

VONAGE HOLDINGS CORP  
Form 10-K/A  
August 11, 2008

## FORM 10-K/A

### Amendment No. 1

Annual Report pursuant to Section 13  
or 15(d) of the Securities Exchange Act  
of 1934

*For the fiscal year ended December 31, 2007*

or  Transition Report pursuant to Section 13  
or 15(d) of the Securities Exchange Act  
of 1934

*For the transition period from \_\_\_\_\_ to \_\_\_\_\_*

Commission file number 001-32887

## VONAGE HOLDINGS CORP.

*(Exact name of registrant as specified in its charter)*

Delaware  
*(State or other jurisdiction of*

*incorporation or organization)*

23 Main Street, Holmdel, New Jersey  
*(Address of principal executive offices)*  
(732) 528-2600

*(Registrant's telephone number, including area code)*

11-3547680  
*(IRS Employer Identification No.)*

07733  
*(Zip Code)*

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

*Title of each class*  
Common Stock, Par Value \$0.001 Per Share  
Securities registered pursuant to Section 12(g) of the Act:

Stock Options to Purchase Common Stock, Par Value \$0.001 Per Share

*Name of each exchange on which registered*  
The New York Stock Exchange

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer (Do not check if a smaller reporting company)  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

The aggregate market value of the common equity held by non-affiliates of the registrant at June 29, 2007 was \$227,094,669.

The number of shares outstanding of the registrant's common stock as of February 29, 2008 was 156,019,924.

*Documents Incorporated By Reference*

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference from the Registrant's definitive Proxy Statement for the Annual Meeting of the Stockholders to be held May 16, 2008.

**EXPLANATORY NOTE**

Vonage Holdings Corp. (the Company) is filing this Amendment No. 1 on Form 10-K/A (Amendment No. 1) to amend earlier disclosures relating to executive compensation that were included in its proxy statement for its 2008 annual meeting of shareholders, which disclosures were incorporated by reference into Item 11 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the Form 10-K). This Amendment No. 1 includes disclosure responsive to comments received from the staff of the Securities and Exchange Commission. The amendments are as follows:

On page 3 of Amendment No. 1 under Compensation Compensation Discussion and Analysis Determination of Competitive Compensation, the Company added the following sentence immediately under the bullet points: Because we were seeking survey data covering a broad range of companies meeting the criteria set forth above, we did not focus on, or ascertain the identities of, the individual companies included in the survey data.

On page 11 of Amendment No. 1 the Summary Compensation Table was revised to indicate that all amounts listed in the column Non-Equity Incentive Plan Compensation are related to 2006, rather than for 2007, compensation. There are no other changes to the information incorporated by reference in Item 11 of the Company's Form 10-K. However, in accordance with Rule 12b-15 under the Securities Exchange Act of 1934 (Rule 12b-15), the complete text of Item 11, as amended by the changes described above, is set forth below. In addition, because Rule 12b-15 requires new officers' certifications to be included as exhibits to the Form 10-K, as amended by Amendment No.1, the complete text of Item 15 (Exhibits and Financial Statement Schedules) is also included in Amendment No. 1.

PART III

## ITEM 11. Executive Compensation

### Compensation Committee Interlocks and Insider Participation

During fiscal 2007, the members of our compensation committee were Mr. David, Mr. Barris, Mr. Miller and Governor Ridge. None of the members of our compensation committee was at any time in fiscal 2007, or formerly, an officer or employee of Vonage, and none of the members of our compensation committee had any relationship with Vonage requiring disclosure as a related person transaction under Item 404 of Regulation S-K. During fiscal 2007, none of our executive officers served as a member of the compensation committee or board of directors of any entity that had one or more executive officers that served on our compensation committee or board of directors.

### Compensation Committee Report

*The information contained in this report shall not be deemed to be soliciting material or filed with the SEC or subject to the liabilities of Section 18 of the Securities Exchange Act of 1934, except to the extent that Vonage specifically incorporates it by reference into a document filed under the Securities Act of 1933 or the Exchange Act.*

The compensation committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth below. Based on the foregoing review and discussion, the compensation committee has recommended to the board of directors that the Compensation Discussion and Analysis be included in this proxy statement for filing with the SEC.

