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 September 30, 2020
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 October 31, 2020**
Common Stock, par value $0.001	248,332,776 shares

VONAGE HOLDINGS CORP.

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Financial Information Presentation

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

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)

Assets	September 30, 2020 (Unaudited)	December 31, 2019
Current assets:		
Cash and cash equivalents	$ 48,370	$ 23,620
Accounts receivable, net of allowance of $8,808 and $5,494, respectively	119,553	101,813
Inventory, net of allowance of $64 and $76, respectively	614	1,475
Deferred customer acquisition costs, current portion	16,884	13,834
Prepaid expenses	36,362	22,338
Other current assets	6,277	9,988
Total current assets	228,060	173,068
Property and equipment, net of accumulated depreciation of $120,127 and $109,646, respectively	37,449	48,371
Operating lease right-of-use assets	22,971	50,847
Goodwill	606,958	602,970
Software, net of accumulated amortization of $106,857 and $102,133, respectively	69,389	40,300
Deferred customer acquisition costs	62,760	55,148
Restricted cash	1,999	2,015
Intangible assets, net of accumulated amortization of $264,820 and $221,182, respectively	208,507	249,905
Deferred tax assets	115,178	108,347
Other assets	34,643	33,729
Total assets	$ 1,387,914	$ 1,364,700
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 34,442	$ 42,366
Accrued expenses	149,476	137,589
Deferred revenue, current portion	62,813	59,464
Operating lease liabilities, current portion	11,481	12,477
Total current liabilities	258,212	251,896
Indebtedness under revolving credit facility	240,500	220,500
Convertible senior notes, net	287,176	276,658
Operating lease liabilities	21,747	45,722
Other liabilities	3,048	2,862
Total liabilities	810,683	797,638
Commitments and Contingencies (Note 9)		
Stockholders' Equity:		
Common stock, par value 0.001 per share; 596,950 shares authorized at September 30, 2020, and December 31, 2019	323	316
Additional paid-in capital	1,539,527	1,494,469
Accumulated deficit	(653,256)	(631,009)
Treasury stock, at cost	(319,911)	(306,043)
Accumulated other comprehensive income	10,548	9,329
Total stockholders' equity	577,231	567,062
Total liabilities and stockholders' equity	$ 1,387,914	$ 1,364,700

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 September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenues:				
Service, access and product revenues	$ 298,991	$ 279,871	$ 878,584	$ 819,006
USF revenues	17,658	22,663	46,055	60,653
Total revenues	316,649	302,534	924,639	879,659
Operating Expenses:				
Service, access and product cost of revenues (excluding depreciation and amortization)	124,243	111,170	357,252	314,812
USF cost of revenues	17,658	22,663	46,055	60,653
Sales and marketing	85,505	83,628	261,953	274,513
Engineering and development	20,110	16,901	59,097	50,318
General and administrative	56,835	41,306	140,537	113,380
Depreciation and amortization	22,887	21,319	64,064	63,195
Total operating expenses	327,238	296,987	928,958	876,871
(Loss) Income from operations	(10,589)	5,547	(4,319)	2,788
Other Income (Expense):				
Interest expense	(7,373)	(8,454)	(24,776)	(24,517)
Other income (expense), net	(37)	58	154	(505)
Total other expense, net	(7,410)	(8,396)	(24,622)	(25,022)
Loss before income tax benefit	(17,999)	(2,849)	(28,941)	(22,234)
Income tax benefit (expense)	7,937	(18,248)	6,694	5,127
Net loss	$ (10,062)	$ (21,097)	$ (22,247)	$ (17,107)
Loss per common share:				
Basic and diluted	$ (0.04)	$ (0.09)	$ (0.09)	$ (0.07)
Weighted-average common shares outstanding:				
Basic and diluted	246,697	242,336	245,242	241,786

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Net loss	$ (10,062)	$ (21,097)	$ (22,247)	$ (17,107)
Other comprehensive income (loss):				
Foreign currency translation adjustment, net of tax expense (benefit) of $(1,086), $847, $(1,275), and $938, respectively	19,776	(16,459)	218	(17,594)
Unrealized gain (loss) on derivatives, net of tax expense (benefit) of $—, $71, $(4) and $364, respectively	—	(307)	1,001	(1,788)
Total other comprehensive income (loss)	19,776	(16,766)	1,219	(19,382)
Comprehensive income (loss)	$ 9,714	$ (37,863)	$ (21,028)	$ (36,489)

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	$ (22,247)	$ (17,107)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	22,531	20,098
Amortization of intangibles	41,533	43,097
Deferred income taxes	(8,130)	(7,630)
Amortization of deferred customer acquisition costs	11,653	7,981
Allowances for doubtful accounts and obsolete inventory	4,778	1,384
Amortization of financing costs and debt discount	11,127	5,311
Loss on disposal of property and equipment	743	745
Share-based expense	33,972	32,152
Changes in derivatives	1,055	(398)
Changes in operating assets and liabilities:		
Accounts receivable	(19,825)	(23,211)
Inventory	869	552
Prepaid expenses and other current assets	(10,453)	(2,238)
Deferred customer acquisition costs	(22,342)	(21,708)
Accounts payable and accrued expenses	1,612	24,043
Deferred revenue	2,997	6,867
Other assets - deferred cloud computing implementation costs	(5,394)	(11,929)
Other assets and liabilities	6,952	1,841
Net cash provided by operating activities	51,431	59,850
Cash flows used in investing activities:		
Capital expenditures	(7,718)	(15,426)
Purchase of intangible assets	(260)	—
Acquisition and development of software assets	(30,256)	(20,836)
Acquisitions, net of cash acquired	—	(3,000)
Net cash used in investing activities	(38,234)	(39,262)
Cash flows provided by/(used in) financing activities:		
Payments for short and long-term debt	(55,000)	(418,500)
Proceeds from issuance of long-term debt	75,000	479,000
Payments of debt issuance costs	—	(9,715)
Payments for capped call transactions and costs	—	(28,325)
Common stock repurchases	—	(10,000)
Employee taxes paid on withholding shares	(15,180)	(20,372)
Proceeds from exercise of stock options	8,051	1,678
Net cash provided by/(used in) financing activities	12,871	(6,234)
Effect of exchange rate changes on cash	(1,334)	(663)
Net increase in cash, cash equivalents, and restricted cash	24,734	13,691
Cash, cash equivalents, and restricted cash, beginning of period	25,635	7,104
Cash, cash equivalents, and restricted cash, end of period	$ 50,369	$ 20,795

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 June 30, 2019	$ 314	$ 1,464,742	$ (607,537)	$ (304,031)	$ 4,154	$ 557,642
Stock option exercises	1	414				415
Share-based expense		12,921				12,921
Employee taxes paid on withholding shares				(1,350)		(1,350)
Common stock issued for acquisition of assets		3,000				3,000
Foreign currency translation adjustment					(16,459)	(16,459)
Unrealized gain on derivatives					(307)	(307)
Net loss			(21,097)			(21,097)
Balance at September 30, 2019	$ 315	$ 1,481,077	$ (628,634)	$ (305,381)	$ (12,612)	$ 534,765

	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Accumulated Other Comprehensive Income	Total
Balance at June 30, 2020	$ 320	$ 1,519,055	$ (643,194)	$ (319,314)	$ (9,228)	$ 547,639
Stock option exercises	3	7,805				7,808
Share-based expense		12,667				12,667
Employee taxes paid on withholding shares				(597)		(597)
Foreign currency translation adjustment					19,776	19,776
Net loss			(10,062)			(10,062)
Balance at September 30, 2020	$ 323	$ 1,539,527	$ (653,256)	$ (319,911)	$ 10,548	$ 577,231

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, 2018	$ 310	$ 1,415,682	$ (611,985)	$ (275,009)	$ 6,770	$ 535,768
Cumulative effect adjustment upon the adoption of Topic 842			458			458
Stock option exercises	5	1,673				1,678
Share-based expense		32,152				32,152
Employee taxes paid on withholding shares				(20,372)		(20,372)
Common stock repurchases				(10,000)		(10,000)
Equity component of convertible notes, net of issuance costs and tax		50,123				50,123
Purchase of capped calls, net of tax		(21,553)				(21,553)
Common stock issued for acquisition of assets		3,000				3,000
Foreign currency translation adjustment					(17,594)	(17,594)
Unrealized gain on derivatives					(1,788)	(1,788)
Net loss			(17,107)			(17,107)
Balance at September 30, 2019	$ 315	$ 1,481,077	$ (628,634)	$ (305,381)	$ (12,612)	$ 534,765

	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	7	8,044				8,051
Share-based expense		37,014				37,014
Employee taxes paid on withholding shares				(13,868)		(13,868)
Foreign currency translation adjustment					218	218
Unrealized loss on derivatives					1,001	1,001
Net loss			(22,247)			(22,247)
Balance at September 30, 2020	$ 323	$ 1,539,527	$ (653,256)	$ (319,911)	$ 10,548	$ 577,231

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, we are observing a secular shift in the way businesses need to operate. We believe that this shift is driving a growing communications revolution across all industries and modes of communications. We believe that Vonage's Communications APIs, Unified Communications and Contact Center products and services are well positioned to take advantage of this emerging trend 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 formerly referred to as "Business," which 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.

