interstate and intrastate components of the service.

While this ruling does not exempt us from all state oversight of our service, it effectively prevents state telecommunications regulators from imposing certain burdensome and inconsistent market entry requirements and certain other state utility rules and regulations on our service. State regulators continue to probe the limits of federal preemption in their attempts to apply state telecommunications regulation to interconnected VoIP service. On July 16, 2009, the Nebraska Public Service Commission and the Kansas Corporation Commission filed a petition with the FCC seeking a declaratory ruling or, alternatively, adoption of a rule declaring that state authorities may apply universal service funding requirements to nomadic VoIP providers. We participated in the FCC proceedings on the petition. On November 5,

2010, the FCC issued a declaratory ruling that allowed states to assess state USF on nomadic VoIP providers on a going forward basis provided that the states comply with certain conditions to ensure that imposing state USF does not conflict with federal law or policy. We expect that state public utility commissions and state legislators will continue their attempts to apply state telecommunications regulations to nomadic VoIP service.

State and Municipal Taxes

In accordance with generally accepted accounting principles, we make a provision for a liability for taxes when it is both probable that a liability has been incurred and the amount of the liability or range of liability can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. For a period of time, we did not collect or remit state or municipal taxes (such as sales, excise, utility, use, and ad valorem taxes), fees or surcharges ("Taxes") on the charges to our customers for our services, except that we historically complied with the New Jersey sales tax. We have received inquiries or demands from a number of state and municipal taxing and 911 agencies seeking payment of Taxes that are applied to or collected from customers of providers of traditional public switched telephone network services. Although we have consistently maintained that these Taxes do not apply to our service for a variety of reasons depending on the statute or rule that establishes such obligations, we are now collecting and remitting sales taxes in certain of those states including a number of states that have changed their statutes to expressly include VoIP. In addition, many states address how VoIP providers should contribute to support public safety agencies, and in those states we remit fees to the appropriate state agencies. We could also be contacted by state or municipal taxing and 911 agencies regarding Taxes that do explicitly apply to VoIP and these agencies could seek retroactive payment of Taxes. As such, we have a reserve of $3,125 as of December 31, 2014 as our best estimate of the potential tax exposure for any retroactive assessment. We believe the maximum estimated exposure for retroactive assessments is approximately $5,000 as of December 31, 2014.

Employment Agreements

Our Chief Executive Officer is subject to an employment contract with a minimum salary commitment that is subject to annual review. He is also eligible for an annual performance bonus with a target based upon his then annual salary. The term of the employment contract with our Chief Executive Officer expires in 2017. In the event of the termination of our Chief Executive Officer's employment, depending upon the circumstances, he will be entitled to severance benefits equal to (i) twelve months base salary plus his target bonus amount for the year in which his employment terminates, payable over the twelve months period following termination of employment, (ii) a pro rata share (based on the portion of the year elapsed) of his bonus for the year in which his employment terminates, payable when, as and if under the Company's bonus program such bonus would otherwise be paid, but in no event later than March 15th of the year following the year to which such bonus relates, (iii) any prior year bonus amounts earned but unpaid as of the termination date, (iv) other accrued but unpaid compensation and benefits under the Company's benefits plans, (v) amounts to cover specified health care coverage premiums and (vi) vesting of certain equity awards pursuant to the terms of such awards.

Note 11. Acquisition of Business

Acquisition of Telesphere

Telesphere offers a comprehensive range of cloud voice and UCaaS services, including advanced call center solutions, collaboration, mobile office, and HD multi-point video conferencing. Facilitating its

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cloud services delivery, Telesphere also provides integrated MPLS services over its nationwide network enabling quality of service (QoS) management and security increasingly required by businesses utilizing extensive UCaaS features.

Telesphere is highly complementary to Vonage Business Solutions (“VBS). The addition of Telesphere more than doubles our addressable cloud market opportunity, immediately moving us into a considerably larger SMB and enterprise market, which exceeds $15 billion in North America. These companies generally require quality of service management, service level agreements, and carrier-grade feature sets matching those provided by on-premises PBX vendors.

Pursuant to the Agreement and Plan of Merger (the “Telesphere Merger Agreement ”), dated November 4, 2014, by and among Vonage, Thunder Acquisition Corp., a Washington corporation and newly formed wholly owned subsidiary of Vonage (“Merger Sub”), Telesphere Networks Ltd. ("Telesphere"), and each of John Chapple and Gary O’Malley, as representative of the securityholders of Telesphere (collectively, the “Representative”). Pursuant to the Merger Agreement, on December 15, 2014, Merger Sub merged with and into Telesphere, and Telesphere became a wholly owned subsidiary of Vonage (the “Merger”).

