UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended March 31, 2021
or

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

For the Transition Period From __________ to __________
Commission File Number 001-32887

VONAGE HOLDINGS CORP.
(Exact name of registrant as specified in its charter)

Delaware		**11-3547680**
(State or other jurisdiction of incorporation or organization)		**(IRS Employer Identification No.)**
23 Main Street	**Holmdel , NJ ,**	**07733**
(Address of principal executive offices)		**(Zip Code)**

Registrant's telephone number, including area code: (732) 528-2600
(Former name, former address and former fiscal year, if changed since last report): Not Applicable

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $0.001	VG	Nasdaq Global Select Market

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o		
Smaller reporting company	☐	Emerging growth company	☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No x
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	**Outstanding at April 30, 2021**
Common Stock, par value $0.001	251,388,823 shares

VONAGE HOLDINGS CORP.

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Part 1 - Financial Information

Financial Information Presentation

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

GLOSSARY OF TERMS

When the following terms and abbreviations appear in the text of this report, they have the meanings indicated below:

2018 Credit Facility	$100 million senior secured term loan and $500 million revolving facility due 2023
Convertible Senior Notes	$345 million aggregate principal amount of 1.75% convertible notes due 2024
API	Application Program Interfaces
ASC	The FASB Accounting Standards Codification, which the FASB established as the source of authoritative GAAP
ASU	Accounting Standards Updates - updates to the ASC
CCaaS	Contact Center as a Service
CPaaS	Communications Platform as a Service
CRM	Customer Relationship Management
Exchange Act	The Securities Exchange Act of 1934, as amended
EPS	Earnings Per Share
FASB	Financial Accounting Standards Board
FCC	Federal Communications Commission
IP	Internet Protocol
LIBOR	London Inter-Bank Offered Rate
MPLS	Multi-Protocol Label Switching
NOLs	Net Operating Losses
SaaS	Software as a Service
SAB	Staff Accounting Bulletin
SD-WAN	Software-Defined Wide Area Network
SEC	U.S. Securities and Exchange Commission
SIP	Session Initiation Protocol
SMB	Small to medium-sized business
SMS	Short Message Service
UCaaS	Unified Communications as a Service
USF	Federal Universal Service Fund
VCP	Vonage Communications Platform, formerly referred to as Business
VoIP	Voice over Internet Protocol

PART 1 - FINANCIAL INFORMATION

ITEM 1 - CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND NOTES

VONAGE HOLDINGS CORP.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)

	March 31, 2021	December 31, 2020
Assets	**(Unaudited)**	
Current assets:		
Cash and cash equivalents	$ 51,623	$ 43,078
Accounts receivable, net of allowance of $8,094 and $8,878, respectively	111,584	116,304
Deferred customer acquisition costs, current portion	19,490	18,161
Prepaid expenses	37,133	32,131
Other current assets	3,615	6,230
Total current assets	223,445	215,904
Property and equipment, net of accumulated depreciation of $119,646 and $117,761, respectively	29,848	31,621
Operating lease right-of-use assets	35,745	29,330
Goodwill	620,585	624,328
Software, net of accumulated amortization of $116,855 and $111,642, respectively	88,827	80,638
Deferred customer acquisition costs	68,609	67,529
Restricted cash	2,213	1,919
Intangible assets, net of accumulated amortization of $283,659 and $275,346, respectively	192,113	204,267
Deferred tax assets	106,594	106,374
Other assets	34,762	33,926
Total assets	$ 1,402,741	$ 1,395,836
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 31,324	$ 17,464
Accrued expenses	154,706	158,080
Deferred revenue, current portion	60,030	65,506
Operating lease liabilities, current portion	10,562	11,554
Total current liabilities	256,622	252,604
Indebtedness under revolving credit facility	210,500	215,500
Convertible senior notes, net	294,444	290,784
Operating lease liabilities	38,349	31,019
Other liabilities	3,561	3,155
Total liabilities	803,476	793,062
Commitments and Contingencies (Note 9)		
Stockholders' Equity:		
Common stock, par value 0.001 per share; 596,950 shares authorized at March 31, 2021, and December 31, 2020	327	324
Additional paid-in capital	1,571,025	1,554,574
Accumulated deficit	(667,597)	(667,221)
Treasury stock, at cost	(337,532)	(320,891)
Accumulated other comprehensive income	33,042	35,988
Total stockholders' equity	599,265	602,774
Total liabilities and stockholders' equity	$ 1,402,741	$ 1,395,836

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	**2020**
Revenues:		
Service, access and product revenues	$ 314,793	$ 283,077
USF revenues	18,107	14,380
Total revenues	332,900	297,457
Operating Expenses:		
Service, access and product cost of revenues (excluding depreciation and amortization)	138,680	113,038
USF cost of revenues	18,107	14,380
Sales and marketing	81,474	85,621
Engineering and development	20,360	19,203
General and administrative	44,933	40,882
Depreciation and amortization	20,417	20,485
Total operating expenses	323,971	293,609
Income from operations	8,929	3,848
Other Income (Expense):		
Interest expense	(7,298)	(8,082)
Other income (expense), net	174	229
Total other expense, net	(7,124)	(7,853)
Income (Loss) before income tax benefit	1,805	(4,005)
Income tax (expense) benefit	(2,181)	250
Net loss	$ (376)	$ (3,755)
Loss per common share:		
Basic and diluted	$ —	$ (0.02)
Weighted-average common shares outstanding:		
Basic and diluted	249,638	243,627

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	**2020**
Net loss	$ (376)	$ (3,755)
Other comprehensive loss:		
Foreign currency translation adjustment, net of tax expense (benefit) of $1,293 and $(470), respectively	(2,946)	(23,627)
Unrealized loss on derivatives, net of tax benefit of $— and $(50), respectively	—	(418)
Total other comprehensive loss	(2,946)	(24,045)
Comprehensive loss	$ (3,322)	$ (27,800)

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,	
	2021	**2020**
Cash flows from operating activities:		
Net loss	$ (376)	$ (3,755)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	9,614	6,331
Amortization of intangibles	10,803	14,154
Deferred income taxes	999	1,468
Amortization of deferred customer acquisition costs	4,762	3,661
Allowances for doubtful accounts	964	1,448
Amortization of financing costs and debt discount	3,863	3,656
(Gain) Loss on disposal of property and equipment	(7)	741
Share-based expense	14,566	11,116
Changes in derivatives	—	(133)
Changes in operating assets and liabilities:		
Accounts receivable	737	2,361
Prepaid expenses and other current assets	(2,305)	(5,387)
Deferred customer acquisition costs	(7,187)	(9,042)
Accounts payable and accrued expenses	16,416	(25,459)
Deferred revenue	(4,821)	2,934
Other assets - deferred cloud computing implementation costs	(1,017)	(669)
Other assets and liabilities	307	(922)
Net cash provided by operating activities	47,318	2,503
Cash flows used in investing activities:		
Capital expenditures	(2,553)	(2,887)
Purchase of intangible assets	(62)	(75)
Acquisition and development of software assets	(13,865)	(10,273)
Net cash used in investing activities	(16,480)	(13,235)
Cash flows provided by (used in) financing activities:		
Payments for short and long-term debt	(5,000)	—
Proceeds from issuance of long-term debt	—	45,000
Employee taxes paid on withholding shares	(16,641)	(12,656)
Proceeds from exercise of stock options	622	155
Net cash (used in) provided by financing activities	(21,019)	32,499
Effect of exchange rate changes on cash	(980)	(2,290)
Net increase in cash, cash equivalents, and restricted cash	8,839	19,477
Cash, cash equivalents, and restricted cash, beginning of period	44,997	25,635
Cash, cash equivalents, and restricted cash, end of period	$ 53,836	$ 45,112
Supplemental disclosures of cash flow information:		
Cash paid (received) during the periods for:		
Interest	$ 1,863	$ 2,866
Income taxes	$ (3,965)	$ 1,249
Non-cash investing activities:		
Acquisition of long-term assets included in accounts payable and accrued expenses	$ 1,302	$ 2,119
Share-based compensation capitalized in internally developed software costs	$ 1,266	$ 928

See accompanying notes to condensed consolidated financial statements.

VONAGE HOLDINGS CORP.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
(In thousands)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2019	$ 316	$ 1,494,469	$ (631,009)	$ (306,043)	$ 9,329	$ 567,062
Stock option exercises	4	151				155
Share-based expense		12,044				12,044
Employee taxes paid on withholding shares				(12,748)		(12,748)
Foreign currency translation adjustment					(23,627)	(23,627)
Unrealized gain on derivatives					(418)	(418)
Net loss			(3,755)			(3,755)
Balance at March 31, 2020	$ 320	$ 1,506,664	$ (634,764)	$ (318,791)	$ (14,716)	$ 538,713

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2020	$ 324	$ 1,554,574	$ (667,221)	$ (320,891)	$ 35,988	$ 602,774
Stock option exercises	3	619				622
Share-based expense		15,832				15,832
Employee taxes paid on withholding shares				(16,641)		(16,641)
Foreign currency translation adjustment					(2,946)	(2,946)
Net loss			(376)			(376)
Balance at March 31, 2021	$ 327	$ 1,571,025	$ (667,597)	$ (337,532)	$ 33,042	$ 599,265

See accompanying notes to condensed consolidated financial statements.

Note 1. Nature of Business

Nature of Operations

Vonage Holdings Corp. (“Vonage”, “Company”, “we”, “our”, “us”) is incorporated as a Delaware corporation. At Vonage, our vision is to accelerate the world's ability to connect. We are observing a secular change in the way business is done, with a fundamental shift in how communications technologies are being leveraged in almost every industry. Through the Vonage Communications Platform, our strategy is to deliver a single leading cloud communications platform that powers our customers' and partners' global engagement solutions using our APIs, Unified Communications, and Contact Center innovations. We believe that the Vonage Communications Platform's products and services are well positioned to take advantage of emerging trends with sizable, growing total addressable markets as companies look to cloud-based communications solutions and API programming architectures as part of their digital transformation.

Our strategic business is the Vonage Communications Platform which delivers a single leading cloud communications platform that powers our customers' and partners' global engagement solutions using our APIs, Unified Communications, and Contact Center innovations. The Vonage Communications Platform brings unique value to businesses by providing multiple communications channels - including video, voice, messaging, email, verification, and artificial intelligence - that integrate into the applications, products and workflows that our customers are already using. We believe this delivers both the power and the flexibility to our customers to address the growing need to transform their communications, connections and experiences for customers and enables the type of business continuity, remote work, and remote delivery of services that are now essential for team members.

For our Consumer customers, we enable users to access and utilize our services and features, via their existing internet connections, including over 3G/4G, LTE, Cable, or DSL broadband networks. This technology enables us to offer our Consumer 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, which provide value in international long distance and target under-served segments.

Customers in the United States represented 66% and 69% of our consolidated revenues for the three months ended March 31, 2021 and 2020, respectively, with the balance in Canada, the United Kingdom, China, Singapore, Netherlands, and other countries around the world.

Unaudited Interim Financial Information

The accompanying unaudited interim condensed consolidated financial statements and information have been prepared in accordance with accounting principles generally accepted in the United States and in accordance with the SEC's regulations for interim financial information and with the instructions for Form 10-Q. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, these financial statements contain all normal and recurring adjustments considered necessary to present fairly the Company's financial position, results of operations, comprehensive income, cash flows, and stockholders’ equity for the periods presented. The results for the three months ended March 31, 2021 are not necessarily indicative of the results to be expected for the full year.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2020 filed with the Securities and Exchange Commission on February 19, 2021.

Use of Estimates

Our condensed consolidated financial statements and notes thereof 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 of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates, including uncertainty in the economic environment due to the ongoing outbreak of the novel coronavirus COVID-19.

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. Estimates are used for such items as depreciable lives for long-lived assets including intangible assets, tax provisions, uncollectible accounts, and assets and liabilities assumed in business combinations, among others. In addition, estimates are used to test long-lived assets and goodwill for impairment.

COVID-19 has created and may continue to create uncertainty in customer payments, reduced usage, and issuance of customer credits to distressed customers served by certain product lines. As of the date of our condensed consolidated financial statements, we are not aware of any specific event or circumstance that would require us to materially update our estimates or judgments. However, these estimates may change as new events occur and additional information is obtained, which may result in changes being recognized in our condensed consolidated financial statements in future periods. In particular and in light of the COVID-19 pandemic, the assumptions and estimates associated with collectability assessment of revenue and credit losses of accounts receivable may have a material impact our consolidated financial statements in future periods, depending on the continued duration or degree of the impact of the COVID-19 pandemic on the global economy.