We also provide a robust suite of feature-rich residential communication solutions that allow consumers to connect their home phones and mobile phones on one number, and we offer attractive international long distance rates that help create a loyal base of satisfied customers.

Customers in the United States represented 68% and 72% of our consolidated revenues for the three months ended September 30, 2020 and 2019 and 69% and 72% for the nine months ended September 30, 2020 and 2019, 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 nine months ended September 30, 2020 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, 2019 filed with the Securities and Exchange Commission on February 21, 2020.

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 current economic environment due to the recent 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, convertible notes, 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, 2019.

Service, Access, and Product Cost of Revenues

Service, access, and product cost of revenues excludes depreciation and amortization expense of $13,649 and $9,658 for the three months ended September 30, 2020 and 2019 and $35,953 and $28,220 for the nine months ended September 30, 2020 and 2019, respectively. In addition, costs of goods sold included in service, access, and product cost of revenues during the three months ended September 30, 2020 and 2019 were $2,707 and $5,921 and during the nine months ended September 30, 2020 and 2019 were $8,802 and $17,112, respectively.

Sales and Marketing Expenses

We incurred advertising costs, which are included in sales and marketing of $10,785 and $11,437 for the three months ended September 30, 2020 and 2019 and $34,535 and $45,773 for the nine months ended September 30, 2020 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 September 30, 2020 and December 31, 2019 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.

(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.

As of September 30, 2020 and December 31, 2019, the fair value of the 1.75% convertible senior notes due 2024 (the "Convertible Senior Notes") was approximately $333,953 and $309,641, 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.

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 September 30,		As of December 31,	
	2020	2019	2019	2018
Cash and cash equivalents	$ 48,370	$ 18,741	$ 23,620	$ 5,057
Restricted cash	1,999	2,054	2,015	2,047
Total cash, cash equivalents and restricted cash	$ 50,369	$ 20,795	$ 25,635	$ 7,104

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

Intangible assets, net

	September 30, 2020			December 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer relationships	$ 275,205	$ (139,232)	$ 135,973	$ 272,767	$ (115,583)	$ 157,184
Developed technology	169,175	(97,151)	72,024	169,722	(80,523)	89,199
Patents and patent licenses	20,905	(20,395)	510	20,554	(19,228)	1,326
Trade names	7,025	(7,025)	—	7,074	(4,878)	2,196
Non-compete agreements	1,017	(1,017)	—	970	(970)	—
Total intangible assets	$ 473,327	$ (264,820)	$ 208,507	$ 471,087	$ (221,182)	$ 249,905

(In thousands, except per share amounts)

Accrued expenses

	September 30, 2020		December 31, 2019	
Compensation and related taxes and temporary labor	$	35,154	$	40,101
Marketing		18,987		15,294
Taxes and fees		25,736		22,922
Telecommunications		42,511		40,498
Severance		9,121		—
Interest		2,378		873
Customer credits		3,867		2,772
Professional fees		2,770		4,482
Inventory		910		871
Other accruals		8,042		9,776
Accrued expenses	$	149,476	$	137,589

During the third quarter of September 30, 2020, the Company initiated a business-wide optimization and alignment project to focus the Company's resources and drive stronger operational execution, which includes the previously announced Consumer evaluation. In connection with this project, the Company initiated a reduction in workforce incurring accrued severance costs of $9,121 related to employee exits as well as abandoning a portion of its office leases as further described in Note 7, *Leases* which together resulted in total restructuring expense included in general and administrative expense during the three months ended September 30, 2020 of $15,182.

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, 2019	$	602,970
Foreign currency translation adjustment		3,988
Balance at September 30, 2020	$	606,958

Recent Accounting Pronouncements

The following standards were adopted by the Company during the current year:

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-captial. 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 condensed consolidated financial statements.

In March 2020, the FASB issued ASU 2020-04, "*Reference Rate Reform (Topic 848)*". This ASU provides an easier and more cost efficient way for companies to modify contracts that reference the London Interbank Offered Rate ("LIBOR") and other rates that are being phased out. The ASU (1) allows eligible contracts that are modified to be accounted for as a continuation of those contracts - a simplification that eliminates the need for companies to reassess or remeasure the contracts for accounting purposes; (2) permits companies to preserve their hedge accounting during the transition period; and (3) enables companies to make a one-time election to transfer or sell held-to-maturity debt securities that are affected by rate reform. It is effective as of March 12, 2020 through December 31, 2022. The Company adopted the ASU when effective. The adoption of this ASU did not have a material impact on our condensed consolidated financial statements and related disclosures.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes* (Topic 740): Simplifying the Accounting for Income Taxes by removing certain exceptions currently permissible under ASC Topic 740. This ASU also requires entities to: (1) recognize a franchise tax that is partially based on income as an income-based tax and account for any incremental amounts incurred as non-income based tax; (2) evaluate when a step-up in the tax basis of goodwill should be considered as part of the business combination and when it should be considered a separate transaction;(3) specifying that an entity is not required to allocate the consolidated amount of current and deferred tax expense to a legal entity that is not subject to tax in its separate financial statements; and (4) reflect the effect of an enacted change in tax laws or rates in the annual effective tax rate computation and other minor improvements. This ASU is effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption of the amendments is permitted, including adoption in any interim period for public business entities for periods for which financial statements have not yet been issued. The Company adopted the new standard on January 1, 2020. The adoption of the ASU did not have a material impact on our condensed consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments - Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments which requires the use of a new current expected credit loss ("CECL") model in estimating allowances for doubtful accounts with respect to accounts receivable. Receivables from revenue transactions, or trade receivables, are recognized when the corresponding revenue is recognized under ASC Topic 606, *Revenue from Contracts with Customers*. The CECL model requires that the Company estimate its lifetime expected credit loss with respect to these receivables and record allowances that when deducted from the balance of the receivables, represent the estimated net amounts expected to be collected. Given the generally short term nature of trade receivables, we do not apply a discounted cash flow methodology. However, the Company considers whether historical loss rates are consistent with expectations of forward-looking estimates for our trade receivables. This ASU is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company adopted the new standard on January 1, 2020. The adoption of this ASU did not have a material impact on our condensed consolidated financial statements and related disclosures. Due to the COVID-19 pandemic and impact on economic conditions, the Company included in its estimate of expected credit losses additional reserves related to trade receivables for those customers in industries most significantly impacted by these events. The Company will continue to actively monitor the impact of the COVID-19 pandemic on its estimate of expected credit losses.

(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, 2019.