By the Compensation Committee of the Board of Directors of Vonage Holdings Corp.

Morton David, Chairman

J. Sanford Miller

Peter Barris

Governor Tom Ridge

**COMPENSATION**

**COMPENSATION DISCUSSION AND ANALYSIS**

In this Compensation Discussion and Analysis, we address the compensation provided to our named executive officers listed in the Summary Compensation Table that immediately follows this discussion, the goals that we seek to achieve through our executive compensation program and other important factors underlying our compensation practices and policies.

**Compensation Objectives**

The 2007 compensation for our executive officers was designed to meet the following objectives:

Provide competitive compensation in order to attract, retain and motivate highly-skilled executives. We refer to this objective as competitive compensation.

Reinforce the importance of meeting and exceeding identifiable and measurable goals. We refer to this objective as performance incentives.

Provide meaningful equity ownership that will align the value of our equity compensation with the creation of stockholder value. We refer to this objective as alignment with stockholder interests.

Provide an incentive for long-term continued employment with us. We refer to this objective as retention incentives. The principal components of 2007 compensation are as follows:

<b>Type of Compensation</b>	<b>Objectives Addressed</b>
Salary	Competitive Compensation
Annual Cash Bonus	Performance Incentives
Long-Term Incentives - Stock Options and Restricted Stock Units	Competitive Compensation
	Retention Incentives
	Alignment with Stockholder Interests
	Performance Incentives
	Competitive Compensation

Our compensation committee reviews the compensation program annually to determine if changes should be made to address the objectives described above.

**Engagement of Compensation Consultant**

The compensation committee engages its own independent advisor, Hewitt Associates, to assist in carrying out its responsibilities under its charter. For more information on the role of Hewitt Associates, see Corporate Governance - Board Committees - Compensation Committee.

**Determination of Competitive Compensation**

In assessing competitive compensation for 2007, we used the following data sources:

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Radford Executive Survey, covering companies in the telecommunications industry and high technology companies. We generally focused on survey data for the 83 companies with revenues from \$500 million to \$1 billion. In the case of Mr. Citron, we referenced all 508 companies in the survey, because there was insufficient data in the more limited sample based on revenues.

Mercer US Executive Compensation Survey, covering a large number of companies in several major industrial groupings. We utilized information regarding the 232 companies in the survey with revenues

from \$500 million to \$1 billion, the 72 telecommunications industry companies in the survey, or both groups of companies, depending on the nature of the respective executive's duties and the availability of relevant data for each executive position.

Watson Wyatt Top Management Compensation Survey, covering a large number of companies in a range of industry categories. We generally utilized information regarding 72 companies in the survey with revenues from \$500 million to \$1 billion, telecommunications and communications industry companies in the survey, or both groups of companies, depending on the nature of the respective executive's duties and the availability of relevant data for each executive position.

Because we were seeking survey data covering a broad range of companies meeting the criteria set forth above, we did not focus on, or ascertain the identities of, the individual companies included in the survey data.

Except with respect to Mr. Citron and Ms. O'Leary, we placed the most weight (50%) on the Radford Executive Survey because we believed it provided the most relevant data. We believe that telecommunications companies and high technology companies with comparable revenues represent an appropriate comparison group for our executives because they are the companies against which we are most likely to compete for executive talent. We weighted the data from each of the other surveys at 25%. With respect to Mr. Citron, we rated each survey equally because we did not limit the Radford Executive Survey data used for him to companies in the revenue range we used for the other executives. We also weighted each survey equally for Ms. O'Leary, due to considerations relating to the nature of her duties as our principal legal officer. We refer to the weighted data sources described above as the market sample.

In 2007, we targeted salaries for the named executive officers at the 50th percentile of the market sample. For total cash compensation, which is base salary and the target amount of annual cash bonus, we targeted a minimum level at the 50th percentile, but provide for payments of up to the 75th percentile contingent on the achievement of strong performance. We also targeted the same 50th to 75th percentile range for total direct compensation, which is base salary, the target amount of annual bonus and stock-based grants. We believe these target levels were appropriate because we want to reward the achievement of our aggressive performance goals.