Reclassifications

Reclassifications have been made to our condensed consolidated financial statements for the prior year periods to conform to classifications used in the current year periods. The reclassifications did not affect results of operations, net assets or cash flows.

Note 2. Summary of Significant Accounting Policies

This footnote should be read in conjunction with the complete description of our significant accounting policies under Note 2, *Summary of Significant Accounting Policies* to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

Service, Access, and Product Cost of Revenues

Service, access, and product cost of revenues excludes depreciation and amortization expense of $13,647 and $9,609 for the three months ended March 31, 2021 and 2020, respectively. In addition, costs of goods sold included service, access, and product cost of revenues during the three months ended March 31, 2021 and 2020 were $2,579 and $3,676, respectively.

Sales and Marketing Expenses

We incurred advertising costs, which are included in sales and marketing of $9,657 and $9,460 for the three months ended March 31, 2021 and 2019, respectively.

Fair Value of Financial Instruments

Certain of the Company's other financial instruments, which include cash and cash equivalents, restricted cash, accounts receivable and accounts payable, approximate fair value due to their short-term nature and as such are classified as Level 1. We believe the fair value of our 2018 Credit Facility at March 31, 2021 and December 31, 2020 was approximately the same as its carrying amount as the facility bears interest at a variable rate indexed to current market conditions and is classified as Level 2 within the fair value hierarchy.

As of March 31, 2021 and December 31, 2020, the fair value of the 1.75% convertible senior notes due 2024 (the “Convertible Senior Notes”) was approximately $361,156 and $373,373, respectively. The fair value was determined based on the quoted price for the Convertible Senior Notes in an inactive market on the last trading day of the reporting period and is classified as Level 2 in the fair value hierarchy.

(In thousands, except per share amounts)

We account for financial assets using a framework that establishes a hierarchy that ranks the quality and reliability of the inputs, or assumptions, we use in the determination of fair value, and we classify financial assets and liabilities carried at fair value in one of the following three categories:

- 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; and
- 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.

Supplemental Balance Sheet Information

The following table provides a reconciliation of cash and cash equivalents and restricted cash reported within the consolidated balance sheets to amounts included in the consolidated statements of cash flows:

	As of March 31,		As of December 31,	
	2021	2020	2020	2019
Cash and cash equivalents	$ 51,623	$ 43,073	$ 43,078	$ 23,620
Restricted cash	2,213	2,039	1,919	2,015
Total cash, cash equivalents and restricted cash	$ 53,836	$ 45,112	$ 44,997	$ 25,635

The following tables provides supplemental information of intangible assets and accrued expenses within the consolidated balance sheets:

Intangible assets, net

	March 31, 2021			December 31, 2020		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$ 281,019	$ (153,678)	$ 127,341	$ 284,692	$ (150,094)	$ 134,598
Developed technology	173,416	(109,239)	64,177	173,572	(104,468)	69,104
Patents and patent licenses	20,896	(20,301)	595	20,849	(20,284)	565
Trade names	441	(441)	—	500	(500)	—
Total intangible assets	$ 475,772	$ (283,659)	$ 192,113	$ 479,613	$ (275,346)	$ 204,267

(In thousands, except per share amounts)

Accrued expenses

	March 31, 2021	December 31, 2020
Compensation and related taxes and temporary labor	$ 31,118	$ 43,580
Marketing	19,849	15,319
Taxes and fees	31,669	25,977
Telecommunications	48,572	52,975
Severance	1,674	3,594
Interest	2,408	847
Customer credits	3,393	4,738
Professional fees	2,754	1,953
Inventory	907	659
Other accruals	12,362	8,438
Accrued expenses	$ 154,706	$ 158,080

In the second half of 2020, the Company initiated a business-wide optimization and alignment project to focus the Company's resources and drive stronger operational execution. In connection with this project, the Company incurred accrued severance costs of $1,294 during the three months ended March 31, 2021, related to further employee exits, which was included in general and administrative expense.

Goodwill

The Company's goodwill is derived primarily from the acquisitions of Vocalocity, Telesphere, iCore, Simple Signal, Nexmo, TokBox, and NewVoiceMedia which are included in the Company's Vonage Communications Platform segment. The following table provides a summary of the changes in the carrying amounts of goodwill:

Balance at December 31, 2020	$ 624,328
Foreign currency translation adjustment	(3,743)
Balance at March 31, 2021	$ 620,585

Recent Accounting Pronouncements

In August 2020, the FASB issued ASU 2020-06, "*Debt - Debt with Conversion Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity*". This ASU simplifies the accounting for certain convertible instruments such that the embedded conversion features are no longer separated from the host contract for convertible instruments with conversion features that are not required to be accounted for as derivatives under ASC 815, or that do not result in substantial premiums accounted for as paid-in-capital. As a result, more convertible debt instruments will be accounted for as a single liability measured at its amortized cost. In addition, the ASU requires the use of the if-converted method to be applied to convertible instruments when calculating earnings per share. The ASU is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years, using either a modified retrospective or a full retrospective approach. Early adoption is permitted for fiscal years beginning after December 15, 2020. The Company is currently evaluating the impact of this standard on our consolidated financial statements.

(In thousands, except per share amounts)

Note 3. Revenue Recognition

The Company recognizes revenue in accordance with ASC Topic 606, *Revenue from Contracts with Customers* which is further described in Note 2, *Summary of Significant Accounting Policies* and Note 3, *Revenue Recognition* to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2020.

Disaggregation of Revenue

The following tables detail our revenue from customers disaggregated by primary geographical market and source of revenue. The tables also include a reconciliation of the disaggregated revenue for our Vonage Communications Platform, or VCP, and Consumer segments.

	Three Months Ended March 31, 2021			Three Months Ended March 31, 2020		
	VCP	Consumer	Total	VCP	Consumer	Total
Primary geographical markets						
Americas	$ 150,072	$ 74,932	$ 225,004	$ 129,379	$ 84,573	$ 213,952
EMEA	62,835	2,514	65,349	49,217	2,631	51,848
APAC	42,547	—	42,547	31,657	—	31,657
	$ 255,454	$ 77,446	$ 332,900	$ 210,253	$ 87,204	$ 297,457
Major Sources of Revenue						
Service revenues	$ 240,442	$ 65,697	$ 306,139	$ 195,649	$ 77,243	$ 272,892
Access and product revenues	8,598	56	8,654	10,122	63	10,185
USF revenues	6,414	11,693	18,107	4,482	9,898	14,380
	$ 255,454	$ 77,446	$ 332,900	$ 210,253	$ 87,204	$ 297,457

In addition, the Company recognizes service revenues from its customers through subscription services provided or through usage or pay-per-use type arrangements. During the three months ended March 31, 2021, the Company recognized $150,453 related to subscription services, $133,652 related to usage, and $48,795 related to other revenues such as USF, other regulatory fees, and credits. During the three months ended March 31, 2020, the Company recognized $156,455 related to subscription services, $93,047 related to usage, and $47,955 related to other revenues such as USF, other regulatory fees, and credits.

Contract Assets and Liabilities

The following table provides information about receivables and contract liabilities from contracts with customers:

	March 31, 2021	December 31, 2020
Receivables [1]	$ 111,584	$ 116,304
Contract liabilities [2]	60,030	65,506

(1) Amounts included in accounts receivables on our condensed consolidated balance sheets.

(2) Amounts included in deferred revenues on our condensed consolidated balance sheet.

Our deferred revenue represents the advance consideration received from customers for subscription services and is predominantly recognized over the following month as transfer of control occurs. During the three months ended March 31, 2021 and March 31, 2020, the Company recognized revenue of $106,037 and $108,875, respectively, related to its contract liabilities. We expect to recognize $60,030 into revenue over the next twelve months related to our deferred revenue as of March 31, 2021.

Remaining Performance Obligation

Transaction price allocated to the remaining performance obligation represents contracted revenue that has not yet been recognized. The typical subscription term may range from 1 month to 3 years. Contracted revenue as of March 31, 2021 that has not yet been recognized was approximately $0.4 billion. This excludes contracts with an original expected length of less than one year. The Company expects to recognize the majority of its remaining performance obligation over the next 18 months.

Contract Acquisition Costs

We have various commission programs for internal sales personnel and channel partners that are incremental to the acquisition of customer contracts. These costs are recorded as deferred contract acquisition costs on the consolidated balance sheets which eligible employees and third parties may earn a commission on sales of services and products to customers. We expect that these commission fees are recoverable and, therefore, we have capitalized $88,099 and $85,690 as contract costs, net of accumulated amortization, as of March 31, 2021 and December 31, 2020, respectively, included within deferred customer acquisitions costs, current portion and deferred customer acquisition costs on our condensed consolidated balance sheets. Capitalized commission fees are amortized to sales and marketing expense over estimated customer life, which is 7 years for Vonage Communications Platform customers. The amounts amortized to sales and marketing expense were $4,762 and $3,661, respectively, for the three months ended March 31, 2021 and March 31, 2020, respectively. There were no impairment losses recognized in relation to the costs capitalized during the three months ended March 31, 2021 and 2020. In addition, the Company expenses sales commissions for commission plans related to customer arrangements deemed less than a year and for residuals and renewals.

(In thousands, except per share amounts)

Note 4. Earnings Per Share

The following table sets forth the computation for basic and diluted loss per share for the three months ended March 31, 2021 and 2020:

	Three Months Ended March 31,	
	2021	**2020**
Numerator		
Net loss	$ (376)	$ (3,755)
Denominator		
Weighted average common shares outstanding for basic and diluted net loss per share	249,638	243,627
Basic and diluted loss per share		
Basic and diluted loss per share	$ —	$ (0.02)

For the three months ended March 31, 2021 and 2020, the following were excluded from the calculation of diluted loss per common share because of their anti-dilutive effects:

	Three Months Ended March 31,	
	2021	**2020**
Restricted stock units	15,795	13,894
Stock options	1,387	4,878
	17,182	18,772

As the Company expects to settle the principal amount of its outstanding convertible senior notes in cash and any excess in cash or shares of the Company's common stock, the Company uses the treasury stock method for calculating any potential dilutive effect of the conversion spread on diluted net income per share, if applicable. The conversion spread will have a dilutive impact on diluted net income per share of common stock when the average market price of the Company's common stock for a given period exceeds the conversion price of $16.72 per share. The Company's Convertible Senior Notes are further described in Note 6, *Long-Term Debt*.

(In thousands, except per share amounts)

Note 5. Income Taxes

The income tax consisted of the following:

	Three Months Ended March 31, 2021	Three Months Ended March 31, 2020
Income (loss) before income taxes	$ 1,805	$ (4,005)
Income tax (expense) benefit	(2,181)	250
Effective tax rate	120.8 %	6.2 %

Generally, provisions for income taxes during interim reporting periods apply an estimate of the annual effective tax rate for the full year. The provision for income taxes will vary with levels of pre-tax income (loss) and non-deductible expenses, NOL valuation allowances and other permanent non-deductible charges which can cause the rate to fluctuate from quarter to quarter. An alternative approach may be recorded under a discrete method which applies actual adjustments for the period including specific permanent adjustments and geographic distribution of our pre-tax income (loss). The discrete method was determined to be the appropriate method for calculating the interim tax provision as using the estimated annual effective tax rate method would have produced an unreliable rate stemming from a marginal loss and large permanent adjustments.

For the three months ended March 31, 2021, our effective tax rate was different than the statutory rate primarily due to an increase in permanent items related to limitations on executive compensation, the inclusion of foreign income in the U.S. due to foreign disregarded entities, and limitation on foreign losses.

For the three months ended March 31, 2020, our effective tax rate was different than the statutory rate primarily due to the recognition of discrete period tax benefit of $2,115, which was recognized related to excess tax benefits on equity compensation. In addition, the Company's actual effective tax rate for the current year has reduced the expected annual benefit as a result of permanent adjustments related to limitations on executive compensation deductibility and inclusion of income in the U.S. due to foreign disregarded entities.