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 September 30, 2020			Three Months Ended September 30, 2019		
	VCP	Consumer	Total	VCP	Consumer	Total
Primary geographical markets						
United States	$ 140,376	$ 76,282	$ 216,658	$ 127,976	$ 88,567	$ 216,543
Canada	2,261	4,014	6,275	2,138	4,817	6,955
United Kingdom	17,592	2,527	20,119	13,910	2,620	16,530
Other Countries	73,597	—	73,597	62,506	—	62,506
	$ 233,826	$ 82,823	$ 316,649	$ 206,530	$ 96,004	$ 302,534
Major Sources of Revenue						
Service revenues	$ 218,456	$ 71,693	$ 290,149	$ 183,701	$ 83,981	$ 267,682
Access and product revenues	8,757	85	8,842	12,120	69	12,189
USF revenues	6,613	11,045	17,658	10,709	11,954	22,663
	$ 233,826	$ 82,823	$ 316,649	$ 206,530	$ 96,004	$ 302,534

	Nine Months Ended September 30, 2020			Nine Months Ended September 30, 2019		
	VCP	Consumer	Total	VCP	Consumer	Total
Primary geographical markets						
United States	$ 399,743	$ 234,051	$ 633,794	$ 363,312	$ 270,270	$ 633,582
Canada	6,206	12,677	18,883	5,496	14,927	$ 20,423
United Kingdom	50,597	7,583	58,180	53,416	8,315	$ 61,731
Other Countries	213,782	—	213,782	163,923	—	$ 163,923
	$ 670,328	$ 254,311	$ 924,639	$ 586,147	$ 293,512	$ 879,659
Major Sources of Revenue						
Service revenues	$ 626,416	$ 223,981	$ 850,397	$ 523,060	$ 260,225	$ 783,285
Access and product revenues	27,987	200	28,187	35,524	197	35,721
USF revenues	15,925	30,130	46,055	27,563	33,090	60,653
	$ 670,328	$ 254,311	$ 924,639	$ 586,147	$ 293,512	$ 879,659

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 and nine months ended September 30, 2020, the Company recognized $152,636 and $463,218 related to subscription services, $116,557 and $320,983 related to usage, and $47,456 and $140,438 related to other revenues such as USF, other regulatory fees, and credits. During the three and nine months ended September 30, 2019, the Company recognized $146,127 and $467,893 related to subscription services, $87,677 and $242,192 related to usage, and $68,730 and $169,574 related to other revenues such as USF, other regulatory fees, and credits.

(In thousands, except per share amounts)

Contract Assets and Liabilities

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

	September 30, 2020	December 31, 2019
Receivables [1]	$ 119,553	$ 101,813
Contract liabilities [2]	62,813	59,464

(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 as transfer of control occurs. During the three and nine months ended September 30, 2020, the Company recognized revenue of $106,866 and $325,252, respectively, related to its contract liabilities. During the three and nine months ended September 30, 2019, the Company recognized revenue of $111,739 and $344,935, respectively, related to its contract liabilities. We expect to recognize $62,813 into revenue over the next twelve months related to our deferred revenue as of September 30, 2020.

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 September 30, 2020 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 $79,644 and $68,982 as contract costs, net of accumulated amortization, as of September 30, 2020 and December 31, 2019, respectively, included within deferred customer acquisitions costs, current portion and deferred customer acquisition costs on our condensed consolidated balance sheet. 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 $4,086 and $11,653 for the three and nine months ended September 30, 2020, and $3,060 and $7,981 for the three and nine months ended September 30, 2019, respectively. There were no impairment losses recognized in relation to the costs capitalized during the nine months ended September 30, 2020 and 2019. 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 and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Numerator				
Net loss	$ (10,062)	$ (21,097)	$ (22,247)	$ (17,107)
Denominator				
Weighted average common shares outstanding for basic and diluted net loss per share	246,697	242,336	245,242	241,786
Basic and diluted loss per share				
Basic and diluted loss per share	$ (0.04)	$ (0.09)	$ (0.09)	$ (0.07)

For the three and nine months ended September 30, 2020 and 2019, the following were excluded from the calculation of diluted loss per common share because of their anti-dilutive effects:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Restricted stock units	14,165	10,616	14,165	10,616
Stock options	2,129	5,087	2,129	5,087
	16,294	15,703	16,294	15,703

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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Loss before income taxes	$ (17,999)	$ (2,849)	$ (28,941)	$ (22,234)
Income tax benefit (expense)	7,937	(18,248)	6,694	5,127
Effective tax rate	44.1 %	(640.5)%	23.1 %	23.1 %

The Company calculates its provision for income taxes during its interim reporting periods by applying an estimate of the annual effective tax rate for the full year "ordinary" income or loss for the respective reporting period. In addition, adjustments are recorded for discrete period items and changes to our state effective tax rate which can cause the rate to fluctuate from quarter to quarter.

For the three and nine months ended September 30, 2020, our effective tax rate was different than the statutory rate primarily due to a discrete tax benefit recognized during the nine months related to excess tax benefits on equity compensation. In addition, the Company’s annual effective tax rate for the current year has been impacted 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 compared to the overall pretax loss for the quarter.

For the three and nine months ended September 30, 2019, our effective tax rate was different than the statutory rate primarily due to the recognition of discrete period tax benefits related to excess tax benefits on equity compensation. In addition, the Company’s actual effective tax rate for the previous year had 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.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act, which is commonly known as the CARES Act, was enacted into law. As permitted by the CARES Act, the Company has accelerated the refund request for previously paid Alternative Minimum Taxes, of which $4,207 has been received, and has deferred $4,441 associated with the employer portion of the social security payroll tax. We continue to assess the Company's potential benefits of the CARES Act and ongoing government guidance related to COVID-19.

Uncertain Tax Positions

The Company had uncertain tax benefits of $841 and $914 as of September 30, 2020 and December 31, 2019, respectively. The Company recognizes interest and penalties related to uncertain tax benefits in income tax expense. The Company recognized a benefit of $29 and $40 of interest and penalties, respectively, during the three and nine months ended September 30, 2020 and incurred $149 interest and penalties for the nine months ended September 30, 2019. The following table reconciles the total amounts of uncertain tax benefits:

	September 30, 2020	December 31, 2019
Balance as of January 1	$ 914	$ 1,107
Increase due to current year positions	111	155
Decrease due to prior year positions	—	(243)
Decrease due to settlements and payments	(173)	(86)
Decrease due to lapse of applicable statute of limitations	(5)	(71)
(Decrease) increase due to foreign currency fluctuation	(6)	52
Uncertain tax benefits as of the end of the period	$ 841	$ 914

(In thousands, except per share amounts)

Net Operating Loss Carry Forwards

As of September 30, 2020, the Company has U.S. Federal and state NOL carryforwards of $454,506 and $237,667, respectively, which expire at various times through 2037. In addition, we have NOLs for United Kingdom tax purposes of $165,104 with no expiration date.

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, 2019.

The following table summarizes the Company's long-term debt as of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Revolving credit facility - due 2023	240,500	220,500
Convertible senior notes - due 2024	345,000	345,000
Long-term debt including current maturities	585,500	565,500
Less unamortized discount	51,912	61,234
Less debt issuance costs	5,912	7,108
Total long-term debt	$ 527,676	$ 497,158

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. The total net proceeds from the offering, after deducting initial purchase discounts and expenses payable by the Company, were $334.8 million.

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 nine months ended September 30, 2020, 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:

	September 30, 2020
Principal	$ 345,000
Unamortized discount	(51,912)
Unamortized issuance cost	(5,912)
Net carrying amount	$ 287,176

(In thousands, except per share amounts)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Contractual interest expense	$ 1,510	$ 1,543	$ 4,528	$ 1,819
Amortization of debt discount	3,159	2,948	9,322	3,435
Amortization of debt issuance costs	398	391	1,196	465
Total interest expense related to the Convertible Senior Notes	$ 5,067	$ 4,882	$ 15,046	$ 5,719

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. The net cost of $28,325 incurred to purchase the Capped Calls and related income tax benefit of $6,772 was recorded as a reduction to additional paid-in capital on the Company's consolidated balance sheet during the quarter ended June 30, 2019 and are not accounted for as derivatives.

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 nine months ended September 30, 2020, we borrowed $75 million under the revolving credit facility and repaid $55 million under the revolving facility. In addition, the effective interest rate was 2.94% as of September 30, 2020. During the nine months ended September 30, 2019, we repaid $323.5 million under the revolving credit facility, $95 million under the 2018 term note, and borrowed $134 million under the revolving credit facility. As of September 30, 2020, we were in compliance with all covenants, including financial covenants, for the 2018 Credit Facility.