We acquired Telesphere for $114,435, including 6,825 shares of Vonage common stock (which shares had an aggregate value of approximately $22,727 based upon the closing stock price on December 15, 2014) and cash consideration of $91,708 (of which $3,610 was paid in January 2015) including payment of $676 for excess cash as of closing date, subject to adjustments for closing cash and working capital of Telesphere, reductions for indebtedness and transaction expenses of Telesphere that remained unpaid as of closing, and deposits into the escrow funds, pursuant to the Merger Agreement. We financed the transaction with $24,708 of cash and $67,000 from our revolving credit facility. The aggregate consideration will be allocated among holders of: (i) Telesphere preferred stock, (ii) Telesphere common stock, (iii) vested options to purchase Telesphere common stock, and (iv) warrants to purchase Telesphere preferred stock.

Pursuant to the Acquisition Agreement, $10,725 of the cash consideration and $2,875 of the stock consideration was placed in escrow (the "Holdback") for unknown liabilities that may have existed as of the acquisition date. $11,600 of the Holdback, which was included as part of the acquisition consideration, will be paid for such unknown liabilities or to the former Telesphere shareholders within 18 months from the closing date of the Acquisition. $2,000 of the Holdback, which was included as part of the acquisition consideration, will be paid for such unknown tax specific liabilities or to the former Telesphere shareholders within 36 months from the closing date of the Acquisition.

During 2014, we incurred $2,446 in acquisition related transaction costs, which were recorded in selling, general and administrative expense in the accompanying Consolidated Statements of Operations.

The results of operations of the Telesphere business and the estimated fair values of the assets acquired and liabilities assumed have been included in our consolidated financial statements since the date of the Acquisition. The Company recorded revenue of $1,751 and a loss of $258 in the year ended December 31, 2014.

The Acquisition was accounted for using the acquisition method of accounting under which assets and liabilities of Telesphere were recorded at their respective fair values including an amount for goodwill representing the difference between the acquisition consideration and the fair value of the identifiable net assets. We do not expect any portion of this goodwill to be deductible for tax purposes. The goodwill attributable to the Acquisition has been recorded as a non-current asset and is not amortized, but is subject to an annual review for impairment.

The Company is still in the process of allocating the acquisition price to identified intangible assets acquired as of the closing date of the Acquisition and has currently reflected the entire excess of the acquisition consideration over identifiable net assets as goodwill. The fair values assigned to identifiable intangible assets assumed will be based on management’s estimates and assumptions. The estimated fair values of the identified current assets, property and

equipment, software and other assets acquired and current liabilities assumed are considered preliminary and are based on the most recent information available. We believe that the information provides a reasonable basis for assigning fair value, but we are waiting for additional information, primarily related to income, sales, excise, and ad valorem taxes which are subject to change. Thus the provisional measurements of fair value set forth below are subject to change. We expect to finalize the valuation as soon as practicable, but not later than one year from the acquisition date.

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

The table below summarizes the assets acquired and liabilities assumed as of December 15, 2014 as follows:

	Estimated Fair Value
Assets	
Current assets:	
Cash and cash equivalents	$70
Accounts receivable	3,083
Inventory	386
Prepaid expenses and other current assets	398
Total current assets	3,937
Property and equipment	5,731
Software	3
Other assets	76
Total assets acquired	9,747
Liabilities	
Current liabilities:	
Accounts payable	1,202
Accrued expenses	3,982
Deferred revenue, current portion	1,156
Total current liabilities	6,340
Total liabilities assumed	6,340
Net identifiable assets acquired	3,407
Goodwill	111,028
Total purchase price	$114,435

Pro forma financial information (unaudited)
The following unaudited supplemental pro forma information presents the combined historical results of operations of Vonage and Telesphere for the years 2014 and 2013, as if the Acquisition had been completed at the beginning of 2013.