Uncertain Tax Positions

The Company had uncertain tax benefits of $1,001 and $632 as of March 31, 2021 and December 31, 2020, respectively. The Company recognizes interest and penalties related to uncertain tax benefits in income tax expense. The Company incurred interest expense or penalties of $2 and $0, respectively, during the three months ended March 31, 2021 and March 31, 2020. The following table reconciles the total amounts of uncertain tax benefits:

	March 31, 2021	December 31, 2020
Balance as of January 1	$ 632	$ 914
Increase due to current year positions	375	114
Increase due to prior year positions	4	—
Decrease due to settlements and payments	—	(173)
Decrease due to lapse of applicable statute of limitations	—	(238)
(Decrease) increase due to foreign currency fluctuation	(10)	15
Uncertain tax benefits as of the end of the period	$ 1,001	$ 632

Net Operating Loss Carry Forwards

As of March 31, 2021, the Company has U.S. Federal and state NOL carryforwards of $410,731 and $207,769, respectively, which expire at various times through 2037. We have Non-US NOLs of $159,152 primarily related to the United Kingdom which has no expiration date.

(In thousands, except per share amounts)

Note 6. Long-Term Debt

This footnote should be read in conjunction with the complete description of our financing arrangements under Note 8, *Long-Term Debt*, to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020.

The following table summarizes the Company's long-term debt as of March 31, 2021 and December 31, 2020:

	March 31, 2021	December 31, 2020
Revolving credit facility - due 2023	210,500	215,500
Convertible senior notes - due 2024	345,000	345,000
Long-term debt including current maturities	555,500	560,500
Less unamortized discount	45,441	48,702
Less debt issuance costs	5,115	5,514
Total long-term debt	$ 504,944	$ 506,284

Convertible Senior Notes

In June 2019, the Company issued $300.0 million aggregate principal amount of 1.75% convertible senior notes due 2024 in a private placement and an additional $45.0 million aggregate principal amount of such notes pursuant to the exercise in full of the over-allotment option of the initial purchasers (collectively, "Convertible Senior Notes"). The Convertible Senior Notes are the Company's senior unsecured obligations. The Convertible Senior Notes will mature on June 1, 2024, unless earlier redeemed, repurchased or converted. We may not redeem the notes prior to June 5, 2022.

Each $1,000 principal amount of the Convertible Senior Notes is initially convertible into 59.8256 shares of the Company's common stock, which is equivalent to an initial conversion price of approximately $16.72 per share. The conversion rate is subject to adjustment upon the occurrence of certain specified events but will not be adjusted for any accrued and unpaid interest. In addition, upon the occurrence of a make-whole fundamental change or a redemption period, each as defined in the indenture setting forth the terms of the Convertible Senior Notes, the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its Convertible Senior Notes in connection with such make-whole fundamental change or during the relevant redemption period.

Prior to December 1, 2023, the notes will be convertible only upon satisfaction of certain conditions and during certain periods, and thereafter, at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. We will satisfy any conversion election by paying or delivering, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock. During the three months ended March 31, 2021, the conditions allowing holders of the Convertible Senior Notes to convert were not met.

The net carrying amount of the liability component of the Convertible Senior Notes was as follows:

	March 31, 2021
Principal	$ 345,000
Unamortized discount	(45,441)
Unamortized issuance cost	(5,115)
Net carrying amount	$ 294,444

(In thousands, except per share amounts)

The following table sets forth the interest expense recognized related to the Convertible Senior Notes:

	Three Months Ended March 31,	
	2021	**2020**
Contractual interest expense	$ 1,509	$ 1,509
Amortization of debt discount	3,261	3,054
Amortization of debt issuance costs	399	399
Total interest expense related to the Convertible Senior Notes	$ 5,169	$ 4,962

In connection with the pricing of the Convertible Senior Notes and subsequently in connection with the exercise of the initial purchaser's option to purchase additional notes, the Company entered into privately negotiated capped call transactions with certain counterparties (the "Capped Calls"). The Capped Calls each have a strike price of $16.72 per share, subject to certain adjustments, which corresponds to the initial conversion price of the Convertible Senior Notes. The Capped Calls have initial cap prices of $23.46 per share, subject to certain adjustments. The Capped Calls are expected generally to reduce potential dilution to the Company's common stock upon any conversion of notes and/or offset any cash payments the Company is required to make in excess of the aggregate principal amount of converted notes, as the case may be, with such reduction and/or offset subject to a cap. The initial cap price of the Capped Call transactions was $23.46.

2018 Term Note and Revolving Credit Facility

On July 31, 2018, the Company entered into the 2018 Credit Facility consisting of a $100 million senior secured term loan and a $500 million revolving credit facility. The co-borrowers under the 2018 Credit Facility are the Company and Vonage America Inc., the Company’s wholly owned subsidiary. Obligations under the 2018 Credit Facility are guaranteed, fully and unconditionally, by the Company’s other United States subsidiaries and are secured by substantially all of the assets of each borrower and each guarantor.

During the three months ended March 31, 2021, we repaid $5 million under the revolving facility. In addition, the effective interest rate was 2.88% as of March 31, 2021. During the three months ended March 31, 2020, we borrowed $45 million under the revolving credit facility. As of March 31, 2021, we were in compliance with all covenants, including financial covenants, for the 2018 Credit Facility.

Note 7. Leases

The Company entered into various non-cancelable operating lease arrangements for certain of our existing office and telecommunications co-location space as well as operating leases for certain equipment. The operating leases expire at various times through 2028, some of which provide the Company options to extend the lease for terms up to 5 years beyond the original term. We are committed to pay a portion of the buildings’ operating expenses as required under the arrangements which we will separate as a non-lease component when readily determinable. The Company did not have any finance leases as of March 31, 2021 and December 31, 2020.

The Company incurred operating lease expense of $2,558 and $2,965, respectively, during the three months ended March 31, 2021 and March 31, 2020, related to its operating leases. In addition, the Company received sub-lease income of $284 and $319, respectively, during the three months ended March 31, 2021 and March 31, 2020. Additionally, the remaining weighted average lease term for our operating leases was 5.03 years and the weighted average discount rate utilized to measure the Company's operating leases was 4.35% as of March 31, 2021.

(In thousands, except per share amounts)

Supplemental cash flow related to the Company's operating leases is as follows:

	Three Months Ended	
	March 31, 2021	March 31, 2020
Cash paid for amounts included in the measurement of lease liabilities	$ 2,628	$ 4,139
Right-of-use assets obtained in exchange for lease obligations	$ 8,431	$ 1,261

Maturities of operating lease liabilities as of March 31, 2021 and December 31, 2020 are as follows:

	March 31, 2021	December 31, 2020
2021 (1)	$ 9,407	13,134
2022	10,975	9,645
2023	10,735	8,401
2024	6,817	4,148
2025	6,917	4,248
Thereafter	9,525	7,522
Total lease payments	54,376	47,098
Less imputed interest	(5,465)	(4,525)
Total	$ 48,911	$ 42,573

(1) Excluding three months ended March 31, 2021 for the period ended March 31, 2021.

During the first quarter of 2020, the Company amended one of its office leases to remove a renewal period of 5 years beyond the initial lease term. In the Company's adoption of ASC 842, the Company had included the available renewal term within the transition asset and liability as the renewal was highly probable at the time of adoption. As a result, the Company's operating lease liability was reduced by $15,825 with a corresponding reduction in the Company's operating lease right-of-use assets as of March 31, 2020. During the third and fourth quarters of 2020, the Company abandoned a few of its office leases and as such, the Company reduced its operating lease right-of-use asset by $9,503 as of December 31, 2020 by accelerating the amortization of the right-of-use asset through the cease use date which is included in general and administrative expense.

Note 8. Common Stock

As of March 31, 2021 and December 31, 2020, the Company had 596,950 shares of common stock authorized and had 9,782 shares available for grants under our share-based compensation programs as of March 31, 2021. For a detailed description of our share-based compensation programs refer to Note 11, *Employee Stock Benefit Plans* in the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020. The following table reflects the changes in the Company's common stock issued and outstanding:

For the Three Months Ended *(in thousands)*	**Issued**	**Treasury**	**Outstanding**
Balance at December 31, 2019	315,808	(72,959)	242,849
Shares issued under the 2015 Equity Incentive Plan	4,072	—	4,072
Employee taxes paid on withholding shares	—	(1,675)	(1,675)
Balance at March 31, 2020	319,880	(74,634)	245,246
Balance at December 31, 2020	323,815	(74,841)	248,974
Shares issued under the 2015 Equity Incentive Plan	3,612	—	3,612
Employee taxes paid on withholding shares	—	(1,316)	(1,316)
Balance at March 31, 2021	327,427	(76,157)	251,270

Note 9. Commitments and Contingencies

Litigation

From time to time we are subject to legal proceedings, claims and investigations relating to our business, including claims of alleged infringement of commercial, employment, intellectual property rights, and other matters. From time to time, we 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 such 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 condensed consolidated financial position, cash flows or results of operations.

Regulation

Telephony services are subject to a broad spectrum of state, federal and foreign regulations. Because of the uncertainty over whether 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. The Company continues to monitor federal regulations relating to net neutrality, rural call completion issues, number slamming, 911 access, access to telecommunication equipment and services by persons with disabilities, caller ID services, number portability, unwanted calls to reassigned numbers, and robocalling. As we continue to expand globally, these types of regulations are likely to be similarly enacted and enforced by the local regulatory authorities.

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. From time to time, we have received inquiries from a number of states and local taxing agencies with respect to the remittance of sales, use, telecommunications, and excise taxes. Several jurisdictions are currently conducting tax audits of the Company's records. While the Company collects or has accrued for taxes that it believes are required to be remitted, it has reviewed its positions in those various jurisdictions as well as other regulatory fees and has established appropriate reserves. As such, we have established reserves of $8,648 and $8,560 as of March 31, 2021 and December 31, 2020, respectively, as our best estimate of the potential tax exposure for any retroactive assessment.

(In thousands, except per share amounts)

Note 10. Industry Segment and 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 reportable operating segments within the Company for making operating decisions and assessing financial performance. Our chief operating decision-maker reviews revenue and Adjusted EBITDA for each of our reportable operating segments. Beginning as of December 31, 2020, the Company includes Adjusted EBITDA as this is the measure management uses to evaluate the profitability of our reportable operating segments. The items excluded from Adjusted EBITDA are not separately evaluated for each reportable operating segment. The Company has recast data from prior years to reflect the change how the Company evaluates the profitability of its reportable operating segments to conform to the current year presentation. In addition, with the exception of goodwill and intangible assets, we do not identify or allocate our assets by the reportable operating segments as this information is not utilized by management to allocate resources or capital.

Vonage Communications Platform

The Vonage Communications Platform is our single enterprise cloud communications platform, offering our wide range of enterprise communications services and solutions including Communications APIs, Unified Communications, and Contact Center Communications. The Vonage Communications Platform brings unique value to businesses by providing multiple communications channels - video, voice, messaging, email and verification - that integrate into applications, products and workflows. This delivers both the power and the flexibility our customers need to disrupt their industries, and enables the type of business continuity, remote work, and remote delivery of services that are now essential for companies to work and serve customers from anywhere. Vonage products and services enable our business customers to fundamentally change how they engage with their customers and team members. We have a robust set of solutions and services that meet the needs of businesses of all sizes, from micro, to SMB through mid-market and enterprise. We provide customers with multiple deployment options designed to provide the reliability and quality of service they demand. Vonage solutions also integrate with today's leading business applications, CRM and productivity tools,, including Google's G Suite, Zendesk, Salesforce's Sales and Service Clouds, Microsoft Dynamics, ServiceNow, Oracle, and Clio among others, to drive internal communications and collaboration among team members and external engagement with customers.

Consumer

For our Consumer customers, we enable users to access and utilize our UCaaS services and features, via a single "identity," either a number or user name, regardless of how they are connected to the Internet, including over 3G/4G, LTE, Cable, or DSL broadband networks. This technology enables us to offer our Consumer customers attractively priced voice and messaging services and other features around the world on a variety of devices.