A significant portion of our compensation is performance-based. Therefore, actual cash compensation paid to our named executive officers may vary from targeted levels based on achievement of performance targets. Moreover, the comparative analysis described above provides only guidelines, and we do not follow them rigidly. Variations may occur based on specific considerations relating to our operations and the market for our securities. For example, as explained in more detail below under Long-Term Incentives, we decided to provide special equity grants to almost all of our employees, including most of our named executive officers, in August 2007.

### **Salaries**

The only named executive officer who received a salary increase not tied to a promotion was our former Chief Executive Officer, Michael F. Snyder, whose salary was increased from \$500,000 per annum to \$550,000 per annum. This increase placed Mr. Snyder within the competitive guideline described above. Because their salaries already were within the competitive guideline, we did not increase in the salaries of Messrs. Citron, Rego and Mamakos or Ms. O'Leary. Mr. Citron assumed Interim Chief Executive Officer duties following Mr. Snyder's separation in April 2007.

Ms. Haenggi was promoted to the position of Chief Marketing Officer in April 2007. In connection with the promotion, we increased her salary to \$275,000 per annum, which placed her salary within our competitive guidelines.

### **Annual Cash Bonuses**

When determining the annual bonuses of our executive officers, the compensation committee takes into account achievement of objective performance criteria as described below. The compensation committee also considers discretionary factors relating to the executive's individual performance.

For 2007, the target bonus percentages for the named executive officers were as follows:

Name	Percentage of Salary Payable at Target Award Level
Jeffrey Citron	100%
Michael Snyder	100%
John S. Rego	100%
Louis Mamakos	50%
Sharon A. O'Leary	80%
Jamie Haenggi	60%*

\* In March 2008, the compensation committee increased Ms. Haenggi's target bonus opportunity from 40% to 60% of her salary. The compensation committee, with the assistance of management, devoted considerable effort over a period of several months to determine the appropriate financial measures and weighting of measures to use in connection with the 2007 annual bonus program. Although the committee determined which measures to use in March 2007, it continued to focus on the appropriate weighting of the factors and the extent to which business unit leaders should have a larger portion of their potential bonus based on corporate performance.

During the third quarter of 2007, we instituted a project, called Vonage 2.0, to

repair business fundamentals, namely marketing, user experience and cost management;

strengthen our business core through several initiatives, including improvement of service and rollout of new plans and features; and

grow from the business core, including by entering adjacent markets.

Management believed that to achieve these goals, a strong, unified effort of all of our employees was required. To motivate all employees, including our named executive officers, to focus on the success of this initiative, management recommended that bonuses for all participating employees be based exclusively on achieving the company-wide performance measures.

In addition, management provided revised weightings that reflected the compensation committee's views in light of challenges confronting Vonage. These challenges also are addressed in the Vonage 2.0 project.

The measures used for the 2007 bonus program were the following:

**Revenue (15% of target bonus)** We calculate revenue based on total cash received from customers after deducting bad debt charges, credits and promotional discounts. We use revenue, net of the deductions, because it is a fundamental indicator of growth for a company in an emerging sector of the telecommunications industry.

**Subscriber Line Acquisition Cost ( SLAC ) (15% of target bonus)** SLAC is total marketing expense divided by subscriber line additions. We use SLAC because it is an effective measure of how efficiently we spend funds to acquire new customers.

**Pre-Marketing Operating Income Per Line ( PMOI ) (15% of target bonus)** PMOI is the average cash earned from an existing subscriber line and excludes SLAC and the net device subsidy, which relates to the subsidy we provide to new customers for equipment purchases. We use PMOI because it is an important indicator of our ability to achieve operational efficiency. We expect PMOI to increase as we spread fixed costs over an increasing number of subscriber lines.



Churn (25% of target bonus) Churn relates to the average monthly percentage of customers that terminate service. We calculated churn by dividing the number of customers that terminated during 2007 by the simple average number of customers during 2007, and dividing the result by 12. The

simple average number of customers is the number of customers on the first day of 2007 plus the number of customers on the last day of 2007, divided by two. We use churn as a performance measure because it addresses our success in retaining subscribers. Reducing churn can have a significant positive impact on revenue and profitability.