	For the years ended December 31,	
	2014	2013
Revenue	$906,827	$860,798
Net income attributable to Vonage	16,977	24,168
Net income attributable to Vonage per share - basic	0.08	0.11
Net income attributable to Vonage per share - diluted	0.08	0.11

The pro forma financial information includes adjustments to reflect one time charges in the appropriate pro forma periods as though the companies were combined as of the beginning of 2013. Since, the Company is also still in the process of allocating the acquisition price to identified intangible assets acquired as of the closing date of the Acquisition, no amounts are included for amortization of identified intangible assets which may be material. These adjustments include:
>a decrease in depreciation expense of $842 for the year ended 2014, related to the buyout of capital leases;

- a decrease in income tax expense of $1,447 for the year ended 2014 and an increase in income tax expense of $861 for the year ended 2013, respectively, related to pro forma adjustments and Telesphere's results prior to acquisition;
- the exclusion of Telesphere and our transaction-related expenses of $4,927 for the year ended 2014;
- an increase in interest expense of $2,152 for the years ended 2014 and 2013, respectively associated with revolving line of credit.

Acquisition of Vocalocity

Vocalocity is an industry-leading provider of cloud-based communication services to small and medium businesses (SMB). The acquisition of Vocalocity immediately positions Vonage as a leader in the SMB hosted VoIP market. SMB and small office, home office (SOHO) services previously offered by Vonage will now be offered under the Vonage Business Solutions brand on the Vocalocity platform.

Pursuant to the Merger Agreement dated October 9, 2013, by and among Vocalocity and the Merger Sub, Vonage, and the Shareholder Representative, on November 15, 2013, Merger Sub merged with and into Vocalocity, and Vocalocity became a wholly-owned subsidiary of Vonage. In addition, at the effective time of the Merger all previously unexercised vested Vocalocity stock options that were not out-of-the-money were cashed out at the spread between the applicable exercise price and the applicable merger consideration, subject to reductions for escrow deposits. Unvested and/or out-of the-money Vocalocity stock options were cancelled and terminated with no right to receive payment. Immediately prior to the consummation of the Merger, options to purchase common stock held by certain persons were

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VONAGE HOLDINGS CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
(In thousands, except per share amounts)

accelerated, such that they are fully vested and exercisable as of the Effective Time.
We acquired Vocalocity for $134,167, including 7,983 shares of Vonage common stock (which shares had an aggregate value of approximately $26,186 based upon the closing stock price on November 15, 2013) and cash consideration of $107,981 including payment of $2,869 for excess cash as of closing date, subject to adjustments for closing cash and working capital of Vocalocity, reductions for indebtedness and transaction expenses of Vocalocity that remained unpaid as of closing, and deposits into the escrow funds, pursuant to the Merger Agreement. We financed the transaction with $32,981 of cash and $75,000 from our revolving credit facility. The aggregate consideration will be allocated among holders of: (i) Vocalocity preferred stock, (ii) Vocalocity common stock, (iii) vested options to purchase Vocalocity common stock, and (iv) warrants to purchase Vocalocity preferred stock.

During 2013, we incurred $2,768 in acquisition related transaction and integration costs, which were recorded in selling, general and administrative expense in the accompanying Consolidated Statements of Operations.
The Acquisition was accounted for using the acquisition method of accounting under which assets and liabilities of Vocalocity were recorded at their respective fair values including an amount for goodwill representing the difference between the acquisition consideration and the fair value of the identifiable net assets.
The acquisition price was allocated to the tangible and identified intangible assets acquired and liabilities assumed as of the closing date of the Acquisition. Subsequent to the acquisition date, we decreased the deferred tax liabilities, net, non-current by $3,393 based upon updated information with respect to NOL utilization.

The table below summarizes the assets acquired and liabilities assumed as of November 15, 2013 as follows:

	Estimated Fair Value
Assets	
Current assets:	
Cash and cash equivalents	$7,924
Accounts receivable	275
Prepaid expenses and other current assets	787
Total current assets	8,986
Property and equipment	1,777
Intangible assets	75,000
Other assets	53
Total assets acquired	85,816
Liabilities	
Current liabilities:	
Accounts payable	2,226
Accrued expenses	7,064
Deferred revenue, current portion	1,986
Total current liabilities	11,276
Deferred tax liabilities, net, non-current	24,000
Total liabilities assumed	35,276
Net identifiable assets acquired	50,540
Goodwill	83,627
Total purchase price	$134,167

The intangible assets as of the closing date of the Acquisition included:

	Amount
Customer relationships	$39,100
Developed technologies	35,200
Trade names	500
Non-compete agreements	200
	$75,000

Indications of fair value of the intangible assets acquired in connection with the Acquisition were determined using either the income, market or replacement cost methodologies. The intangible assets are being amortized over periods which reflect the pattern in which economic benefits of the assets are expected to be realized. The customer relationships and developed technology are being amortized on an accelerated basis over an estimated useful life of ten years; trade

names are being amortized on a straight-line basis over five years; and the non-compete agreements are being amortized on a straight-line basis over two years.