Interest Rate Swaps

On July 14, 2017, we executed on three interest rate swap agreements to hedge the variability of expected future cash interest payments. The swaps had an aggregate notional amount of $150 million and were effective on July 31, 2017. Under the swaps our interest rate was fixed at 4.7%. The swaps expired on June 3, 2020 at which time the Company recognized previously deferred amounts within interest expense. The interest rate swaps were accounted for as cash flow hedges in accordance with ASC 815, *Derivatives and Hedging*.

(In thousands, except per share amounts)

As of December 31, 2019, the fair market value of the swaps was $18, which was included in other assets on our condensed consolidated balance sheet. The following table summarizes the effects of ASC 815 on the Company's accumulated OCI balance attributable to cash flow derivatives:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Accumulated OCI beginning balance	$ —	$ (506)	$ (1,001)	$ 975
Reclassified from accumulated OCI to income:				
Due to reclassification of previously deferred amounts	—	(133)	1,051	(398)
Change in fair value of cash flow hedge accounting contracts, net of tax	—	(174)	(50)	(1,390)
Accumulated OCI ending balance, net of tax benefit of $— and $29, respectively	$ —	$ (813)	$ —	$ (813)
Gains expected to be reclassified from accumulated OCI during the next 12 months	$ —	$ 531	$ —	$ 531

Note 7. Leases

The Company entered into various non-cancelable operating lease agreements 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 2026. 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 September 30, 2020 and December 31, 2019.

The Company incurred operating lease expense, excluding lease abandonment, of $2,919 and $8,784, respectively, during the three and nine months ended September 30, 2020 and $3,529 and $11,196, respectively, during the three and nine months ended September 30, 2019, related to its operating leases. In addition, the Company received sub-lease income of $293 and $904, respectively, during the three and nine months ended September 30, 2020 and $330 and $966, respectively, during the three and nine months ended September 30, 2019. Additionally, the remaining weighted average lease term for our operating leases was 3.90 years and the weighted average discount rate utilized to measure the Company's operating leases was 5.04% as of September 30, 2020.

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

	Nine Months Ended	
	September 30, 2020	September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	$ 12,090	$ 12,753
Right-of-use assets obtained in exchange for lease obligations	$ 1,261	$ 7,718

(In thousands, except per share amounts)

Maturities of operating lease liabilities as of September 30, 2020 and December 31, 2019 are as follows:

	September 30, 2020	December 31, 2019
For the year ended December 31, 2020 (excluding the nine months ended September 30, 2020 for the period ended September 30, 2020)	$ 3,047	15,017
2021	12,019	11,663
2022	8,199	7,599
2023	6,554	7,197
2024	2,252	6,592
Thereafter	4,541	21,178
Total lease payments	36,612	69,246
Less imputed interest	(3,384)	(11,047)
Total	$ 33,228	$ 58,199

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 quarter of 2020, the Company abandoned a portion of one of its office leases and as such, the Company reduced its operating lease right-of-use asset by $6,061 as of September 30, 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 September 30, 2020 and December 31, 2019, the Company had 596,950 shares of common stock authorized and had 15,009 shares available for grants under our share-based compensation programs as of September 30, 2020. For a detailed description of our share-based compensation programs refer to Note 10, *Employee Stock Benefit Plans* in the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2019. 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 June 30, 2019	314,725	(72,757)	241,968
Shares issued under the 2015 Equity Incentive Plan	465	—	465
Employee taxes paid on withholding shares	—	(113)	(113)
Assets acquisition	240	—	240
Common stock repurchase	—	—	—
Balance at September 30, 2019	315,430	(72,870)	242,560
Balance at June 30, 2020	320,155	(74,700)	245,455
Shares issued under the 2015 Equity Incentive Plan	2,784	—	2,784
Employee taxes paid on withholding shares	—	(61)	(61)
Balance at September 30, 2020	322,939	(74,761)	248,178

For the Nine Months Ended *(in thousands)*	**Issued**	**Treasury**	**Outstanding**
Balance at December 31, 2018	309,736	(69,993)	239,743
Shares issued under the 2015 Equity Incentive Plan	5,454	—	5,454
Employee taxes paid on withholding shares	—	(2,024)	(2,024)
Assets acquisition	240	—	240
Common stock repurchase	—	(853)	(853)
Balance at September 30, 2019	315,430	(72,870)	242,560
Balance at December 31, 2019	315,808	(72,959)	242,849
Shares issued under the 2015 Equity Incentive Plan	7,131	—	7,131
Employee taxes paid on withholding shares	—	(1,802)	(1,802)
Balance at September 30, 2020	322,939	(74,761)	248,178

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 $7,923 and $3,175 as of September 30, 2020 and December 31, 2019, respectively, as our best estimate of the potential tax exposure for any retroactive assessment.

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 operating segments within the Company for making operating decisions and assessing financial performance. Our chief operating decision-maker reviews revenue and gross margin information for each of our reportable segments, but does not review operating expenses on a segment by segment basis. In addition, with the exception of goodwill and intangible assets, we do not identify or allocate our assets by the reportable segments. Beginning the three months ended September 30, 2020, the Company began to referring to the Vonage Communications Platform segment which had previously been referred to as the Business segment.

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.

For our segments we categorize revenues as follows:

Services revenues. Services revenues consists primarily of revenue attributable to our communication services for Consumer and Communications APIs, Unified Communications and Contact Center Solutions for VCP.

Access and product revenues. Product revenues include equipment sold to customers, shipping and handling, professional services, and broadband access, as well as revenues associated with providing access services to VCP customers.

USF revenues. USF revenues represent fees passed on to customers to offset required contributions to the USF.

For our segments we categorize cost of revenues as follows:

Services cost of revenues. Services cost of revenues consists of costs associated with network operations and technical support personnel, communication origination, and termination services provided by third party carriers and excludes depreciation and amortization.

Access and product cost of revenues. Product cost of revenues includes equipment sold to customers, shipping and handling, professional services, cost of certain products including equipment or services that we give customers as promotions, and broadband access, as well as costs associated with providing access services to VCP customers.

USF cost of revenues. USF cost of revenues represents contributions to the Federal USF and related fees.

(In thousands, except per share amounts)

Information about our segment results for the three and nine months ended September 30, 2020 were as follows:

	Three Months Ended September 30, 2020			Nine Months Ended September 30, 2020		
	VCP	Consumer	Total	VCP	Consumer	Total
Revenues						
Service revenues	$ 218,456	$ 71,693	$ 290,149	$ 626,416	$ 223,981	$ 850,397
Access and product revenues [1]	8,757	85	8,842	27,987	200	28,187
Service, access and product revenues excluding USF	227,213	71,778	298,991	654,403	224,181	878,584
USF revenues	6,613	11,045	17,658	15,925	30,130	46,055
Total revenues	233,826	82,823	316,649	670,328	254,311	924,639
Cost of revenues						
Service cost of revenues [2]	105,593	8,287	113,880	298,588	25,470	324,058
Access and product cost of revenues [1]	9,894	469	10,363	31,756	1,438	33,194
Service, access and product cost of revenues excluding USF	115,487	8,756	124,243	330,344	26,908	357,252
USF cost of revenues	6,613	11,045	17,658	15,925	30,130	46,055
Total cost of revenues	122,100	19,801	141,901	346,269	57,038	403,307
Segment gross margin						
Service margin	112,863	63,406	176,269	327,828	198,511	526,339
Access and product margin	(1,137)	(384)	(1,521)	(3,769)	(1,238)	(5,007)
Gross margin excluding USF (Service, access and product margin)	111,726	63,022	174,748	324,059	197,273	521,332
Segment gross margin	$ 111,726	$ 63,022	$ 174,748	$ 324,059	$ 197,273	$ 521,332
Segment gross margin %						
Service margin %	51.7 %	88.4 %	60.8 %	52.3 %	88.6 %	61.9 %
Gross margin excluding USF (Service, access and product margin %)	49.2 %	87.8 %	58.4 %	49.5 %	88.0 %	59.3 %
Segment gross margin %	47.8 %	76.1 %	55.2 %	48.3 %	77.6 %	56.4 %

(1) Includes customer premise equipment, access, and shipping and handling.