**Adjusted Operating Loss (30% of target bonus)** We define adjusted operating loss as loss from operations, calculated in accordance with generally accepted accounting principles (GAAP), excluding depreciation, amortization and non-cash stock compensation expenses. In addition, the compensation committee subsequently adjusted this measure by eliminating intellectual property royalty and litigation expenses and severance expenses. The compensation committee views adjusted operating loss as the most important performance measure because it is a bottom line indicator of our long-term viability, and of management's performance. Depreciation, amortization and non-cash stock compensation expense are excluded because they represent non-cash charges that we believe do not reflect on management's performance. Excluding intellectual property royalty and litigation expenses and severance expenses reflects our judgment that management should not be penalized for expenses relating to intellectual property litigation, which were essentially out of their control, or by expenses relating to (i) our reduction in force, which occurred on April 12, 2007 and resulted in the termination of 135 employees and (ii) other individual termination arrangements approved by the committee or made under our severance practices.

A 100% payout on any of the measures required our achieving the targeted amount for the measure. We viewed these targeted amounts as aggressive, requiring superior performance. The minimum payment, equal to 25% of the target bonus, would be payable if a threshold level of performance was achieved. The maximum payment, equal to 175% of the target bonus, would be payable only upon outstanding performance. Payouts between threshold and maximum amounts increased in proportion to the increase or decrease, as applicable, of the relevant performance measure:

Performance Measure	Threshold	Target	Maximum
Revenue	\$840 million	\$950 million	\$1,060 million
SLAC	\$290.00	\$235.00	\$180.00
PMOI	\$9.00	\$9.80	\$10.60
Churn	2.5%	2.1%	1.7%
Adjusted Operating Loss	\$148 million	\$118.815 million	\$89.630 million

The award payable based on our actual performance was 73% of the total target bonus, as indicated by the following table:

Performance Measure	2007 Performance	Percent of Target Award for the Measure	Target Award for Measure as Percentage of Total Target Award	Percentage of Total Target Award Based on Performance
Revenue	\$828.228 million	0%	15%	0%
SLAC	\$246	87%	15%	13%
PMOI	\$9.44	53%	15%	8%
Churn	2.8%	0%	25%	0%
Adjusted Operating Loss	\$46.372 million	175%	30%	52%

Percent of Total Target Award 73%

However, as in prior years, the compensation committee also considered discretionary factors relating to the executive's personal contributions to Vonage. At the recommendation of our Chairman, Chief Strategist and Interim Chief Executive Officer, the compensation committee adjusted the bonuses of all named executive officers other than Mr. Citron. Mr. Rego's bonus reflected improved cost management in the second half of 2007 and his significant role in resolving intellectual property disputes, offset by a material weakness our financial

staff discovered in the design of our internal control procedures relating to recording stock-based compensation expense, which was remediated as of December 31, 2007. Mr. Mamakos' bonus reflected his contribution to resolving our intellectual property litigation and completing key technical projects. Ms. Haenggi's bonus was based on her significant accomplishments, including a significant reduction in SLAC following her promotion in April 2007.

Based on the corporate performance rating and the recommendation of the Chairman, Chief Strategist and Interim Chief Executive Officer regarding the personal contribution of the named executive officers other than himself, our board of directors approved the following annual bonus payments to the named executive officers:

Name (1)	2007 Bonus Award	Award as Percentage of Target Award Opportunity
Jeffrey Citron	\$ 438,000	73%
John S. Rego	\$ 190,000	63%
Louis Mamakos	\$ 90,000	82%
Jamie Haenggi	\$ 200,000	132%

(1) Mr. Snyder's and Ms. O'Leary's bonus payments were determined by the terms of their respective employment agreements and separation agreements. See Severance Arrangement with Michael Snyder, Severance Arrangement with Sharon A. O'Leary and Potential Payments Upon Termination or Change of Control Employment Agreements below. These payments are reflected in the Bonus column of the Summary Compensation Table.