Information about our segment results for the three months ended March 31, 2021 and March 31, 2020 were as follows:

Three Months Ended	**Service Revenue**	**Revenue**	**Adjusted EBITDA**	**Depreciation and Amortization**
March 31, 2021				
Vonage Communications Platform	$ 240,442	$ 255,454	$ (1,846)	$ 20,080
Consumer	65,697	77,446	50,013	337
Total Vonage	$ 306,139	$ 332,900	$ 48,167	$ 20,417
March 31, 2020				
Vonage Communications Platform	$ 195,649	$ 210,253	$ (21,088)	$ 19,198
Consumer	77,243	87,204	59,925	1,287
Total Vonage	$ 272,892	$ 297,457	$ 38,837	$ 20,485

(In thousands, except per share amounts)

The Company uses Adjusted EBITDA as the measure of profit or loss for the evaluation of performance and allocation of resources of our reportable operating segments. Adjusted EBITDA is defined as net income or net loss attributable to Vonage before income tax expense or benefit, interest expense, depreciation and amortization, stock-based expense, amortization of costs to implement cloud computing arrangements, acquisition related transaction and integration costs, organizational transformation costs, restructuring activities, and other non-recurring items. Organizational transformation includes employee related exits including CEO succession, system change management, facility exit costs, and rebranding. Restructuring activities relate to the Company's business-wide optimization and alignment project initiated in 2020 which included employee related exits and further facility exit costs executed upon as part of the overall project. Other non-recurring items principally include certain litigation charges including defense costs and other non-recurring project costs such as the review of the Consumer business review and the business optimization project, both of which were initiated in 2020. This is also consistent with the measure used under our bank credit assessment. Our reconciliation of the aggregate amount of Adjusted EBITDA for our reportable segments to consolidated income before taxes is presented below:

	Three Months Ended March 31,	
	2021	2020
Adjusted EBITDA	$ 48,167	$ 38,837
Interest expense	(7,298)	(8,082)
Depreciation and amortization	(20,417)	(20,485)
Amortization of costs to implement cloud computing arrangements	(896)	(609)
Share-based expense	(14,566)	(11,116)
Organizational transformation	—	(1,194)
Restructuring activities	(1,294)	—
Other non-recurring items	(1,891)	(1,356)
Income (Loss) before taxes	$ 1,805	$ (4,005)

Information about our operations by geographic location is as follows:

	March 31, 2021	December 31, 2020
Long-lived assets:		
United States	$ 635,595	$ 646,072
United Kingdom	294,600	293,457
Israel	1,178	1,325
	$ 931,373	$ 940,854

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion together with our condensed consolidated financial statements and the related notes included elsewhere in this Form 10-Q and our audited financial statements included in our Annual Report on Form 10-K. This discussion contains forward-looking statements. These forward-looking statements are based on information available at the time the statements are made and/or management’s belief as of that time with respect to future events and involve risks and uncertainties that could cause actual results and outcomes to be materially different. Important factors that could cause such differences include but are not limited to: realizing the benefits of optimization and cost-saving initiatives; the impact of the COVID-19 pandemic; the competition we face; the expansion of competition in the cloud communications market; risks related to the acquisition or integration of businesses we have acquired; our ability to adapt to rapid changes in the cloud communications market; the nascent state of the cloud communications for business market; our ability to retain customers and attract new customers cost-effectively; the risk associated with developing and maintaining effective internal sales teams and effective distribution channels; security breaches and other compromises of information security; risks associated with sales of our services to medium-sized and enterprise customers; our reliance on third-party hardware and software; our dependence on third-party facilities, equipment, systems and services; system disruptions or flaws in our technology and systems; our ability to comply with data privacy and related regulatory matters; our ability to scale our business and grow efficiently; our dependence on third party vendors; the impact of fluctuations in economic conditions, particularly on our small and medium business customers; our ability to obtain or maintain relevant intellectual property licenses or to protect our trademarks and internally developed software; restrictions in our debt agreements that may limit our operating flexibility; our ability to obtain additional financing if required; our ability to raise funds necessary to settle conversion of the 2024 convertible senior notes; conditional conversion features of the convertible senior notes; the cash settlement of the convertible senior notes; the effects of the capped call transactions in connection with the convertible senior notes; fraudulent use of our name or services; intellectual property and other litigation that have been and may be brought against us; reliance on third parties for our 911 services; uncertainties relating to regulation of business services; risks associated with legislative, regulatory or judicial actions regarding our business products; risks associated with operating abroad; risks associated with the taxation of our business; governmental regulation and taxes in our international operations; liability under anti-corruption laws or from governmental export controls or economic sanctions; our dependence on our customers' unimpeded access to broadband connections; foreign currency exchange risk; our history of net losses and ability to achieve consistent profitability in the future; our ability to fully realize the benefits of our net operating loss carry-forwards if an ownership change occurs; certain provisions of our charter documents; and other factors that are set forth under “Risk Factors” in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. While we may elect to update forward-looking statements at some point in the future, we specifically disclaim any obligation to do so, and therefore, you should not rely on these forward-looking statements as representing our views as of any date subsequent to the date this Form 10-Q is filed with the Securities and Exchange Commission.

Financial Information Presentation

Management's discussion and analysis of financial condition and results of operations is provided as a supplement to, and should be read in connection with, the consolidated financial statements and related notes thereof. For the financial information discussed in this Quarterly Report on Form 10-Q, other than per share and per line amounts, dollar amounts are presented in thousands, except where noted. All trademarks are the property of their owners.

Overview

At Vonage, our vision is to accelerate the world's ability to connect. We are observing a secular change in the way business is done, with a fundamental shift in how communications technologies are being leveraged in almost every industry. Through the Vonage Communications Platform, our strategy is to deliver a single leading cloud communications platform that powers our customers' and partners' global engagement solutions using our APIs, Unified Communications, and Contact Center innovations. We believe that the Vonage Communications Platform's products and services are well positioned to take advantage of emerging trends with sizable, growing total addressable markets as companies look to cloud-based communications solutions and API programming architectures as part of their digital transformation.

Our business is organized under two reportable operating segments: Vonage Communications Platform and Consumer. The Vonage Communications Platform includes our Unified Communications, Contact Center Communications, and APIs service offerings and represents the Company’s strategic business as the source of future growth. Our Consumer segment includes our communications solutions for residential customers based on our roots in providing VoIP communication services.

Vonage Communications Platform

Our strategic business is the Vonage Communications Platform which delivers a single leading cloud communications platform that powers our customers' and partners' global engagement solutions using our APIs, Unified Communications, and Contact Center innovations. The Vonage Communications Platform brings unique value to businesses by providing multiple communications channels - including video, voice, messaging, email, verification, and artificial intelligence - that integrate into the applications, products and workflows that our customers are already using. We believe this delivers both the power and the flexibility to our customers to address the growing need to transform their communications, connections and experiences for customers and enables the type of business continuity, remote work, and remote delivery of services that are now essential for team members.

Consumer

For our Consumer customers, we enable users to access and utilize our services and features, via their existing internet connections, including over 3G/4G, LTE, Cable, or DSL broadband networks. This technology enables us to offer our Consumer 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, which provide value in international long distance and target under-served segments.

Services Outside of the United States

We have operations in the United States, United Kingdom, Canada, Israel, Hong Kong, and Singapore, and provide a wide range of communications solutions to our customers located in many countries around the world.

Impact of COVID-19

A novel strain of coronavirus, or COVID-19, was first identified in China in December 2019 and subsequently declared a pandemic on March 11, 2020, by the World Health Organization. To date, COVID-19 has impacted nearly all regions around the world and resulted in travel restrictions and business slowdowns worldwide. The full impact of the pandemic on our business, operations and financial results has and will depend on various factors that continue to evolve, which we may not accurately predict. In response to the COVID-19 pandemic, governments across the world have enacted measures aimed at containing the spread of the virus, including ordering the closure of all businesses not deemed "essential," restricting residents to their homes, and the practice of social distancing when engaging in authorized activities. While some of these restrictions have been lifted on a global scale, many regions, including the United States where Vonage is headquartered, are experiencing a resurgence of COVID-19. As a result of the COVID-19 pandemic, all travel has been reduced to protect the health of our employees and to comply with local guidelines, and we have also modified the usage of Vonage offices worldwide to comply with social distancing (including our corporate headquarters), both of which disrupt how we typically operate our business.

COVID-19 has impacted some of our customers more than others, including customers in the travel, hospitality, retail, and other industries where physical interaction is critical. We have experienced and expect that we will continue to experience slowdowns in bookings and customer payments, customer churn and reduced usage, and issuance of customer credits to distressed customers served by certain product lines in the Vonage Communications Platform. In addition, COVID-19 may have impacts on many additional aspects of our operations, directly and indirectly, including with respect to its impacts on customer behaviors, our business and our employees, and the market generally, and the scope and nature of these impacts continue to evolve each day.

Trends in Our Industry

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. The business cloud communications markets and consumer services market in which we participate are highly competitive. We face competition from a broad set of companies, including (i) SaaS companies, CCaaS companies, other alternative communication providers, other providers of cloud communication services and (ii) traditional telephone, wireless service providers, cable companies, and alternative communications providers with consumer offerings. As the cloud communications 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 market, including companies that currently compete in other sectors, companies that serve consumers rather than business customers, or companies which expand their market presence to include cloud communications. Moreover, as businesses and educational institutions are quickly pivoting to cloud-based communications in light the increased need for remote work and remote learning due to the COVID-19 pandemic, we are experiencing intense competition from our existing competitors, and also emerging competitors, seeking to capitalize on the growing needs for businesses and educators to transform their operations.

Regulation. Our business has developed in a relatively lightly regulated environment. See the discussion under "Regulation" in Note 9 to our condensed consolidated financial statements for a discussion of regulatory issues that impact us.

Key Operating Data

The table below includes key operating data that our management uses to measure the growth and operating performance of the Vonage Communications Platform segment:

Vonage Communications Platform	**Three Months Ended March 31,**	
	2021	**2020**
Service revenue per customer	$ 582	$ 475
Vonage Communications Platform service revenue churn	0.5 %	0.8 %

Service Revenue per Customer. Service revenues per customer for a particular period is calculated by dividing the average monthly service revenues for the period by the average number of customers over the number of months in the period. The average number of customers 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. Service revenues excludes revenues from trading and auction customers. Service revenue per customer increased from $475 for the three months ended March 31, 2020 to $582 for the three months ended March 31, 2021 primarily driven by the Company's successful efforts to attract larger VCP customers and to expand services provided to our existing VCP customers.

Vonage Communications Platform Service Revenue Churn. Vonage Communications Platform service revenue churn is calculated by dividing the service revenue from customers or customer locations that have been confirmed to be foregone during a period by the simple average of the total service revenue from all customers in that period. Service revenue for purposes of determining VCP revenue churn is service revenue excluding revenue from our trading and auction customers, and usage in excess of a customer's contracted service plan, regulatory fees charged to customers, and credits. The simple average of total service revenue from all customers during the period is the total service revenue as defined herein on the first day of the period, plus the total service revenue as defined herein 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 month after activation. Other companies may calculate service revenue churn differently, and their service revenue churn data may not be directly comparable to ours. Vonage Communications Platform revenue churn decreased from 0.8% for the three months ended March 31, 2020 to 0.5% for the three months ended March 31, 2021. Our service revenue churn may fluctuate over time due to economic conditions, seasonality in certain customer's operations, loss of customers who are acquired, and competitive pressures including promotional pricing. We are continuing to invest in our overall quality of service which includes customer care headcount and systems, billing systems, on-boarding processes and self-service options to ensure we scale our processes to our growth and continue to improve the overall customer experience.

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

Consumer	**Three Months Ended March 31,**	
	2021	**2020**
Average monthly revenues per subscriber line	$ 29.05	$ 27.35
Subscriber lines (at period end)	867,243	1,037,794
Customer churn	1.9 %	1.8 %

Average Monthly Revenues per Subscriber Line. Average monthly revenues per subscriber line for a particular period is calculated by dividing our revenues 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 revenues per subscriber line increased from $27.35 for the three months ended March 31, 2020 to $29.05 for the three months ended March 31, 2021 due primarily to the Company's ability to retain its more tenured customers.

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, including fax lines bundled with subscriber lines in our small office home office calling plans and soft phones, but do not include our virtual phone numbers and toll free numbers, which only allow inbound telephone calls to customers. Subscriber lines decreased from 1,037,794 as of March 31, 2020 to 867,243 as of March 31, 2021, reflecting planned actions to enhance the profitability of the assisted sales channel by eliminating lower performing locations and restructuring the pricing offers, and to shift investment to our business market.