(2) Excludes depreciation and amortization of $12,691 and $958 for the three months ended September 30, 2020 and $32,370 and $3,583 for the nine months ended September 30, 2020, respectively.

(In thousands, except per share amounts)

Information about our segment results for the three and nine months ended September 30, 2019 were as follows:

	Three Months Ended September 30, 2019			Nine Months Ended September 30, 2019		
	VCP	**Consumer**	**Total**	**VCP**	**Consumer**	**Total**
Revenues						
Service revenues	$ 183,701	$ 83,981	$ 267,682	$ 523,060	$ 260,225	$ 783,285
Access and product revenues [(1)]	12,120	69	12,189	35,524	197	35,721
Service, access and product revenues excluding USF	195,821	84,050	279,871	558,584	260,422	819,006
USF revenues	10,709	11,954	22,663	27,563	33,090	60,653
Total revenues	206,530	96,004	302,534	586,147	293,512	879,659
Cost of revenues						
Service cost of revenues [(2)]	87,352	8,587	95,939	243,496	26,706	270,202
Access and product cost of revenues [(1)]	13,858	1,373	15,231	41,323	3,287	44,610
Service, access and product cost of revenues excluding USF	101,210	9,960	111,170	284,819	29,993	314,812
USF cost of revenues	10,709	11,954	22,663	27,563	33,090	60,653
Total cost of revenues	111,919	21,914	133,833	312,382	63,083	375,465
Segment gross margin						
Service margin	96,349	75,394	171,743	279,564	233,519	513,083
Access and product margin	(1,738)	(1,304)	(3,042)	(5,799)	(3,090)	(8,889)
Gross margin excluding USF (Service, access and product margin)	94,611	74,090	168,701	273,765	230,429	504,194
Segment gross margin	$ 94,611	$ 74,090	$ 168,701	$ 273,765	$ 230,429	$ 504,194
Segment gross margin %						
Service margin %	52.4 %	89.8 %	64.2 %	53.4 %	89.7 %	65.5 %
Gross margin excluding USF (Service, access and product margin %)	48.3 %	88.1 %	60.3 %	49.0 %	88.5 %	61.6 %
Segment gross margin %	45.8 %	77.2 %	55.8 %	46.7 %	78.5 %	57.3 %

(1) Includes customer premise equipment, access, and shipping and handling.

(2) Excludes depreciation and amortization of $8,492 and $1,166 for the three months ended September 30, 2019 and $24,684 and $3,536 for the nine months ended September 30, 2019, respectively.

(In thousands, except per share amounts)

A reconciliation of the total of the reportable segments' gross margin to consolidated income before income taxes is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total reportable gross margin	$ 174,748	$ 168,701	$ 521,332	$ 504,194
Sales and marketing	85,505	83,628	261,953	274,513
Engineering and development	20,110	16,901	59,097	50,318
General and administrative	56,835	41,306	140,537	113,380
Depreciation and amortization	22,887	21,319	64,064	63,195
(Loss) Income income from operations	(10,589)	5,547	(4,319)	2,788
Interest expense	(7,373)	(8,454)	(24,776)	(24,517)
Other income (expense), net	(37)	58	154	(505)
Loss before income tax benefit	$ (17,999)	$ (2,849)	$ (28,941)	$ (22,234)

Information about our operations by geographic location is as follows:

	September 30, 2020	December 31, 2019
Long-lived assets:		
United States	$ 640,472	$ 640,277
United Kingdom	280,450	299,660
Israel	1,381	1,609
	$ 922,303	$ 941,546

(In thousands, except per share amounts)

Note 11. Cash Flow Information

Detail of supplemental disclosures for cash flow and non-cash investing and financing information was as follows:

	Nine Months Ended September 30,	
	2020	2019
Cash paid (received) during the periods for:		
Interest	$ 10,887	$ 17,108
Income taxes	(4)	$ 3,435
Non-cash investing activities:		
Acquisition of long-term assets included in accounts payable and accrued expenses	$ 2,791	$ 657
Stock-based compensation expense capitalized in internally developed software costs	3,042	—
Debt issuance costs included in accounts payable and accrued liabilities	—	328
Issuance of shares for asset acquisition	—	3,000

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, 2019. 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

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, we are observing a secular shift in the way businesses need to operate. We believe that this shift is driving a growing communications revolution across all industries and modes of communications. We believe that Vonage's Communications APIs, Unified Communications, and Contact Center products and services are well positioned to take advantage of this emerging trend with sizable, growing total addressable markets as companies look to cloud-based communications solutions and API programming architectures as part of their digital transformation. We also provide a robust suite of feature-rich residential communication solutions through our legacy Consumer business.

Vonage Communications Platform

Our strategic business is the Vonage Communications Platform, which is our single, enterprise cloud communications platform, offering our wide range of enterprise communications services and solutions including APIs, Unified Communications, and Contact Center Applications. Our strategy is to leverage the Vonage Communications Platform to deliver powerful communications services and solutions.

The Vonage Communications Platoform 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. Our products and services enable our business customers to fundamentally change how they engage with their customers and team members. Vonage has 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 communication and collaboration among team members and external engagement with customers.

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. Consumer is a non-strategic business over the long-term horizon. Our Consumer strategy continues to focus our foundational pivot away from our heritage consumer telephony to an enterprise cloud communications platform company.

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 in 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 severely curtailed to protect the health of our employees and to comply with local guidelines, and we have temporarily closed the majority of Vonage offices worldwide (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.

Recent Significant Events

Coincident with the July 1st appointment of Mr. Read as President and Chief Executive Officer, the Company initiated a business-wide optimization and alignment project to focus the Company's resources and drive stronger operational execution, which also includes the previously announced Consumer evaluation. In connection with this project, the Company initiated a reduction in workforce which resulted in a restructuring charge during the three months ended September 30, 2020. In addition, the Company abandoned a portion of one of its leased facilities. These actions are expected to result in a reduction in operating expenses of approximately $50 million annually. The Company expects to reinvest a portion of the cost savings into key areas of the business. Additionally, the Company may have opportunities for further cost saving initiatives as the Company continues to streamline and optimize its business processes which may result in further restructuring charges.

Trends in Our Industry

A variety 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 September 30,**		**Nine Months Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Service revenue per customer	$ 527	$ 451	$ 504	$ 435
Vonage Communications Platform revenue churn	1.2 %	1.0 %	1.0 %	1.1 %

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 $451 for the three months ended September 30, 2019 to $527 for the three months ended September 30, 2020 primarily driven by the Company's successful efforts to attract larger business customers and to expand services provided to our existing business customers. Service revenue per customer increased from $435 for the nine months ended September 30, 2019 to $504 for the nine months ended September 30, 2020 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 Revenue Churn. Vonage Communications Platform revenue churn is calculated by dividing the revenue from customers or customer locations that have been confirmed to be foregone during a period by the simple average of the total revenue from all customers in that period. 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 revenue from all customers during the period is the total revenue as defined herein on the first day of the period, plus the total 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 business revenue churn differently, and their business revenue churn data may not be directly comparable to ours. Vonage Communications Platform revenue churn increased from 1.0% for the three months ended September 30, 2019 to 1.2% for the three months ended September 30, 2020. Vonage Communications Platform revenue churn decreased from 1.1% for the nine months ended September 30, 2019 to 1.0% for the nine months ended September 30, 2020, respectively. Our 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 September 30,**		**Nine Months Ended September 30,**	
	2020	**2019**	**2020**	**2019**
Average monthly revenues per subscriber line	$ 28.31	$ 27.56	$ 27.71	$ 26.91
Subscriber lines (at period end)	951,729	1,136,112	951,729	1,136,112
Customer churn	1.8 %	1.8 %	1.7 %	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 $27.56 for the three months ended September 30, 2019 to $28.31 for the three months ended September 30, 2020 due primarily to the Company's ability to retain its more tenured customers. Our average monthly revenues per subscriber line increased from $26.91 for the nine months ended September 30, 2019 to $27.71 for the nine months ended September 30, 2020 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 1,136,112 as of September 30, 2019 to 951,729 as of September 30, 2020, 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 was flat at 1.8% for the three months ended September 30, 2019 and 2020, respectively. Customer churn decreased from 1.8% for the nine months ended September 30, 2019 to 1.7% for the nine months ended September 30, 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, as a percentage of total revenues, our condensed consolidated statements of operations for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Total revenues	100 %	100 %	100 %	100 %
Operating Expenses:				
Cost of revenues (exclusive of depreciation and amortization)	45	44	44	43
Sales and marketing	27	28	28	31
Engineering and development	6	5	6	6
General and administrative	18	14	15	13
Depreciation and amortization	7	7	7	7
Total operating expenses	103	98	100	100
(Loss) Income from operations	(3)	2	—	—
Other Income (Expense):				
Interest expense	(2)	(3)	(3)	(3)
Other income (expense), net	—	—	—	—
Total other income (expense), net	(2)	(3)	(3)	(3)
Loss before income tax benefit	(5)	(1)	(3)	(3)
Income tax benefit (expense)	2	(6)	1	1
Net loss	(3)%	(7)%	(2)%	(2)%