#### Long-Term Incentives

*Annual Stock Option Grants:* In 2007, the compensation committee approved stock option grants to the executive officers based on 2006 corporate performance, competitive data with respect to market sampling, the level of the individual's responsibility and individual contributions to Vonage. The stock options were granted on March 14, 2007.

The stock option grants made in 2007 followed the competitive compensation guidelines discussed above. The compensation committee also considered the recommendations of the Chairman, Chief Strategist and Interim Chief Executive Officer for the named executive officers. The executive officers received the following stock option grants in March 2007:

Name	Number of Shares Underlying Stock Options
Jeffrey Citron	1,000,000
Michael Snyder	1,000,000
John S. Rego	205,000
Louis Mamakos	75,000
Sharon A. O'Leary	155,000
Jamie Haenggi	*

\* Ms. Haenggi did not receive a stock option grant in March 2007 because she was not eligible based on the date of her hire. Ms. Haenggi received an option to purchase 100,000 shares in April 2007 upon her promotion to the position of our Chief Marketing Officer. She also received an additional option to purchase 100,000 shares in December 2007 in recognition of her meritorious performance in connection with the Vonage 2.0 project.

*Special Equity Grant:* In August 2007, our Chairman, Chief Strategist and Interim Chief Executive Officer expressed concerns that our long-term incentive program was not meeting the objectives it was designed to address. He noted that the market value of our common stock declined by 60% within 90 days after our initial



public offering in May 2006. In addition, an adverse court decision in major intellectual property litigation during 2007 further diminished the market value of our common stock.

We believe that these factors largely were out of the control of our employees. Nevertheless, at July 31, 2007, all stock options held by employees who commenced employment with us after June 30, 2004 had an exercise price above the market price of our common stock. Our principal executive officer was concerned that most executive officers and other key employees were not aligned with stockholder interests because they did not have meaningful equity ownership. In addition, he believed our challenges in 2007, particularly adverse litigation developments, rendered the outstanding equity compensation ineffective in providing competitive compensation or performance incentives. Finally, he believed that our equity grants were not helping us retain key employees because over 90% of all outstanding stock options had an exercise price above the market price of our common stock, and the increase in stock price necessary to enable the realization of meaningful value would be formidable for most employees. Our principal executive officer felt that this situation was contributing to low morale and employee attrition.

Therefore, our principal executive officer recommended a special equity award that he felt would provide meaningful incentives to, and help retain, our employees. Based on this recommendation, the compensation committee approved a special award of stock options and restricted stock units to our employees. These awards also were made to our named executive officers other than Mr. Citron. In approving the awards, the compensation committee noted that the dilutive impact of the special equity awards would be muted because approximately six million shares of underlying stock options and restricted stock units issued since January 1, 2006 have been returned due to employee turnover. In addition, a large number of outstanding options may never be exercised because of their high exercise prices.

Based on the recommendations of our Chairman, Chief Strategist and Interim Chief Executive Officer, the compensation committee granted the following equity awards to the other named executive officers in August 2007:

Name	Number of Shares	
	Underlying Stock Options	Number of Restricted Stock Units
John S. Rego	200,000	84,000
Louis Mamakos	200,000	84,000
Sharon A. O Leary	200,000	84,000
Jamie Haenggi	200,000	84,000

The total number of shares underlying options and restricted stock units granted to the named executive officers in 2007 are set forth below in the Grants of Plan-Based Awards table. The dollar amounts shown in the Summary Compensation Table for stock-based awards generally reflect the dollar amounts recognized for financial statement purposes in 2007. Therefore, the Summary Compensation Table reflects only a portion of the grant date fair value of the options and restricted stock units granted in 2007. It also includes a portion of the grant date fair value with respect to options and restricted stock units awarded in prior years. See the footnotes to the Summary Compensation Table for further information.

#### Perquisites

We generally do not provide personal benefits or perquisites to executive officers. However, some of our named executive officers negotiated for perquisites when hired. For example, we pay premiums for medical, dental, short-term disability, long-term disability, and life and accidental death and dismemberment coverage for Louis Mamakos, Jeffrey Citron and John Rego, and we provided these benefits to Michael Snyder prior to his departure. We paid premiums for short-term disability, long-term disability, and life and accidental death and dismemberment coverage for Sharon O Leary and Jamie Haenggi. Our incremental costs for these perquisites are shown in the Summary Compensation Table.