Customer Churn. Customer churn is calculated by dividing the number of customers that have terminated during a period by the simple average of number of customers in a given 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 month after activation. Other companies may calculate customer churn differently, and their customer churn data may not be directly comparable to ours. Customer churn increased to 1.9% for the three months ended March 31, 2021 from 1.8% for the three months ended March 31, 2020, respectively. We maximize customer value by focusing marketing spend on higher return channels and away from assisted selling channels which had higher early life churn. We monitor customer churn on a daily basis and use it as an indicator of the level of customer satisfaction. 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 international callers generally churn at a lower rate than customers who are domestic callers. Our customer churn will fluctuate over time due to economic conditions, competitive pressures including promotional pricing targeting international long distance callers, marketplace perception of our services, and our ability to provide high quality customer care and network quality and add future innovative products and services. See the discussion above for detail regarding churn impacting our business customers.

REVENUE

Revenues consist of services revenue and customer equipment and shipping fee revenue. Substantially all of our revenues are services revenue. For Consumer customers in the United States, we offer domestic and international rate plans, including a variety of residential plans and mobile plans. For our VCP customers, we offer micro, SMB, mid-market, and enterprise customers several service plans with different pricing structures and contractual requirements ranging in duration from month-to-month to three years. In addition, we provide managed equipment to VCP customers for which the customers pay a monthly fee. Customers also have the opportunity to purchase premium features for additional fees. In addition, we derive revenue from usage-based fees earned from customers using our cloud-based software products. These usage-based software products include our messaging, voice, Verify and chat APIs. Usage-based fees include number of text messages sent or received using our messaging APIs, minutes of call duration activity for our voice APIs, and number of converted authentications for our Verify API. Services revenue is offset by the cost of certain customer acquisition activities, such as rebates and promotions. In addition, in certain instances, we charge disconnect fees which are recognized as revenue at the time the disconnect fees are collected from our customer.

In the United States, we charge regulatory, compliance and intellectual property, and E-911 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 USF and related fees. All other taxes are recorded on a net basis.

Revenues are generated from sales of customer equipment 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. Customer equipment and shipping revenues also include the fees that customers are charged for shipping their customer equipment to them.

OPERATING EXPENSES

Operating expenses consist of cost of revenues, sales and marketing expense, engineering and development expense, general and administrative expense, and depreciation and amortization.

Results of Operations

The following table sets forth our condensed consolidated statements of operations for the periods indicated:

	Three Months Ended March 31,	
	2021	2020
Total revenues	$ 332,900	$ 297,457
Operating Expenses:		
Cost of revenues (exclusive of depreciation and amortization)	156,787	127,418
Sales and marketing	81,474	85,621
Engineering and development	20,360	19,203
General and administrative	44,933	40,882
Depreciation and amortization	20,417	20,485
Total operating expenses	323,971	293,609
Income from operations	8,929	3,848
Other Income (Expense):		
Interest expense	(7,298)	(8,082)
Other income (expense), net	174	229
Total other income (expense), net	(7,124)	(7,853)
Income (Loss) before income tax benefit	1,805	(4,005)
Income tax (expense) benefit	(2,181)	250
Net loss	$ (376)	$ (3,755)

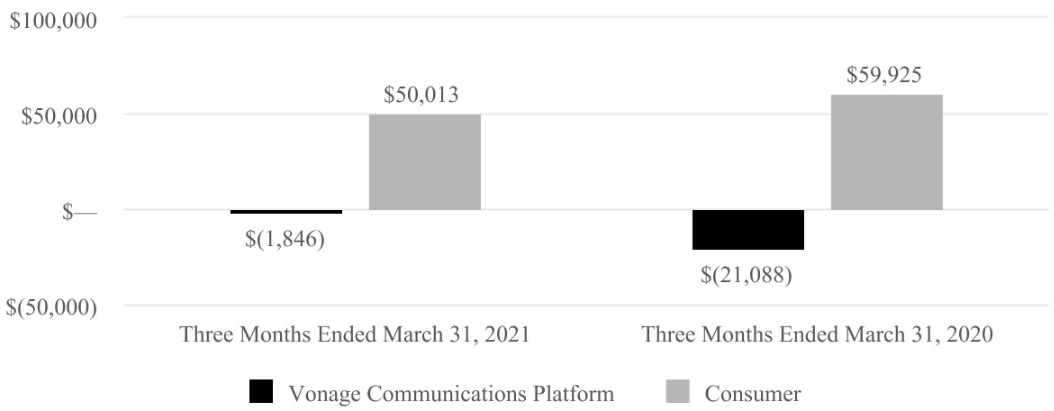
Management's Discussion of the Results of Operations for the Three Months Ended March 31, 2021 and 2020

The Company reported income before income taxes of $1,805 for the three months ended March 31, 2021 and loss from income taxes of $4,005 for the three months ended March 31, 2020, respectively. The income before income taxes for the three months ended March 31, 2021 was primarily due to higher gross margin of $6,074 driven by increased sales within the VCP platform primarily associated with API service offerings. This was slightly offset by higher operating expenses of $993.

The Company reported net loss of $376 and $3,755 for the three months ended March 31, 2021 and March 31, 2020, respectively. The decrease in net loss for the three months ended March 31, 2021 compared to the three months ended March 31, 2020 was due to the income before income taxes for the three months ended March 31, 2021 and loss before income taxes for the three months ended March 31, 2020 as discussed above. While the Company reported an income before income tax for the three months ended March 31, 2021, the Company recognized a tax expense of $2,181 as compared to tax benefit of $250 during the prior year quarter. The tax expense during the three months ended March 31, 2021 was driven by an increase in permanent items related to limitations on executive compensation and the inclusion of foreign income in the U.S. due to foreign disregarded entities.

Segment Adjusted EBITDA

The following graphs illustrate the composition of our Adjusted EBITDA with respect to each of our reportable segments for the three months ended March 31, 2021 and March 31, 2020.



The Adjusted EBITDA for Vonage Communications Platform has improved from loss of $21,088 for the three months ended March 31, 2020 to loss of $1,846 for the three months ended March 31, 2021, respectively. This improvement in Vonage Communications Platform Adjusted EBITDA is primarily due to an increase in Vonage Communications Platform gross margin of $17,579 as the Company experience growth in API services as compared to the prior year. Adjusted EBITDA for Vonage Communications Platform was also positively impacted in the current quarter due to cost saving initiatives executed in the second half of 2020. The decline year over year of Adjusted EBITDA for Consumer is primarily driven by the decrease in subscriber lines year over year as further described below.

Consolidated Gross Margin for the three months ended March 31, 2021 and March 31, 2020

We calculate gross margin as total revenues less cost of revenues, which primarily consists of fees that we pay to third parties on an ongoing basis in order to provide our services and costs incurred when a customer first subscribes to our service. The following table presents consolidated revenues, cost of revenues and the composition of gross margin for the three months ended March 31, 2021 and 2020:

(in thousands, except percentages)	Three Months Ended March 31,			
	2021	**2020**	**Dollar Change**	**Percent Change**
Service, access and product revenues	$ 314,793	$ 283,077	$ 31,716	11 %
USF revenues	18,107	14,380	3,727	26 %
Total revenues	332,900	297,457	35,443	12 %
Service, access and product cost of revenues	138,680	113,038	25,642	23 %
USF cost of revenues	18,107	14,380	3,727	26 %
Total cost of revenues (1)	156,787	127,418	29,369	23 %
Gross margin	$ 176,113	$ 170,039	$ 6,074	4 %

(1) Excludes depreciation and amortization of $13,647 and $9,609 for the three months ended March 31, 2021 and 2020, respectively.

Total revenues and cost of revenues were impacted by the following trends and uncertainties:

Three Months Ended March 31, 2021 compared to Three Months Ended March 31, 2020

Total revenues increased 12% for the three months ended March 31, 2021 as compared to the prior year period. The increase was primarily due to the VCP customer growth driving an increase in revenues of $45,201 as a result of increased usage on the Company's API Platform in the current year. Due to the increase in the USF rate, USF revenues increased as well. The increase in total revenues was partially offset by declining Consumer revenues of $9,758 in connection with the continued decline of Consumer subscriber lines. The Company continues to expect that the Consumer portion of the Company's overall business will become less significant. The Company will focus its resources in an effort to increase market share in its VCP communications platforms.

Total cost of revenues increased 23% for the three months ended March 31, 2021 as compared to the prior year period driven by increased costs incurred in servicing our VCP customers of $27,622 due to the increase in customers and higher volume of API usage. There was also an increase in costs in Consumer of $1,747 mainly due to the increase in USF costs offset by the decline in subscriber lines resulting in lower international and long-distance termination costs.

Vonage Communications Platform Gross Margin for the Three Months Ended March 31, 2021 and 2020

	Three Months Ended March 31,			
(in thousands, except percentages)	**2021**	**2020**	**Dollar Change**	**Percent Change**
Revenues				
Service revenues	$ 240,442	$ 195,649	$ 44,793	23 %
Access and product revenues[1]	8,598	10,122	(1,524)	(15)%
Service, access and product revenues excluding USF	249,040	205,771	43,269	21 %
USF revenues	6,414	4,482	1,932	43 %
Total revenues	255,454	210,253	45,201	21 %
Cost of revenues				
Service cost of revenues [2]	120,017	92,357	27,660	30 %
Access and product cost of revenues [1]	9,626	11,596	(1,970)	(17)%
Service, access and product cost of revenues excluding USF	129,643	103,953	25,690	25 %
USF cost of revenues	6,414	4,482	1,932	43 %
Total cost of revenues	136,057	108,435	27,622	25 %
Segment gross margin				
Service margin	120,425	103,292	17,133	17 %
Gross margin excluding USF (Service, access and product margin)	119,397	101,818	17,579	17 %
Segment gross margin	$ 119,397	$ 101,818	$ 17,579	17 %
Segment gross Margin %				
Service margin %	50.1 %	52.8 %		
Gross margin excluding USF (Service, access and product margin) %	47.9 %	49.5 %		
Segment gross margin %	46.7 %	48.4 %		

(1) Includes customer premise equipment, access, and shipping and handling.
(2) Excludes depreciation and amortization of $13,310 and $8,519 for the three months ended March 31, 2021 and 2020, respectively.

Three Months Ended March 31, 2021 compared to Three Months Ended March 31, 2020

The following table describes the increase in VCP gross margin for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020:

	(in thousands)
Service gross margin increase is primarily due to increased usage of the Company's API services primarily related to SMS services in APAC	$ 17,133
Access and product gross margin increased due to lower costs providing access services to VCP customers during the current quarter	446
Increase in segment gross margin	$ 17,579

Vonage Communications Platform service gross margin percentage decreased to 50.1% for the three months ended March 31, 2021 from 52.8% for the three months ended March 31, 2020. The decrease in business service gross margin percentage is a result of greater proportion of lower margin services across our VCP segment during the quarter ended March 31, 2021 as compared to the same period in the prior quarter as revenues from API services has grown to 50% of VCP revenues for the three months ended March 31, 2021 from 41% of VCP revenues during the prior year quarter. Our gross margin percentage may continue to be impacted by changes in the mix of service offerings provided to our customers across our VCP segment.

Consumer Gross Margin for the Three Months Ended March 31, 2021 and 2020

	Three Months Ended March 31,			
(in thousands, except percentages)	**2021**	**2020**	**Dollar Change**	**Percent Change**
Revenues				
Service revenues	$ 65,697	$ 77,243	$ (11,546)	(15)%
Access and product revenues[1]	56	63	(7)	(11)%
Service, access and product revenues excluding USF	65,753	77,306	(11,553)	(15)%
USF revenues	11,693	9,898	1,795	18 %
Total revenues	77,446	87,204	(9,758)	(11)%
Cost of revenues				
Service cost of revenues [2]	8,513	8,512	1	— %
Access and product cost of revenues [1]	524	573	(49)	(9)%
Service, access and product cost of revenues excluding USF	9,037	9,085	(48)	(1)%
USF cost of revenues	11,693	9,898	1,795	18 %
Total cost of revenues	20,730	18,983	1,747	9 %
Segment gross margin				
Service margin	57,184	68,731	(11,547)	(17)%
Gross margin excluding USF (Service, access and product margin)	56,716	68,221	(11,505)	(17)%
Segment gross margin	$ 56,716	$ 68,221	$ (11,505)	(17)%
Segment gross Margin %				
Service margin %	87.0 %	89.0 %		
Gross margin excluding USF (Service, access and product margin) %	86.3 %	88.2 %		
Segment gross margin %	73.2 %	78.2 %		

(1) Includes customer premise equipment and shipping and handling.
(2) Excludes depreciation and amortization of $337 and $1,090 for the three months ended March 31, 2021 and 2020, respectively.