The excess of purchase price over the fair value amounts assigned to the assets acquired and liabilities assumed represents the amount of goodwill resulting from the Acquisition. We do not expect any portion of this goodwill to be deductible for tax purposes. The goodwill

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attributable to the Acquisition has been recorded as a non-current asset and is not amortized, but is subject to an annual review for impairment. We believe the factors that contributed to goodwill include synergies that are specific to our consolidated business, the acquisition of a talented workforce that provides us expertise in small and medium business market as well as other intangible assets that do not qualify for separate recognition.

The results of operations of the Vocalocity business and the estimated fair values of the assets acquired and liabilities assumed have been included in our consolidated financial statements since the date of the Acquisition.

Note 12. Noncontrolling Interest and Redeemable Noncontrolling Interest

In the third quarter of 2013, we formed a consolidated foreign subsidiary in Brazil in connection with our previously announced joint venture in Brazil, creating a redeemable noncontrolling interest. The redeemable noncontrolling interest consists of the 30.0% interest in this subsidiary held by our joint venture partner.
In 2014, our joint venture partner did not make required capital calls and correspondingly its interest was diluted to 4% and is no longer contingently redeemable. As such, we have reclassified the redeemable noncontrolling interest previously included in the mezzanine section of our Consolidated Balance Sheets to noncontrolling interest in the Stockholders' Equity section of our Consolidated Balance Sheets.

In December 2014 we announced plans to exit the Brazilian market for consumer telephony services and wind down of our joint venture operations in the country. The Company expects to complete the process by the end of the first quarter of 2015.
We expect to avoid material operating losses in Brazil in 2015 and 2016 due to the significant planned incremental investment that would have been required to scale the business. In connection with the wind down, we incurred approximately $111 and $1,972 in cash and non-cash charges, respectively, in the fourth quarter of 2014 related to severance-related expenses and asset write downs. We estimate that we will incur approximately $500 in cash charges in the first quarter of 2015 related to contract terminations and severance-related expenses.

Note 13. Geographic Information

ASC 280 "Segment Reporting" establishes reporting standards for an enterprise's business segments and related disclosures about its products, services, geographic areas and major customers. Under ASC 280, the method for determining what information to report is based upon the way management organizes the operating segments within the Company for making operating decisions and assessing financial performance. Our chief operating decision-makers review financial information presented on a

consolidated basis, accompanied by disaggregated information about revenues, marketing expenses and operating income (loss) excluding depreciation for our consumer customers and our small and medium business customers for purposes of allocating resources and evaluating financial performance. Based upon the information reviewed by our chief operating decision makers, we have determined that we have two operating segments; however, we have one reportable segment as our two operating segments meet the criteria for aggregation since the segments have similar

operating and economic characteristics.

Information about our operations by geographic location is as follows:

	For the years ended December 31,		
	2014	2013	2012
Revenue:			
United States	$823,858	$784,665	$804,870
Brazil	98	—	—
Canada	30,294	32,348	32,570
United Kingdom	14,703	12,054	11,674
	$868,953	$829,067	$849,114

	December 31, 2014	December 31, 2013
Long-lived assets:		
United States	$318,604	$231,335
Brazil	145	845
United Kingdom	545	821
Israel	129	276
	$319,423	$233,277

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Note 14. Quarterly Financial Information (Unaudited)

The following table sets forth the reviewed consolidated quarterly financial information for 2014 and 2013:

	For the Quarter Ended				
	March 31,	June 30,	September 30,	December 31,	Total
Year Ended 2014					
Revenue	$220,733	$218,882	$214,737	$214,601	$868,953
Net income attributable to Vonage	4,588	5,518	4,556	5,604	20,266
Net income attributable to Vonage per common share:					
Basic	0.02	0.03	0.02	0.03	
Diluted	0.02	0.02	0.02	0.03	
Year Ended 2013					
Revenue	$209,087	$204,776	$203,984	$211,220	$829,067
Net income (loss)	13,047	7,447	4,207	3,588	28,289
Net income (loss) per common share:					
Basic	0.06	0.04	0.02	0.02	
Diluted	0.06	0.03	0.02	0.02	