### **Severance Arrangement with Sharon A. O Leary**

Ms. O Leary's severance agreement with us reflects the determination by our board of directors that she resigned for good reason under her employment agreement. Therefore, the payments and other benefits to Ms. O Leary are generally the same as called for under her employment agreement upon a resignation for good reason. This also reflects our practice for terminated senior officers who execute general releases as Ms. O Leary did. See Potential Payments Upon Termination or Change in Control Employment Agreements Sharon A. O Leary for further information.

### **Severance Arrangement with Michael Snyder**

Our board of directors decided to treat Mr. Snyder's departure as a resignation for good reason under his employment agreement. This was done to facilitate an amicable and prompt resolution of compensation issues and related matters. Therefore, the payments and other benefits to Mr. Snyder are generally the same as called for under his employment agreement upon a resignation for good reason. They also reflect our practices for terminated senior executive officers who execute general releases, as Mr. Snyder did. See Potential Payments Upon Termination or Change in Control Employment Agreements Michael Snyder for further information.

### **Equity Grant Practices**

The compensation committee approves all grants of stock options and restricted stock units made to executive officers and other officers at the Senior Vice President level. The compensation committee usually makes annual grants in March of each year. The compensation committee makes grants for newly hired or newly promoted executive officers at the time of hire or promotion, and otherwise makes grants at other times of the year only in special circumstances. As described above, the compensation committee approved special grants of stock options and restricted stock units to the named executive officers in August 2007.

We do not backdate grants of stock options or restricted stock units, nor do we time grants to coincide with the release of material non-public information about Vonage. All grants made prior to May 16, 2007 were dated the actual date of grant. All grants, other than grants for newly hired employees, made on and after May 16, 2007 are dated on the first trading day of the month immediately following the month in which the option is granted. Grants for newly hired employees are dated the first trading day of the month immediately following the month in which the employee commences employment with us.

We set the exercise price of stock options based on the closing price of our common stock as reported on the New York Stock Exchange on the date of grant.

### **Ongoing and Post-Employment Compensation**

We have benefit plans, employment agreements and other arrangements for our named executive officers that accrue value as the executive officer continues to work for us or provide special benefits upon certain types of termination events. These plans, employment agreements and arrangements were designed to be part of a competitive compensation package.

*Employment Agreement and Change of Control Provisions of Equity Grants:* We have employment agreements with each of Mr. Citron, Mr. Rego and Mr. Mamakos, which set forth the terms of their employment with us. We believe that the employment agreements provide a competitive total compensation package and are appropriate for the respective responsibilities and duties of the executives.

Among other terms, the employment agreements provide for payments and other benefits if we terminate an executive officer's employment without cause, or if an executive officer terminates employment for good reason. Ms. Haenggi does not have an employment agreement, but our letter to her offering employment with us provides for a severance payment if her employment is terminated without cause. No distinction is made in the

amount of severance payable to the named executive officers before or after a change in control of Vonage. The severance level for Mr. Citron is greater than for the other executives, because of his greater responsibilities with respect to our company. We believe that these benefits are appropriate for the caliber of executives hired and for the size of our company.

Mr. Citron's employment agreement provides for single trigger change in control equity vesting, so that all of Mr. Citron's outstanding equity awards will vest in full upon a change in control of our company. Mr. Citron's employment agreement also provides for acceleration of vesting of his equity awards in the event of termination of employment without cause or termination of employment for good reason. Mr. Citron's single trigger change in control benefits were provided under his employment agreement in recognition of his role as our founder and his efforts to position us for our initial public offering.

Under Mr. Citron's employment agreement, if Mr. Citron becomes liable for payment of any excise tax under Section 4999 of the Internal Revenue Code with respect to any payment in connection with a change in control, we will make an additional payment to him. This payment is designed so that, after payment of all excise taxes and any other taxes payable in respect of the additional payment, Mr. Citron will retain the same amount as if no excise tax had been imposed. See [Tax Considerations](#) below for further information regarding the additional payments.