Three Months Ended March 31, 2021 compared to Three Months Ended March 31, 2020

The following table describes the decrease in consumer gross margin for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020:

		(in thousands)
Service gross margin decreased primarily due to a decrease in subscriber lines of 16% resulting in lower gross margin of $11,455 which has been declining over recent years as the Company has focused on the growth of the Vonage Communications Platform	$	(11,547)
Access and product gross margin increased 8% primarily due to lower equipment costs associated with sales to customers during the current quarter		42
Decrease in segment gross margin	$	(11,505)

Consumer service gross margin percentage decreased to 87.0% for the three months ended March 31, 2021 from 89.0% for the three months ended March 31, 2020 due to slightly higher international and domestic termination rates.

Other Operating Expenses

The following table presents our other operating costs during the three months ended March 31, 2021 and 2020, respectively:

	Three Months Ended March 31,			
(in thousands, except percentages)	**2021**	**2020**	**Dollar Change**	**Percent Change**
Sales and marketing	$ 81,474	$ 85,621	$ (4,147)	(5)%
Engineering and development	20,360	19,203	1,157	6 %
General and administrative	44,933	40,882	4,051	10 %
Depreciation and amortization	20,417	20,485	(68)	— %
Total other operating expenses	$ 167,184	$ 166,191	$ 993	1 %

Three Months Ended March 31, 2021 compared to Three Months Ended March 31, 2020

Total other operating expenses increased by $993 as compared to the three months ended March 31, 2020 due to the following:

- Sales and marketing expense decreased by $4,147, primarily due to the realization of cost savings related to initiatives executed during the second half of the prior year along with lower travel related costs in the current year as travel continues to be limited due to the ongoing pandemic.
- Engineering and development expense increased by $1,157, in connection with the Company's increased employee related costs as there is continued focus on innovation and developing further functionality related to its proprietary platform in order to support customers through the mid-market and enterprise sector.
- General and administrative expense increased by $4,051, primarily due to the expense with restructuring activities, an increase in stock compensation expense to employees and a $2 million donation to the Company's foundation in the current year. This was slightly offset by decreased employee costs as the Company has begun to realize cost savings associated with the initiatives executed upon in the prior year.

Other Income (Expense)

(in thousands, except percentages)	Three Months Ended March 31,			
	2021	2020	Dollar Change	Percent Change
Interest expense	$ (7,298)	$ (8,082)	$ 784	10 %
Other income (expense), net	174	229	(55)	(24)%
	$ (7,124)	$ (7,853)	$ 729	

Three Months Ended March 31, 2021 compared to Three Months Ended March 31, 2020

Interest expense. The decrease in interest expense of $784, or 10%, was mainly due to lower interest expense due to lower principal balances on our 2018 Credit Facility.

Income Taxes

(in thousands, except percentages)	Three Months Ended March 31,			
	2021	2020	Dollar Change	Percent Change
Income tax (expense) benefit	$ (2,181)	$ 250	$ (2,431)	972 %
Effective tax rate	(121)%	(6)%		

Three Months Ended March 31, 2021 compared to Three Months Ended March 31, 2020

The tax expense recorded for the three months ended March 31, 2021 compared to the tax benefit for the three months ended March 31, 2020 is primarily due to an increase in permanent items related to limitations on executive compensation, the inclusion of foreign income in the U.S. due to foreign disregarded entities, and limitation on foreign losses as compared to the three months ended March 31, 2020. For the three months ended March 31, 2021, the actual discrete was determined to be the appropriate method for calculating the interim tax provision as using the estimated annual effective tax rate method would have produced an unreliable rate stemming from a marginal loss and large permanent adjustments.

Non-GAAP Metrics

Adjusted EBITDA is a non-GAAP financial measure and is the primary basis used as the measure of profit or loss for our businesses. Adjusted EBITDA is defined as net income or net loss attributable to Vonage before income tax expense or benefit, interest expense, depreciation and amortization, stock-based expense, amortization of costs to implement cloud computing arrangements, acquisition related transaction and integration costs, organizational transformation costs, restructuring activities, and other non-recurring items. Organizational transformation includes employee related exits including CEO succession, system change management, facility exit costs, and rebranding. Restructuring activities relate to the Company's business-wide optimization and alignment project initiated in 2020 which included employee related exits and further facility exit costs executed upon as part of the overall project. Other non-recurring items principally include certain litigation charges including defense costs and other non-recurring project costs such as the review of the Consumer business review and the business optimization project, both of which were initiated in 2020. This is also consistent with the measure used under our bank credit assessment. Our management and our Board of Directors utilize Adjusted EBITDA to evaluate our consolidated operating performance and the performance of our operating segments and to allocate resources and capital to our segments. It is also a significant performance measure in our annual incentive compensation programs. We believe that Adjusted EBITDA is useful to our investors as a basis for comparing our operating performance with that of other companies in our industries, although our measure of Adjusted EBITDA may not be directly comparable to that of other companies.

Our reconciliation of the aggregate amount of Adjusted EBITDA to consolidated income before taxes is presented below:

	Three Months Ended March 31,	
	2021	**2020**
Net loss	$ (376)	$ (3,755)
Income tax expense (benefit)	2,181	(250)
Interest expense	7,298	8,082
Depreciation and amortization	20,417	20,485
Amortization of costs to implement cloud computing arrangements	896	609
Share-based expense	14,566	11,116
Organizational transformation	—	1,194
Restructuring activities	1,294	—
Other non-recurring items	1,891	1,356
Adjusted EBITDA	**$ 48,167**	**$ 38,837**

Liquidity and Capital Resources

Overview

For the three months ended March 31, 2021, we had higher net cash from operations compared to the prior year due to lower operating expenses during the current year. We expect to continue to balance efforts to grow our revenue with seeking to consistently achieve operating profitability. To grow our revenue, we continue to make investments in growth initiatives, marketing, applications development, network quality and expansion, and customer care. We believe that cash flow from operations and cash on hand will fund our operations for at least the next twelve months.

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

	Three Months Ended March 31,		
(in thousands)	**2021**	**2020**	**Dollar Change**
Net cash provided by operating activities	$ 47,318	$ 2,503	$ 44,815
Net cash used in investing activities	(16,480)	(13,235)	(3,245)
Net cash (used in) provided by financing activities	(21,019)	32,499	(53,518)
Effect of exchange rate changes on cash and cash equivalents	(980)	(2,290)	1,310

Operating Activities

The following table describes the changes in cash provided by operating activities for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020:

	(in thousands)
Increase in operating income adjusted for non-cash items primarily due to increased gross margin driven by growth within VCP during the quarter	$ 6,501
Increase in working capital driven primarily by timing of vendor payments, prepayments for annual licenses and improvement in operating cash flows as a result of benefits under the CARES Act. This was slightly offset due to the timing in customer payments for annual subscription services	38,314
Increase in cash provided by operating activities	$ 44,815

Investing Activities

The following table describes the changes in cash used in investing activities for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020:

	(in thousands)
Increase in payments to acquire and develop software assets	(3,592)
Decrease in payments related to capital expenditures	334
Decrease in payments to acquire new patents on our developed technology	13
Increase in cash used in investing activities	$ (3,245)

Financing Activities

The following table describes the changes in cash (used in) provided by financing activities for the three months ended March 31, 2021 as compared to the three months ended March 31, 2020:

	(in thousands)
Decreased borrowings net of repayments during the current year	$ (50,000)
Decrease in payments associated with taxes on share based compensation due to lower vesting in 2021	(3,985)
Increase in proceeds received from exercise of stock options due to fewer exercises in 2020	467
Decrease in cash (used in) provided by financing activities	$ (53,518)

Sources of Liquidity

The principal sources of liquidity are derived from available borrowings under our existing financing arrangements, existing cash on hand, and cash flows from operations. As described in Note 6, *Long-Term Debt*, to the Condensed Consolidated Financial Statements, the Company's financing arrangements consist of its Convertible Senior Notes and the 2018 Credit Facility comprised of a $100,000 term note and a $500,000 revolving credit facility. The COVID-19 pandemic has caused disruption in global capital markets. This could result in future financing becoming more difficult or expensive to obtain or the Company may not be able to obtain financing on acceptable terms or at all.

We maintain significant availability under our lines of credit to meet our short-term liquidity requirements. As of March 31, 2021, amounts available under the 2018 Credit Facility totaled $289.5 million.

Uses of Liquidity

The Company's requirements for liquidity and capital resources are generally for the purposes of operating activities, debt service obligations, restructuring initiatives, and capital expenditures. For the three months ended March 31, 2021, 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 three months ended March 31, 2021, were $16,480, of which $13,865 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 full year 2021, we estimate our capital and software expenditures will be approximately $65 million.

State and Local Sales Taxes

We have contingent liabilities for state and local sales taxes. As of March 31, 2021, we had a reserve of $8,648. If our ultimate liability exceeds this amount, it could affect our liquidity unfavorably. However, we do not believe it will significantly impair our liquidity.

Off-Balance Sheet Arrangements

Obligations under Certain Guarantee Contracts

We enter guarantee arrangements in the normal course of business to facilitate transactions with third parties. These arrangements include financial and performance guarantees, stand-by letters of credit, debt guarantees and indemnifications. As of March 31, 2021 and December 31, 2020 we had stand-by letters of credit of $1,502, respectively.

Contractual Obligations and Commitments

Except as set forth below and in Note 9. *Commitments and Contingencies* included in Part 1, Item 1 of this Form 10-Q, there were no significant changes in our commitments under contractual obligations as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

Contingencies

From time to time we are subject to legal proceedings, claims and investigations relating to our business, including claims of alleged infringement of commercial, employment, intellectual property rights, and other matters. From time to time, we 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 loss 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. Such legal proceedings are inherently unpredictable and subject to further uncertainties. Should any of these estimates and assumptions change it is possible that the resolution of the matters described in Note 9, *Commitments and Contingencies* included in Part 1, Item 1 of this Form 10-Q could have a material adverse effect on our condensed consolidated financial position, cash flows or results of operations.

Critical Accounting Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with U.S. GAAP. Our significant accounting policies are described in Note 2, *Summary of Significant Accounting Policies* to the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2020. The preparation of financial statements and related disclosures in compliance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities. The application of these policies involves judgment regarding future events and these judgments could materially affect the financial statements and disclosures based on varying assumptions.

We identify our most critical accounting policies as those that are the most pervasive and important to the portrayal of our financial position and results of operations, and those that require the most difficult, subjective or complex judgments by management regarding estimates. Our critical accounting policies include revenue recognition, valuation of goodwill and intangible assets, income taxes and capitalized software. As of March 31, 2021, our goodwill is attributable to our VCP operating segment. We perform our annual test of goodwill on October 1st. Additionally, we will assess our goodwill for impairment between annual tests when specific circumstances dictate.

COVID-19 has created and may continue to create uncertainty in bookings and customer payments, reduced usage, and issuance of customer credits to distressed customers served by certain product lines. As of the date of our condensed consolidated financial statements, we are not aware of any specific event or circumstance that would require us to update our estimates or judgments. However, these estimates may change as new events occur and additional information is obtained, which may result in changes being recognized in our condensed consolidated financial statements in future periods. In particular and in light of the COVID-19 pandemic, the assumptions and estimates associated with collectability assessment of revenue and credit losses of accounts receivable may have a material impact our consolidated financial statements in future periods, depending on the duration or degree of the impact of the COVID-19 pandemic on the global economy.

Item 3. 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 primarily in the United States, Canada, the European Union, and Asia. A portion of our sales denominated in Euros, the Canadian Dollar, and the British Pound Sterling, which are 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.

On January 31, 2020, the United Kingdom officially withdrew from the European Union or , "EU". The 11-month transition period ended on. December 31, 2020. As of January 1, 2021, the UK is no longer inside the EU's Single Market and Customs Union and is free to implement trade deals struck with third countries. Uncertainty and currency volatility in the British Pound Sterling exchange rate is expected to continue.

Interest Rate and Debt Risk

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

As of March 31, 2021, if the interest rate on our variable rate debt changed by 1% on our 2018 Revolving Credit Facility, our annual debt service payment would change by approximately $2,105.