Management's Discussion of the Results of Operations for the Three and Nine Months Ended September 30, 2020 and 2019

The Company reported loss before income taxes of $17,999 and $2,849 for the three months ended September 30, 2020 and 2019, respectively. The higher loss before income taxes for the three months ended September 30, 2020 was primarily due to higher operating expenses of $22,183. The increase in operating expenses was mainly driven by an increase in general and administrative expense resulting from costs associated with the employee exit costs as a result of restructuring activities, the abandonment of a portion of one of the Company's office locations and increased reserves associated with indirect taxes. Also attributing was an increase in engineering and development expenses in connection with the Company's continued focus on innovation, and an increase in sales and marketing expenses as the Company began increasing media marketing spending which had been delayed as a result of the COVID-19 pandemic. The increase in operating expenses was slightly offset by higher gross margin of $6,047 primarily as a result of higher usage of APIs within the VCP segment as well as lower operating expenses due to adjustments to compensation related reserves.

The Company reported loss before income taxes of $28,941 and $22,234 for the nine months ended September 30, 2020 and 2019, respectively. The higher loss before income taxes for the nine months ended September 30, 2020 was primarily due to higher operating expenses of $24,245. The increase in operating expenses was mainly driven by an increase in general and administrative expense resulting from costs associated with the employee exit costs as a result of restructuring activities, the abandonment of a portion of the Company's office locations and increased reserves associated with indirect taxes. Also attributing was an increase in engineering and development expenses in connection with the Company's continued focus on innovation. The increase in operating expenses was slightly offset by decrease in sales and marketing expenses due to lower media marketing costs along with certain marketing events being cancelled as a result of the COVID-19 pandemic. The increase in operating expenses was offset by higher gross margin of $17,138 primarily as a result of higher usage of APIs within the VCP segment.

The Company reported net loss of $10,062 and $22,247 for the three and nine months ended September 30, 2020, and $21,097 and $17,107 for the three and nine months ended September 30, 2019, respectively. The decrease in net loss for the three months ended September 30, 2020 compared to the three months ended September 30, 2019 was due to the increase in loss before income taxes as discussed above. While the Company reported a larger loss before tax for the three months ended September 30, 2020, the Company recognized a tax benefit of $7,937 as compared to tax expense of $18,248 during the prior year quarter. The prior year income tax expense of $18,248 was driven by a reduction of the prior year's expected tax benefit resulting from permanent adjustments on such items as executive compensation.

The increase in net loss for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 was due to the decrease in loss before income taxes discussed above and the decrease in income tax of $1,567 due to a tax benefit related to stock compensation.

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 and nine months ended September 30, 2020 and 2019:

(in thousands, except percentages)	**Three Months Ended September 30,**				**Nine Months Ended September 30,**			
	2020	**2019**	**Dollar Change**	**Percent Change**	**2020**	**2019**	**Dollar Change**	**Percent Change**
Service, access and product revenues	$ 298,991	$ 279,871	$ 19,120	7 %	$ 878,584	$ 819,006	$ 59,578	7 %
USF revenues	$ 17,658	$ 22,663	$ (5,005)	(22)%	$ 46,055	$ 60,653	$ (14,598)	(24)%
Total revenues	$ 316,649	$ 302,534	$ 14,115	5 %	$ 924,639	$ 879,659	$ 44,980	5 %
Service, access and product cost of revenues	124,243	111,170	13,073	12 %	357,252	314,812	42,440	13 %
USF cost of revenues	17,658	22,663	(5,005)	(22)%	46,055	60,653	(14,598)	(24)%
Total cost of revenues (1)	141,901	133,833	8,068	6 %	403,307	375,465	27,842	7 %
Gross margin	$ 174,748	$ 168,701	$ 6,047	4 %	$ 521,332	$ 504,194	$ 17,138	3 %

(1) Excludes depreciation and amortization of $13,649 and $9,658 for the three months ended September 30, 2020 and 2019, respectively and $35,953 and $28,220 for the nine months ended September 30, 2020 and 2019, respectively.

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

Three Months Ended September 30, 2020 compared to Three Months Ended September 30, 2019

Total revenues increased 5% for the three months ended September 30, 2020 as compared to the prior year period. The increase was primarily due to the VCP customer growth driving an increase in revenues of $27,296 as a result of increased usage on the Company's API Platform in the current year. Despite a decline in USF revenues, the Company has continue to grow overall VCP revenues. USF revenues have declined as more of the Company's VCP services are based upon software service rather than telecommunication services. The increase in total revenues was partially offset by declining Consumer revenues of $13,181 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 6% for the three months ended September 30, 2020 as compared to the prior year period driven by increased costs incurred in servicing our VCP customers of $10,181 due to the increase in customers and higher volume of API usage. This was partially offset by a decrease in costs in Consumer of $2,113 as subscriber lines continue to decline resulting in lower international and long-distance termination costs.

Nine Months Ended September 30, 2020 compared to Nine Months Ended September 30, 2019

Total revenues increased 5% for the nine months ended September 30, 2020 as compared to the prior year period. The increase was primarily due to the VCP customer growth driving an increase in revenues of $84,181 despite a decline in USF revenues as more of the Company's VCP services are based upon software service rather than telecommunication services. This was partially offset by declining Consumer revenues of $39,201 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 reallocates resources to increase market share in its VCP communications platforms.

Total cost of revenues increased 7% for the nine months ended September 30, 2020 as compared to the prior year period driven by increased costs incurred in servicing our VCP customers of $33,887 due to the increase in customers and overall usage. This was partially offset by a decrease in costs in Consumer of $6,045 as subscriber lines continue to decline resulting in lower international and long-distance termination costs.