The employment agreement for Mr. Rego provides for double trigger vesting of his outstanding stock options after a change in control of our company. In other words, if a change of control occurs and, concurrently or afterwards, Mr. Rego is terminated by us without cause or Mr. Rego terminates his employment for good reason, the outstanding stock options held by Mr. Rego will vest in full. The option agreements for Ms. Haenggi and the three most recent option agreements for Mr. Mamakos provide for acceleration of vesting of 100% of unvested stock options covered by those agreements in the event of termination of employment without cause or for good reason prior to the first anniversary of a change in control. The remaining three option agreements for Mr. Mamakos provide for acceleration of vesting of one-half of unvested stock options in the event of termination of employment without cause or for good reason not later than 180 days after a change in control. The restricted stock unit grant agreements entered into in 2006 for Mr. Rego and Mr. Mamakos provide for acceleration of vesting of one-half of unvested restricted stock units in the event of termination of employment without cause or for good reason not later than 180 days after a change in control. The restricted stock unit grant agreements entered into in 2007 for Mr. Rego, Mr. Mamakos and Ms. Haenggi provide for acceleration of vesting of all restricted stock units in the event of termination of employment without cause or for good reason prior to the first anniversary of a change in control.

We believe that the severance compensation and acceleration of vesting provisions can help us retain management in times of uncertainty. The employment agreements provide financial security, in the form of severance compensation, in the event the executive officer's employment is terminated without cause or his or her responsibilities are significantly diminished. The agreements also provide clear statements of the rights of the executive officers and protect them against an unfavorable change in employment terms. Absent these provisions, there is an increased risk that executive officers may be encouraged to seek other employment opportunities if they became concerned about their employment security as a result of changes to our company or in the event of a change in control.

Moreover, we believe that the change in control benefits that we have provided to the executive officers provide appropriate incentives for the executive officers to cooperate in negotiating any change in control of Vonage without regard to the potential effect on their positions. See [Potential Payments Upon Termination or Change in Control](#) for further information regarding the employment agreements.

*401(K) Savings Plan:* This plan is a tax-qualified defined contribution plan available to all of our employees. Messrs. Citron, Rego and Mamakos, and Ms. Haenggi participate in the plan. Under the plan, an employee may contribute, subject to Internal Revenue Code limitations, up to a maximum of 15% of his or her

annual compensation. In 2007, we provided a matching contribution equal to 50% of each dollar contributed by a participant, up to a matching contribution of \$6,000. The matching contributions vest after three years following the date of employment. Amounts credited to a participant's account in the plan may be invested among a number of funds. A participant's account is adjusted to reflect the rate of return, positive or negative, on the investments. Employee and matching contributions are based on compensation up to annual limits established under the Internal Revenue Code (the eligible compensation limit was \$225,000 in 2007). Our matching contributions for the named executive officers are shown in the Summary Compensation Table. We do not provide any supplemental retirement benefits.

**Tax Considerations**

Section 162(m) of the Internal Revenue Code limits to \$1 million the deductibility for federal income tax purposes of annual compensation paid by a publicly held company to its chief executive officer and other specified executives, unless certain conditions are met. We structure our stock options to preserve the deductibility of income realized by an executive upon the exercise of stock options. While we may take actions in the future to preserve deductibility of other elements of compensation, the committee retains the flexibility to authorize compensation that may not be deductible if the committee believes it is in the best interests of our company. While the compensation for Mr. Citron exceeded the \$1 million deduction limit in 2007, we determined that this result was appropriate, based on the considerations regarding his compensation discussed above.

As noted above, under Mr. Citron's employment agreement, he will be entitled to receive additional payments if payments to him resulting from a change in control are subject to the excise tax imposed by Section 4999 of the Internal Revenue Code. It is possible that a change in control could result in additional payments to Mr. Citron. Nevertheless, we believe that the payments relating to the excise tax are appropriate to preserve the intended benefits under his agreement, as well as the incentive for Mr. Citron to maintain his employment with us.