As of March 31, 2021, we had $345.0 million outstanding on our 1.75% convertible senior notes due 2024. The Notes have 1.75% percent fixed annual interest rates and, therefore, our economic interest rate exposure on our convertible senior notes is fixed. However, the values of the convertible senior notes are exposed to interest rate risk. Generally, the fair market value of our fixed interest rate convertible senior notes will increase as interest rates fall and decrease as interest rates rise. In addition, the fair values of the convertible senior notes are affected by our stock price. The fair value of the convertible senior notes will generally increase as our common stock price increases and will generally decrease as our common stock price declines in value. Additionally, we carry the convertible senior notes at face value less unamortized discount on our balance sheet, and we present the fair value for required disclosure purposes only.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. Based on the evaluation of our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 Rules 13a-15(e) and 15d-15(e)) required by Securities Exchange Act Rules 13a-15(b) or 15d-15(b), our Chief Executive Officer and our Chief Financial Officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Controls. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In response to COVID-19, we have undertaken measures to protect our employees, partners, and clients, including encouraging employees to work remotely. These measures have compelled us to modify some of our control procedures, however, those modifications have so far not been material. We are continually monitoring and assessing the COVID-19 situation in order to minimize the impact on the design, implementation, and operating effectiveness of our internal controls.

Part II—Other Information

Item 1. Legal Proceedings

We are subject to a number of lawsuits, government investigations and claims arising out of the conduct of our business. See a discussion of our litigation matters in Note 9 of Notes to our Condensed Consolidated Financial Statements, which is incorporated herein by reference.

Item 1A. Risk Factors

Other than the risk factor set forth below, there have been no material changes from the risk factors previously disclosed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2021.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See accompanying Exhibit Index for a list of the exhibits filed or furnished with this Quarterly Report on Form 10-Q.

EXHIBIT INDEX

10.1	Amendment No. 1 to Renewal Agreement, dated February 26, 2021, among Vonage Holdings Corp., Legion Partners Asset Management LLC, and each of the signatories thereto (Incorporated by reference to Vonage Holdings Corp.'s Current Report on Form 8-K (File No. 001-32887) filed on February 26, 2021)
10.2	Termination, Separation and Release Agreement, dated March 24, 2021, among Vonage Holdings Corp. and Omar Javaid*†
31.1	Certification of the Company’s 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*
31.2	Certification of the Company’s 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*
32.1	Certification of the Company’s 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*
101	The following financial information from Vonage Holdings Corp.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2021 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Condensed Consolidated Balance Sheets, (ii) the Condensed Consolidated Statements of Operations, (iii) the Condensed Consolidated Statements of Comprehensive (Loss) Income, (iv) the Condensed Consolidated Statements of Cash Flows, (v) the Condensed Consolidated Statements of Stockholders Equity, and (vi) Notes to the Condensed Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

* Filed herewith.
† Portions of this exhibit were redacted pursuant to Item 601(b)(10) of Regulation S-K.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

			VONAGE HOLDINGS CORP.
Dated:	May 6, 2021	By:	/s/ Stephen Lasher
			Stephen Lasher Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

In accordance with Items 601(a)(6) and 601(b)(10) of Regulation S-K, certain portions of this exhibit have been omitted because the information (i) is not material and (ii) is information that is considered private or confidential. The omissions have been indicated by “[****]”.

Transition, Separation and Release Agreement

This Transition, Separation and Release Agreement (the “Agreement”), dated March 24, 2021, is made by and between Omar Javaid (“you”) and Vonage Holding Corporation (together with Vonage America, Inc. the “Company”). This Agreement is effective on the 8th day after you sign it, provided you do not revoke it before that day in accordance with Section 8(b) of this Agreement (the “Effective Date”). If you do not sign this Agreement by 21 days from the date it was first presented to you (the “Expiration Date”), it will be null and void and can no longer be accepted by you.

1. Separation Date. Your last day of employment with the Company will be May 31, 2021 or such other date that your employment is terminated in accordance with Section 2 of this Agreement. The actual date of your employment with the Company ends is the “Separation Date.” On the Separation Date, the Company will provide you with your final paycheck, which will include your final wages through the Separation Date, less applicable taxes and withholdings, in accordance with applicable law. You will not represent yourself as being an employee, officer, attorney, agent, or representative of the Company for any purpose after the Separation Date. The Company will reasonably consult with you on the initial internal and external announcements regarding your transition and departure.

2. Transition. During the period between the date of this Agreement and the Separation Date (the “Transition Period”), you shall (i) be placed on “garden leave”, meaning that you shall not be required to perform any employment duties other than to aid in the transition by being reasonably available remotely to answer questions that may arise during such period and (ii) continue to abide by all of the Company’s general policies and procedures in effect from time to time. Your employment with the Company will only be terminated by the Company prior to May 31, 2021 for (i) a material breach of this Agreement without cure after 5 days’ written notice by the Company detailing the nature of the breach, (ii) a breach of the ECA (as defined in Section 11 below) without cure after 5 days’ written notice by the Company detailing the nature of the breach, or (iii) Cause as defined in Section 5 of the Offer Letter between you and the Company dated June 7, 2015. The Company acknowledges that it is not aware of any such breach or event of Cause prior to its execution of this Agreement. During the Transition Period, you will continue to receive your regular salary, payable in accordance with the Company’s normal payroll practices and remain eligible for the Company’s standard benefits, subject to the terms and conditions of the plans. Upon mutual agreement in a writing signed by you and the CEO, the parties may amend the Separation Date to select a later date and extend the Transition Period. Your employment with the Company will be at-will during any extension of the Transition Period beyond May 31, 2021. For the sake of clarity, the Company acknowledges that you may spend some portion of your business time during the Transition Period on your search for new employment.

3. **Severance.** If you: (i) execute, do not revoke, and comply with this Agreement; (ii) execute and do not revoke the Certificate of Reaffirmation (attached to this Agreement as Exhibit A) on or after the Separation Date per its terms; and (iv) continue to comply with the terms of this Agreement, including your obligations in Sections 10, 11, and 12, the Company will provide you with the following benefits (collectively, the "Severance Benefits"):

a. Continuation of your base salary for 12 months, payable in accordance with normal Company payroll processes and paid less all applicable deductions and withholdings (the "Severance Pay"). The Severance Pay will begin to be paid on the first Company payroll date that is ten (10) days after your sign the Certificate of Reaffirmation, provided you have not revoked it. The Certificate of Reaffirmation cannot be signed before the Separation Date.

b. If you timely elect continued coverage under COBRA for yourself and your covered dependents under the Company's group health plans, then the Company will reimburse you for the out-of-pocket expenses you incur from COBRA premiums that are necessary to continue you and your covered dependents' health insurance coverage at the contribution level in effect on the Separation Date, as may be amended pursuant to Section 2 of this Agreement, until the earliest of: (1) 12 months following the Separation Date; (2) the date you become eligible for health insurance coverage from a new employer; or (3) the date you are no longer eligible to continue coverage under COBRA. You will need to submit proof of payment of COBRA premiums to Benefits@vonage.com with a cc: to the Chief Human Resources Officer and/or Chief Legal Officer, within thirty (30) days of paying such amounts. The Company will reimburse you for payment of such COBRA premiums within thirty (30) days of receiving proof of such payments.

c. A pro-rata share of the annual bonus you would have been eligible to receive for the Company's current fiscal year based upon your length of service in the current fiscal year ("Pro-Rata Bonus"). The amount of the Pro-Rata Bonus is subject to the Company's determination of the final applicable payout factors under its annual bonus program and shall be determined in accordance with the manner in which the Company calculates annual bonuses for its executives. The Company will pay you the Pro-Rata Bonus at the time annual bonuses are paid to Company executives in 2022 but no later than March 31, 2022.

4. **Health Insurance.** Your benefits under the Company's group health plans will continue until the Separation Date, as may be amended pursuant to Section 2 of this Agreement. After that date, as provided by the Consolidated Omnibus Budget Reconciliation Act ("COBRA") and by the Company's current group health insurance policies, you will be eligible to continue your health insurance benefits at your own expense (except as set forth in Section 3(b)) and, later, to convert to an individual policy if you wish. You will be provided with a separate notice of your COBRA rights.

5. **Equity.** Pursuant to the terms of the Vonage Holdings Corp. Amended and Restated 2015 Equity Incentive Plan and other equity incentive plans of the Company, as applicable (the "Equity Plans"), and the restricted stock unit award notices and agreements issued to you thereunder (the "RSU Agreements"), vesting of your restricted stock units ("RSUs") and performance-based restricted stock units ("PRSUs") will continue through the Transition Period and cease vesting on the Separation Date. The RSUs and PRSUs remain subject to the terms and conditions of the Equity Plans and RSU Agreements. Any RSUs or PRSUs that remain unvested as of the Separation Date will be forfeited pursuant to the RSU Agreements and the Equity Plans. For the avoidance of doubt, you shall not be eligible to receive additional grants of equity awards in 2021 or subsequent years.

6. Other Compensation or Benefits. You acknowledge that, except as expressly provided in this Agreement, you are not entitled to and will not receive any additional compensation or benefits from the Company after the Separation Date.

7. Expense Reimbursements. Within ten (10) days of the Separation Date, you agree to submit your final documented expense reimbursement statement reflecting any and all business expenses you incurred through the Separation Date for which you seek reimbursement. The Company will reimburse you for such expenses through your Separation Date pursuant to its regular business practice and policy.

8. General Release and Waiver.

a. In exchange for the Severance Benefits and other consideration under this Agreement, to which you agree you would not otherwise be entitled, and except as otherwise set forth in this Agreement, you, on behalf of yourself and, to the extent permitted by law, on behalf of your spouse, heirs, executors, administrators, assigns, insurers, attorneys and other persons or entities, acting or purporting to act on your behalf (collectively, the "Employee Parties"), hereby generally and completely release, acquit and forever discharge the Company, its parents and subsidiaries, and its and their officers, directors, managers, partners, agents, representatives, employees, attorneys, shareholders, predecessors, successors, assigns, insurers and affiliates (the "Company Parties") of and from any and all claims, liabilities, demands, contentions, actions, causes of action, suits, costs, expenses, attorneys' fees, damages, indemnities, debts, judgments, levies, executions and obligations of every kind and nature, in law, equity, or otherwise, both known and unknown, suspected and unsuspected, disclosed and undisclosed, arising out of or in any way related to agreements, events, acts or conduct at any time prior to and including the execution date of this Agreement, including but not limited to: all such claims and demands directly or indirectly arising out of or in any way connected with your employment with the Company or the termination of that employment; claims or demands related to salary, bonuses, commissions, stock, stock options, or any other ownership interests in the Company, vacation pay, fringe benefits, expense reimbursements, severance pay, or any other form of compensation; claims pursuant to any federal, state or local law, statute, or cause of action; tort law; or contract law (individually a "Claim" and collectively "Claims"). The Claims you are releasing and waiving in this Agreement include, but are not limited to:

i. all Claims for breach of contract, breach of quasi-contract, promissory estoppel, detrimental reliance, and breach of the implied covenant of good faith and fair dealing;

ii. all tort Claims, including Claims for fraud, defamation, slander, libel, negligent or intentional infliction of emotional distress, personal injury, negligence, compensatory or punitive damages, negligent or intentional misrepresentation, and discharge in violation of public policy;

iii. all federal, state, and local statutory Claims, including Claims for discrimination, harassment, retaliation, attorneys' fees, medical expenses, experts' fees, costs and disbursements; and

iv. any other Claims of any kind whatsoever, from the beginning of time until the date you sign this Agreement, in each case whether based on contract, tort, statute, local ordinance, regulation or any comparable law in any jurisdiction.