Vonage Communications Platform Gross Margin for the Three and Nine Months Ended September 30, 2020 and 2019

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	**2020**	**2019**	**Dollar Change**	**Percent Change**	**2020**	**2019**	**Dollar Change**	**Percent Change**
Revenues								
Service revenues	$ 218,456	$ 183,701	$ 34,755	19 %	$ 626,416	$ 523,060	$ 103,356	20 %
Access and product revenues(1)	8,757	12,120	(3,363)	(28)%	27,987	35,524	(7,537)	(21)%
Service, access and product revenues excluding USF	227,213	195,821	31,392	16 %	654,403	558,584	95,819	17 %
USF revenues	6,613	10,709	(4,096)	(38)%	15,925	27,563	(11,638)	(42)%
Total revenues	233,826	206,530	27,296	13 %	670,328	586,147	84,181	14 %
Cost of revenues								
Service cost of revenues (2)	105,593	87,352	18,241	21 %	298,588	243,496	55,092	23 %
Access and product cost of revenues (1)	9,894	13,858	(3,964)	(29)%	31,756	41,323	(9,567)	(23)%
Service, access and product cost of revenues excluding USF	115,487	101,210	14,277	14 %	330,344	284,819	45,525	16 %
USF cost of revenues	6,613	10,709	(4,096)	(38)%	15,925	27,563	(11,638)	(42)%
Total cost of revenues	122,100	111,919	10,181	9 %	346,269	312,382	33,887	11 %
Segment gross margin								
Service margin	112,863	96,349	16,514	17 %	327,828	279,564	48,264	17 %
Gross margin excluding USF (Service, access and product margin)	111,726	94,611	17,115	18 %	324,059	273,765	50,294	18 %
Segment gross margin	$ 111,726	$ 94,611	$ 17,115	18 %	$ 324,059	$ 273,765	$ 50,294	18 %
Segment gross Margin %								
Service margin %	51.7 %	52.4 %			52.3 %	53.4%		
Gross margin excluding USF (Service, access and product margin) %	49.2 %	48.3 %			49.5 %	49.0%		
Segment gross margin %	47.8 %	45.8 %			48.3 %	46.7%		

a. Includes customer premise equipment, access, and shipping and handling.
b. Excludes depreciation and amortization of $12,691 and $8,492 for the three months ended September 30, 2020 and 2019, respectively and $32,370 and $24,684 for the nine months ended September 30, 2020 and 2019, respectively.

Three Months Ended September 30, 2020 compared to Three Months Ended September 30, 2019

The following table describes the increase in VCP gross margin for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019:

		(in thousands)
Service gross margin increase is primarily due to increased usage of the Company's API services as customers expand their use of video APIs as a result of the ongoing COVID-19 pandemic along with an overall increase in the customer base	$	16,514
Access and product gross margin increased due to lower costs providing access services to VCP customers during the current quarter		601
Increase in segment gross margin	$	17,115

Vonage Communications Platform service gross margin percentage decreased to 51.7% for the three months ended September 30, 2020 from 52.4% for the three months ended September 30, 2019. 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 September 30, 2020 as compared to the same period in the prior quarter as usage of APIs has grown. 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.

Nine Months Ended September 30, 2020 compared to Nine Months Ended September 30, 2019

The following table describes the increase in VCP gross margin for the nine months ended September 30, 2020 as compared to the three months ended September 30, 2019:

		(in thousands)
Service gross margin increase is primarily due to increased usage on the Company's API Platform as customers expand their use of video APIs as a result of the ongoing COVID-19 pandemic along with an overall increase in the customer base	$	48,264
Access and product gross margin increased due to lower costs providing access services to VCP customers during the current quarter		2,030
Increase in segment gross margin	$	50,294

Vonage Communications Platform service gross margin percentage decreased to 52.3% for the nine months ended September 30, 2020 from 53.4% for the nine months ended September 30, 2019. The decrease in business service gross margin percentage is a result of a greater proportion of lower margin services across our VCP segment during nine months ended September 30, 2020 as compared to the same period in the prior year as usage of APIs has grown. 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 and Nine Months Ended September 30, 2020 and 2019

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	**2020**	**2019**	**Dollar Change**	**Percent Change**	**2020**	**2019**	**Dollar Change**	**Percent Change**
Revenues								
Service revenues	$ 71,693	$ 83,981	$ (12,288)	(15)%	$ 223,981	$ 260,225	$ (36,244)	(14)%
Access and product revenues[1]	85	69	16	23 %	200	197	3	2 %
Service, access and product revenues excluding USF	71,778	84,050	(12,272)	(15)%	224,181	260,422	(36,241)	(14)%
USF revenues	11,045	11,954	(909)	(8)%	30,130	33,090	(2,960)	(9)%
Total revenues	82,823	96,004	(13,181)	(14)%	254,311	293,512	(39,201)	(13)%
Cost of revenues								
Service cost of revenues [2]	8,287	8,587	(300)	(3)%	25,470	26,706	(1,236)	(5)%
Access and product cost of revenues [1]	469	1,373	(904)	(66)%	1,438	3,287	(1,849)	(56)%
Service, access and product cost of revenues excluding USF	8,756	9,960	(1,204)	(12)%	26,908	29,993	(3,085)	(10)%
USF cost of revenues	11,045	11,954	(909)	(8)%	30,130	33,090	(2,960)	(9)%
Total cost of revenues	19,801	21,914	(2,113)	(10)%	57,038	63,083	(6,045)	(10)%
Segment gross margin								
Service margin	63,406	75,394	(11,988)	(16)%	198,511	233,519	(35,008)	(15)%
Gross margin excluding USF (Service, access and product margin)	63,022	74,090	(11,068)	(15)%	197,273	230,429	(33,156)	(14)%
Segment gross margin	$ 63,022	$ 74,090	$ (11,068)	(15)%	$ 197,273	$ 230,429	$ (33,156)	(14)%
Segment gross Margin %								
Service margin %	88.4 %	89.8 %			88.6 %	89.7%		
Gross margin excluding USF (Service, access and product margin) %	87.8 %	88.1 %			88.0 %	88.5%		
Segment gross margin %	76.1 %	77.2 %			77.6 %	78.5%		

a. Includes customer premise equipment and shipping and handling.

b. Excludes depreciation and amortization of $958 and $1,166 for the three months ended September 30, 2020 and 2019, and $3,583 and $3,536 for the nine months ended September 30, 2020 and 2019, respectively.

Three Months Ended September 30, 2020 compared to Three Months Ended September 30, 2019

The following table describes the decrease in consumer gross margin for the three months ended September 30, 2020 as compared to the three months ended September 30, 2019:

	(in thousands)	
Service gross margin decreased primarily due to a decrease in subscriber lines of 16% resulting in lower gross margin of $12,015 as we have reallocated resources to focus on attracting VCP customers	$	(11,988)
Access and product gross margin increased 71% primarily due to lower equipment costs associated with sales to customers during the current quarter		920
Decrease in segment gross margin	$	(11,068)

Consumer service gross margin percentage decreased to 88.4% for the three months ended September 30, 2020 from 89.8% for the three months ended September 30, 2019 due to slightly higher international and domestic termination rates.

Nine Months Ended September 30, 2020 compared to Nine Months Ended September 30, 2019

The following table describes the decrease in consumer gross margin for the nine months ended September 30, 2020 as compared to the three months ended September 30, 2019:

	(in thousands)	
Service gross margin decreased primarily due to a decrease in subscriber lines of 16% resulting in lower gross margin of $35,216 as we have reallocated resources to focus on attracting VCP customers.	$	(35,008)
Access and product gross margin increased 60% primarily due to lower equipment costs associated with sales to customers during the current quarter		1,852
Decrease in segment gross margin	$	(33,156)

Consumer service gross margin percentage decreased to 88.6% for the nine months ended September 30, 2020 from 89.7% for the nine months ended September 30, 2019 due to slightly higher international and domestic termination rates.

Other Operating Expenses

The following table presents our other operating costs during the three and nine months ended September 30, 2020 and 2019, respectively:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in thousands, except percentages)	2020	2019	Dollar Change	Percent Change	2020	2019	Dollar Change	Percent Change
Sales and marketing	$ 85,505	$ 83,628	$ 1,877	2 %	$ 261,953	$ 274,513	$ (12,560)	(5)%
Engineering and development	20,110	16,901	3,209	19 %	59,097	50,318	8,779	17 %
General and administrative	56,835	41,306	15,529	38 %	140,537	113,380	27,157	24 %
Depreciation and amortization	22,887	21,319	1,568	7 %	64,064	63,195	869	1 %
Total other operating expenses	$ 185,337	$ 163,154	$ 22,183	14 %	$ 525,651	$ 501,406	$ 24,245	5 %

Three Months Ended September 30, 2020 compared to Three Months Ended September 30, 2019

Total other operating expenses increased by $22,183 as compared to the three months ended September 30, 2019 due to the following:

- Engineering and development expense increased by $3,209, in connection with the Company's continued transformation focused 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 $15,529, primarily due to the expense accrued associated with the employee exit costs associated with restructuring activities, the abandonment of a portion of one of the Company's office locations along with increased professional services related to strategic business reviews undertaken by the Company, and an increase in stock compensation due to increased headcount in the current year.