\* \* \* \* \*



## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary	Bonus (1)	Stock Awards (2)	Option Awards (3)	Non-Equity Incentive Plan Compensation (4)	All Other Compensation (5)	Total
Jeffrey A. Citron (6) Chairman, Chief Strategist and Interim Chief Executive Officer	2007	\$ 600,000	\$ 438,000		\$ 3,133,998		\$ 11,982	\$ 4,183,980
	2006	\$ 663,077(7)			\$ 4,354,257	\$ 438,000	\$ 21,242	\$ 5,476,576
Michael Snyder (8) Former Chief Executive Officer	2007	\$ 155,769	\$ 150,685	\$ 68,113	\$ 150,381		\$ 1,147,247	\$ 1,604,082
	2006	\$ 413,462			\$ 4,551,696	\$ 302,000	\$ 111,049	\$ 5,446,320
John S. Rego Executive Vice President, CFO and Treasurer	2007	\$ 300,000	\$ 190,000	\$ 162,836	\$ 1,050,396		\$ 11,820	\$ 1,715,052
	2006	\$ 288,846	\$ 14,103	\$ 68,113	\$ 1,457,077	\$ 210,897	\$ 9,402	\$ 2,048,438
Sharon A. O Leary (9) Executive Vice President, Chief Legal Officer and Secretary	2007	\$ 290,000	\$ 169,360	\$ 162,836	\$ 575,753		\$ 2,999	\$ 1,200,948
	2006	\$ 281,077	\$ 5,838	\$ 68,113	\$ 715,608	\$ 164,162	\$ 12,906	\$ 1,247,704
Louis A. Mamakos Chief Technology Officer	2007	\$ 220,000	\$ 90,000	\$ 96,197	\$ 585,741		\$ 9,951	\$ 1,001,889
	2006	\$ 215,538	\$ 3,306	\$ 34,056	\$ 861,925	\$ 78,694	\$ 8,244	\$ 1,201,763
Jamie E. Haenggi (10) Chief Marketing Officer	2007	\$ 252,500	\$ 200,000	\$ 29,558	\$ 166,778		\$ 2,386	\$ 651,222

- (1) The amounts reported represent discretionary cash bonuses earned during 2006 and 2007, as applicable. The bonuses earned in 2007 were paid in 2008 and the bonuses earned in 2006 were paid in 2007. Please see the section titled "Annual Cash Bonuses" in the Compensation Discussion and Analysis as well as footnote 1 of the Grants of Plan-Based Awards 2007 table for more information regarding our bonus plan for 2007. With respect to the 2007 bonuses paid to Mr. Snyder and Ms. O Leary, see the section titled "Potential Payments Upon Termination or Change in Control Employment Agreements" for a description of separation agreements with Mr. Snyder and Ms. O Leary.
- (2) Stock awards consist only of restricted stock units. The amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the compensation costs recognized by us in 2006 and 2007, as applicable, with respect to stock awards for financial statement purposes, computed in accordance with Statement of Financial Accounting Standards, or SFAS No. 123 (Revised 2004), Share-Based Payment, or SFAS 123R, but without giving effect to estimated forfeitures. The assumptions used to calculate the value of stock awards are set forth under Note 9 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 17, 2008.
- (3) The amounts shown do not reflect compensation actually received by the named executive officer. Instead, the amounts shown are the compensation costs recognized by us in 2006 and 2007, as applicable, with respect to stock options for financial statement purposes, computed in accordance with SFAS 123R, but without giving effect to estimated forfeitures. These compensation costs reflect options granted in and prior to the applicable year. The assumptions used to calculate the value of stock options are set forth under Note 9 of the Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 filed with the SEC on March 17, 2008.
- (4) The amounts in this column represent total performance-based bonuses earned for services rendered during 2006. These bonuses were based on our financial performance. The bonuses earned in 2006 were paid in 2007.

(5) The amounts in this column consist of the following:

Name and	Year	401(k) Match	Insurance and Medical Premiums	Severance Agreement Payments	Relocation Reimbursement	Use of Vonage Office for Personal Employees	Total
Principal Position Jeffrey A. Citron	2007	\$ 6,000	\$				