By way of example and not in limitation, Claims released include any Claims arising under Title VII of the Civil Rights Act of 1964, as amended; the Civil Rights Act of 1991; 42 U.S.C. § 1981, as amended; the Age Discrimination in Employment Act ("ADEA"); the Equal Pay Act; the Americans With Disabilities Act; the Genetic Information Nondiscrimination Act; the Family and Medical Leave Act; the Employee Retirement Income Security Act; the Employee Polygraph Protection Act; the Worker Adjustment and Retraining Notification Act; the anti-retaliation provisions of the Sarbanes-Oxley Act, or any other federal or state law regarding whistleblower retaliation; the Lilly Ledbetter Fair Pay Act; the Uniformed Services Employment and Reemployment Rights Act; the Fair Credit Reporting Act; the National Labor Relations Act; the New Jersey Law Against Discrimination; the New Jersey Conscientious Employee Protection Act; the New Jersey Family Leave Act; the New Jersey Wage Payment Law; the New Jersey Wage and Hour Law; the New Jersey Equal Pay Act; retaliation claims under the New Jersey Workers' Compensation Law; the California Fair Employment and Housing Act (FEHA), the California Labor Code; the California Constitution; the California Family Rights Act (CFRA); and/or any other federal, state, local or foreign law (statutory, regulatory, or otherwise) that may be legally waived and released. YOU UNDERSTAND AND AGREE THAT THIS AGREEMENT CONTAINS A GENERAL RELEASE OF ALL CLAIMS.

b. Specific Release of ADEA Claims. You further unconditionally release and forever discharge the Company Parties from any and all Claims that the Employee Parties may have as of the date you sign this Agreement arising under the ADEA. By signing this Agreement, you acknowledge and confirm that: (i) you have been advised by the Company to consult with an attorney of your choice before signing this Agreement and the Certificate of Reaffirmation; (ii) you were given no fewer than twenty-one (21) days to consider the terms of the Agreement and the Certificate of Reaffirmation, although you may sign them sooner if desired (provided that you cannot sign the Certificate of Reaffirmation before the Separation Date); (iii) you are signing this Agreement and the Certificate of Reaffirmation in exchange for good and valuable consideration which is in addition to anything of value to which you are already entitled; (iv) you have seven (7) days from the date of signing this Agreement to revoke this Agreement (and will have seven (7) days from the date of signing the Certificate of Reaffirmation to revoke the Certificate of Reaffirmation) by delivering to the Company a written notice of revocation that is received by the Company before the end of such seven-day period to Susan Quackenbush, Chief Human Resources Officer, [****], 23 Main Street, Holmdel, NJ 07733, but you understand that you will not be eligible for any Severance if you revoke this

Agreement or the Certificate of Reaffirmation because your eligibility for any such Severance is contingent upon you signing and not revoking the Agreement and Certificate of Reaffirmation; (v) the release contained in this Section does not apply to rights and claims that may arise after the date on which you sign this Agreement or the after the date you sign the Certificate of Reaffirmation, and (vi) you knowingly and voluntarily accept the terms of this Agreement. You further agree that any change to this Agreement, whether material or immaterial, will not restart the twenty-one (21) day period for you to consider the terms of this Agreement.

c. **Protected Rights.** Notwithstanding the foregoing, you do not waive or release rights or Claims (i) that may arise from events that occur after the date this waiver is execute, (ii) to enforce this Agreement, (iii)_to indemnification and advancement of attorneys' fees and costs for your acts or omissions during your employment to the maximum extent permitted by the Company's organizational documents and applicable law, which rights are incorporated herein by reference, (iv) to coverage under the Company's directors and officers liability insurance, or (v) rights to vested benefits under the Company's employee benefit and retirement plans.

d. Also excluded from this Agreement are any Claims which cannot be waived by law, including, without limitation, any rights you may have under applicable workers' compensation laws. Nothing in this Agreement shall prevent you from filing, cooperating with, or participating in any proceeding or investigation before the Equal Employment Opportunity Commission, the Securities and Exchange Commission, or any other federal government agency, or similar state or local agency ("Government Agencies"). You further understand this Agreement does not limit your ability to voluntarily communicate with any Government Agencies or otherwise participate in any investigation or proceeding that may be conducted by any Government Agency, including providing documents or other information, without notice to the Company. While this Agreement does not limit your right to receive an award for information provided to the Government Agencies, you understand and agree that, you are otherwise waiving, to the fullest extent permitted by law, any and all rights you may have to individual relief based on any Claims that you have released and any rights you have waived by signing this Agreement. If any Claim is not subject to release, to the extent permitted by law, you waive any right or ability to be a class or collective action representative or to otherwise participate in any putative or certified class, collective or multi-party action or proceeding based on such a Claim in which any of the Company Parties is a party. This Agreement does not abrogate your existing rights under any Company benefit plan, but it does waive, release and forever discharge Claims existing as of the date you execute this Agreement pursuant to any such plan or agreement.

e. **Waiver of Section 1542.** You also agree that because this release specifically covers known and unknown claims, you waive your rights under Section 1542 of the California Civil Code or any other comparable statute of any jurisdiction, which states as follows:

"A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS THAT THE CREDITOR OR RELEASING PARTY DOES

NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE AND THAT, IF KNOWN BY HIM OR HER, WOULD HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR OR RELEASED PARTY."

9. Your Acknowledgments and Affirmations. You acknowledge and agree that you have been paid for all time worked, have received all the leave, leaves of absence and leave benefits and protections for which you are eligible, and have not suffered any on-the-job injury for which you have not already filed a Claim. You affirm that all of the decisions of the Company Parties regarding your pay and benefits through the date of your execution of this Agreement were not discriminatory based on age, disability, race, color, sex, religion, national origin or any other classification protected by law. You affirm that you have not filed or caused to be filed, and are not presently a party to, a Claim against any of the Company Parties. You further affirm that you have no known workplace injuries or occupational diseases.

10. Return of Company Property. By the Separation Date, you agree to return to the Company all Company documents (and all copies thereof) and other Company property that you have had in your possession at any time, including, but not limited to, Company files, notes, drawings, records, business plans and forecasts, financial information, specifications, computer-recorded information, tangible property (including, but not limited to, computers), credit cards, entry cards, identification badges and keys; and, any materials of any kind that contain or embody any proprietary or confidential information of the Company (and all reproductions thereof). Please coordinate the return of Company property with Jason Battaglia at [****] and/or thesupport.squad@vonage.com. Receipt of the Severance Benefits described in Section 3 of this Agreement is expressly conditioned upon return of all Company Property.

11. Confidential Information and Post-Termination Obligations. You acknowledge that your rights and benefits under this Agreement, including continued payment of any of the Severance Benefits, are expressly conditioned upon your execution and return of, and continued compliance with, the Employment Covenants Agreement ("ECA") attached to this Agreement as Exhibit B. You acknowledge your continuing obligations under your ECA to not use or disclose any confidential or proprietary information of the Company and to refrain from certain competitive activities and solicitation of the Company's customers, employees, and consultants. In the event of any inconsistency between this Agreement and the ECA, the ECA shall govern, except that, notwithstanding anything to the contrary contained in the ECA, the noncompete in Section 5 thereof shall only restrict you from performing services for: [****], or any current or future parent, subsidiary, affiliate, partner, joint venturer, agent, consultant, independent contractor, successor, or acquirer thereof (the "Named Competitors"); except that (A) you shall not be restricted from working in or for (i) any department, division, section, or affiliate of Amazon, Google, Microsoft or Cisco that does not engage in the Business as defined in Appendix A to the ECA, or (ii) any affiliate other than a subsidiary of any other Named Competitor that does not engage in the Business as defined in Appendix A to the ECA and (B) with respect to any department, division, section, or affiliate of the Named Competitors listed in paragraph 11(A)(i) who may reasonably be deemed to engage in the Business as defined in

Appendix A to the ECA, but are customers of the Company, the Company, in its sole but reasonable discretion, may waive the terms of this section upon your written request. Notwithstanding the foregoing, to the extent that you are performing services for an entity and that entity is subsequently acquired by a Named Competitor, you shall not be required to cease performing such services. Receipt of the Severance Benefits described in Section 3 of this Agreement is expressly conditioned upon your continued compliance with the ECA.

12. **Confidentiality.** You agree that the provisions of this Agreement will be held in strictest confidence by you and that you will not publicize or disclose them in any manner whatsoever; *provided, however*, that: (a) you may disclose this Agreement to your immediate family; (b) you may disclose this Agreement in confidence to your attorney, accountant, auditor, tax preparer, and financial advisor; and (c) you may disclose this Agreement insofar as such disclosure may be required by law. Nothing in this Section or this Agreement restricts or impedes you from exercising protected rights, including rights under the National Labor Relations Act or the federal securities laws, to the extent that such rights cannot be waived by agreement or from complying with any applicable law or regulation or a valid order of a court of competent jurisdiction or an authorized government agency, provided that such compliance does not exceed that required by the law, regulation, or order.

13. **No Admission.** This Agreement does not constitute an admission by the Company or you of any wrongful action or violation of any federal, state, or local statute, or common law rights, including those relating to the provisions of any law or statute concerning employment actions, or of any other possible or claimed violation of law or rights.

14. **Breach.** You agree that upon any breach of this Agreement you will forfeit all amounts paid or owing to you under this Agreement. Further, you acknowledge that it may be impossible to assess the damages caused by your violation of the terms of Sections 10, 11 and 12 of this Agreement and further agree that any threatened or actual violation or breach of those Sections of this Agreement will constitute immediate and irreparable injury to the Company. You therefore agree that any such breach of this agreement is a material breach of this Agreement, and, in addition to any and all other damages and remedies available to the Company upon your breach of this Agreement, the Company shall be entitled to an injunction to prevent you from violating or breaching this Agreement. You agree that the prevailing party in any legal or equitable action under this Agreement (including the ECA) will be entitled to all reasonable costs and attorneys' fees.

15. **Miscellaneous.** This Agreement, including the ECA and Certificate of Reaffirmation, constitutes the complete, final and exclusive embodiment of the entire agreement between you and the Company with regard to this subject matter. It is entered into without reliance on any promise or representation, written or oral, other than those expressly contained herein, and it supersedes any other such promises, warranties or representations. This Agreement may not be modified or amended except in a writing signed by both you and a duly authorized officer of the Company. This Agreement will bind the heirs, personal representatives, successors and assigns of both you and the Company, and inure to the benefit of both you and the Company, their heirs, successors and assigns. If any provision of this Agreement is determined to be invalid or unenforceable, in whole or in part, this determination will not affect any other provision of this Agreement and the provision in question will be modified by the court so as to be rendered enforceable. This Agreement will be deemed to have been entered into and will be construed and enforced in accordance with the laws of the State of New Jersey. You agree that any and all disputes arising out of or relating to this agreement shall be governed by the Arbitration Agreement between you and the Company dated July 20, 2015 and that the arbitrator has the authority to award attorney's fees and costs to the prevailing party (the party receiving substantially the relief sought). You acknowledge and agree that (i) you were in fact individually represented by legal counsel in negotiating the terms of this Agreement; (ii) on the advice of counsel, pursuant to California Labor Code § 925(e), you expressly waive any rights under California Labor Code § 925(a)-(d); (iii) the laws of the State of New Jersey shall govern this Agreement without regard to New Jersey's conflict of law rules; and (iv) any claim arising out of or relating to this Agreement shall be governed by the Arbitration Agreement between you and the Company dated July 20, 2015.

16. Section 409A. All payments being made pursuant to this Agreement are intended to be exempt from the requirements of Internal Revenue Code Section 409A ("Section 409A"), and the Letter Agreement shall be interpreted and administered accordingly. The Separation Date is intended to be a "separation from service" for purposes of Section 409A. If an amount is to be paid in installments, then each installment shall be treated as a separate and distinct payment for purposes of Section 409A. The parties agree that this Agreement may be amended as may be necessary to fully comply with Section 409A and all related rules and regulations in order to preserve the payments and benefits provided hereunder.

[Signature Page Follows]

Vonage Holding Corporation:

By: __/s/ Susan Quackenbush____
Name: Susan Quackenbush
Title: Chief Human Resources Officer

March 25, 202 1________
Date

Omar Javaid:

/s/ Omar Javaid________
Signature

March 24, 2021________
Date

Approved as to Form By:

By: __/s/ Bonnie Klugman______
Name:
Counsel for Omar Javaid

March 25, 2021________
Date

EXHIBIT 31.1

CERTIFICATION

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Rory Read, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vonage Holdings Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Rory Read

Rory Read
Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen Lasher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vonage Holdings Corp.;

2. Based on my knowledge, this report does not contain any untrue statement of material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2021

/s/ Stephen Lasher

Stephen Lasher
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)

EXHIBIT 32.1

**CERTIFICATION OF 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**

I, Rory Read, certify to my knowledge pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Vonage Holdings Corp. on Form 10-Q for the quarterly period ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vonage Holdings Corp.

Date: May 6, 2021

/s/ Rory Read
Rory Read
Chief Executive Officer

I, Stephen Lasher, certify to my knowledge pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Vonage Holdings Corp. on Form 10-Q for the quarterly period ended March 31, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Vonage Holdings Corp.

Date: May 6, 2021

/s/ Stephen Lasher
Stephen Lasher
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)