Nine Months Ended September 30, 2020 compared to Nine Months Ended September 30, 2019

Total other operating expenses increased by $24,245 as compared to the nine months ended September 30, 2019 due to the following:

- Sales and marketing expense decreased by $12,560, primarily due to decreased spending in the current period related to media marketing initiatives, less travel by the Company's sales force, and attending fewer sales conferences this period than in the prior period due to the COVID-19 pandemic. These were offset by an increase in reserves for expected credit losses for trade receivables during the current year.
- Engineering and development expense increased by $8,779, in connection with the Company's continued transformation focused 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 $27,157, primarily due to the expense accrued associated with the employee exit costs associated with restructuring activities, the abandonment of a portion of one of the Company's leased office locations, an increase in professional services related to strategic business reviews undertaken by the Company in the current year, higher personnel costs and stock compensation along with employee exit costs incurred during the current year including CEO succession costs.

Other Income (Expense)

(in thousands, except percentages)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Dollar Change	Percent Change	2020	2019	Dollar Change	Percent Change
Interest expense	$ (7,373)	$ (8,454)	$ 1,081	13 %	$ (24,776)	$ (24,517)	$ (259)	(1)%
Other income (expense), net	(37)	58	(95)	(164)%	154	(505)	659	130 %
	$ (7,410)	$ (8,396)	$ 986		$ (24,622)	$ (25,022)	$ 400	

Three Months Ended September 30, 2020 compared to Three Months Ended September 30, 2019

Interest expense. The decrease in interest expense of $1,081, or 13%, was mainly due to lower interest expense due to lower principal balances on our 2018 Credit Facility, offset by an increase in interest expense associated with the Convertible Senior Notes issued in June 2019.

Nine Months Ended September 30, 2020 compared to Nine Months Ended September 30, 2019

Interest expense. The increase in interest expense of $259, or 1%, was mainly due to the realization of losses associated with the unwind of the Company's interest rate swaps in June 2020 and an increase in interest expense associated with the Convertible Senior Notes issued in June 2019, offset by lower interest expense due to lower principal balances on our 2018 Credit Facility.

Income Taxes

(in thousands, except percentages)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020	2019	Dollar Change	Percent Change	2020	2019	Dollar Change	Percent Change
Income tax (expense) benefit	$ 7,937	$ (18,248)	$ 26,185	143 %	$ 6,694	$ 5,127	$ 1,567	31 %
Effective tax rate	(44)%	641 %			(23)%	(23)%		

Three Months Ended September 30, 2020 compared to Three Months Ended September 30, 2019

The tax benefit recorded for the three months ended September 30, 2020 compared to the tax provision for the three months ended September 30, 2019 is primarily due to increase in pretax loss and lower current period discrete tax benefits on equity compensation. In addition, during the three months ended September 30, 2019 the Company had reduced its expected annual tax benefit as a result of permanent adjustments primarily related to limitations on executive compensation.

Nine Months Ended September 30, 2020 compared to Nine Months Ended September 30, 2019

The tax benefit for the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 is primarily due to current year losses along with current period discrete tax benefits on equity compensation.

Liquidity and Capital Resources

Overview

For the nine months ended September 30, 2020, we had lower net cash from operations compared to the prior year due to higher 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:

	Nine Months Ended September 30,		
(in thousands)	**2020**	**2019**	**Dollar Change**
Net cash provided by operating activities	$ 51,431	$ 59,850	$ (8,419)
Net cash used in investing activities	(38,234)	(39,262)	1,028
Net cash provided by (used in) financing activities	12,871	(6,234)	19,105
Effect of exchange rate changes on cash and cash equivalents	(1,334)	(663)	(671)

Operating Activities

The following table describes the changes in cash provided by operating activities for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019:

	(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	$ 11,382
Decrease in working capital driven primarily by timing of accounts receivable collections, prepayments for annual licenses, CEO succession payments and vendor payments which was slightly offset by improvement in operating cash flows as a result of benefits under the CARES Act	(19,801)
Decrease in cash provided by operating activities	$ (8,419)

Investing Activities

The following table describes the changes in cash used in investing activities for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019:

	(in thousands)
Increase in payments to acquire and develop software assets	(9,420)
Decrease in payments related to capital expenditures	7,708
Decrease in payment to acquire business	3,000
Increase in payments to acquire new patents	(260)
Decrease in cash used in investing activities	$ 1,028

Financing Activities

The following table describes the changes in cash provided by (used in) financing activities for the nine months ended September 30, 2020 as compared to the nine months ended September 30, 2019:

		(in thousands)
Decreased borrowings net of repayments during the current year	$	(40,500)
Prior period amount represents payment for the capped call transaction in connection with the June 2019 issuance of the Convertible Senior Notes		28,325
Prior period amount represents payments for share repurchases in connection with the June 2019 issuance of the Convertible Senior Notes		10,000
Prior period amount represents payments for financing costs in connection with the June 2019 issuance of the Convertible Senior Notes		9,715
Decrease in payments associated with taxes on share based compensation due to lower vesting in 2020		5,192
Decrease in proceeds received from exercise of stock options due to fewer exercises in 2020		6,373
Increase in cash provided by financing activities	$	19,105

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 September 30, 2020, amounts available under the 2018 Credit Facility totaled $259.5 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 nine months ended September 30, 2020, 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 nine months ended September 30, 2020, were $38,234, of which $30,256 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 2020, we estimate our capital and software expenditures will be approximately $55 million.

State and Local Sales Taxes

We have contingent liabilities for state and local sales taxes. As of September 30, 2020, we had a reserve of $7,923. 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 September 30, 2020 and December 31, 2019 we had stand-by letters of credit totaling $1,502 and $1,528, 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, 2019.

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, 2019. 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 September 30, 2020, 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". While the UK will no longer be a member of the EU, it will still be subject to EU rules and remain a member of the Customs Union for a period of time as it negotiates the rules to be applied to future trading, taxes, and other relationships. Uncertainty and currency volatility in the British Pound Sterling exchange rate is expected to continue in the short term. In the longer term, any impact from the Brexit on the Company's operations and financial statements will depend on the outcome of future negotiations.

Interest Rate and Debt Risk

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

As of September 30, 2020, 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 $2,405.

As of September 30, 2020, 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, 2019 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.

We may not fully realize the expected benefits of our business optimization plans or other cost-saving initiatives, which may negatively impact our results of operations and financial condition.

During the third quarter of 2020, the Company initiated a business optimization and alignment project to focus the use of Company resources and drive operational execution, which also includes the previously announced Consumer evaluation. In connection with this project, the Company initiated a reduction in workforce and abandoned a portion of one of its leased facilities. The Company may pursue similar cost-saving initiatives in the future. We may not achieve the operational improvements and efficiencies that we have targeted in this project.

Implementing any restructuring, optimization, or cost-savings plan presents significant potential risks that may impair our ability to achieve anticipated operating improvements and/or cost reductions. These risks include (but are not limited to) higher than anticipated costs in implementing these plans, management distraction from ongoing business activities, failure to maintain adequate controls and procedures while executing these plans, damage to our reputation, brand image, and workforce attrition beyond our planned reductions, and our ability to provide optimal service to our customers. Any of these risks could have a negative impact on our profitability and on our results of operations and financial condition.

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	Fixed Term Employment Contract, by and between the Company and Tim Shaughnessy, dated August 17, 2020
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 September 30, 2020 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.

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:	November 5, 2020	By:	/s/ Tim Shaughnessy
			Tim Shaughnessy Chief Financial Officer (Principal Financial Officer and Duly Authorized Officer)

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: November 5, 2020	/s/ Rory Read
	Rory Read
	Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

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

I, Tim Shaughnessy, 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: November 5, 2020

/s/ Tim Shaughnessy

Tim Shaughnessy
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 September 30, 2020 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: November 5, 2020

/s/ Rory Read
Rory Read
Chief Executive Officer

I, Tim Shaughnessy, 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 September 30, 2020 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: November 5, 2020

/s/ Tim Shaughnessy
Tim Shaughnessy
Chief Financial Officer
(Principal Financial Officer and Duly Authorized Officer)