

VONAGE HOLDINGS CORP  
Form DEF 14A  
April 27, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**SCHEDULE 14A**

(Rule 14a-101)

**Proxy Statement Pursuant to Section 14(a) of the**

**Securities Exchange Act of 1934**

(Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

**Confidential, for Use of the Commission Only** (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

**VONAGE HOLDINGS CORP.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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**VONAGE HOLDINGS CORP.**

**23 MAIN STREET**

**HOLMDEL, NJ 07733**

April 27, 2012

Dear Stockholders,

We are pleased to invite you to attend the annual meeting of stockholders of Vonage Holdings Corp. to be held on Thursday, June 7, 2012 at 10:00 a.m., local time. For your convenience, we are pleased that our annual meeting will be a completely virtual meeting, conducted via a live webcast at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG). You will be able to attend our annual meeting, vote your shares electronically and submit questions during the annual meeting. Details regarding admission to the meeting and the business to be conducted are provided in the accompanying Notice of 2012 Annual Meeting of Stockholders and Proxy Statement. Included with the Proxy Statement is a copy of our 2011 annual report, including our Form 10-K for the year ended December 31, 2011 (without exhibits). We encourage you to read our 2011 annual report, which includes our audited financial statements and information about our operations, markets, and products.

Your vote is important. Whether or not you plan to attend the annual meeting, we hope you will vote as soon as possible. You may vote over the Internet, as well as by telephone or by mailing a proxy or voting instruction card. Voting over the Internet, by telephone or by proxy or by providing voting instructions to your broker, trustee or nominee will ensure your representation at the annual meeting regardless of whether you attend. Please review the instructions on the proxy or voting instruction card regarding each of these voting options.

Also, if you plan to attend our annual meeting please see the admission instructions set forth in the Notice of 2012 Annual Meeting of Stockholders.

Thank you for your ongoing support of Vonage. We look forward to your participation in our annual meeting.

Sincerely,

Marc P. Lefar  
Chief Executive Officer

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**VONAGE HOLDINGS CORP.**

**23 MAIN STREET**

**HOLMDEL, NJ 07733**

**NOTICE OF 2012 ANNUAL MEETING OF STOCKHOLDERS**

**Time and Date**

10:00 a.m., local time, on Thursday, June 7, 2012

**Place**

via live webcast at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG)

**Items of Business**

At the meeting, we will ask you and our other stockholders to:

- (1) elect three Class III directors for terms to expire at the 2015 annual meeting of stockholders; and
- (2) ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

The stockholders will also act on any other business as may properly come before the meeting or any postponement or adjournment of the meeting. The board of directors has no knowledge of any other business to be transacted at the annual meeting.

**Record Date**

You may vote if you were a stockholder of record at the close of business on April 16, 2012. A list of these stockholders will be open for examination by any stockholder for any purpose germane to the 2012 annual meeting for a period of 10 days prior to the meeting at our principal executive offices at 23 Main Street, Holmdel, NJ 07733, and electronically during the 2012 annual meeting at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG) when you enter your 12-Digit Control Number.

**Proxy Voting**

It is important that your shares be represented and voted at the meeting. If you are a stockholder of record and do not plan to attend the meeting, please mark, sign, date and promptly mail your proxy card in the enclosed postage-paid envelope or vote over the Internet or by telephone. You may revoke your proxy at any time before its exercise at the meeting. If you do not hold your shares of record and you do not plan to attend the meeting, please follow the instructions provided by your broker, trustee or other nominee to ensure that your shares are voted.

By order of the Board of Directors,

*Kurt M. Rogers, Corporate Secretary*

April 27, 2012

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**Important Notice Regarding the Availability of Proxy Materials for Our**

**Annual Meeting of Stockholders to Be Held on June 7, 2012**

The accompanying proxy statement and our 2011 annual report to stockholders are available at <http://ir.vonage.com/>

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**VONAGE HOLDINGS CORP.**

**23 MAIN STREET**

**HOLMDEL, NJ 07733**

**PROXY STATEMENT**

**GENERAL INFORMATION**

**For Our Annual Meeting of Stockholders to be held on June 7, 2012**

Vonage Holdings Corp. (referred to as we, us, our, or Vonage in this document) has sent you this proxy statement and the enclosed proxy card because our board of directors is soliciting your proxy to vote at our 2012 Annual Meeting of Stockholders. The annual meeting will be held on Thursday, June 7, 2012, at 10:00 a.m., local time, via live webcast at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG). If the annual meeting is adjourned or postponed for any reason, the proxies may be used at any adjournments or postponements of the annual meeting. A replay of the webcast will be available on our website through June 30, 2012.

This proxy statement summarizes information about the proposals to be considered at the annual meeting and other information you may find useful in determining how to vote. We are mailing this proxy statement and the enclosed proxy card to stockholders on or about April 27, 2012. We are also enclosing a copy of our annual report, including our Form 10-K for the year ended December 31, 2011 (without exhibits). We sometimes refer to the year ended December 31, 2011 as fiscal year 2011 in this proxy statement.

**OTHER INFORMATION**

**Our Form 10-K for fiscal year 2011, as filed with the Securities and Exchange Commission, or SEC, which includes our audited financial statements, is available free of charge on the Investor Relations section of our web site at <http://ir.vonage.com/> or through the SEC's electronic data system at [www.sec.gov](http://www.sec.gov). To request a printed copy of our Form 10-K (without exhibits), which we will provide to you free of charge, you may: write to Vonage's Investor Relations Department at Vonage Holdings Corp., 23 Main Street, Holmdel, NJ 07733 or call us at 732.365.1328 or send an email through the Vonage Investor Relations website at <http://ir.vonage.com/>.**

**QUESTIONS AND ANSWERS ABOUT THE PROXY MATERIALS AND THE ANNUAL MEETING**

***Q: What information is contained in this proxy statement?***

**A:** The information in this proxy statement relates to the proposals to be voted on at the annual meeting, the voting process, the compensation of our directors and most highly paid executive officers in 2011, and certain other required information.

***Q: What shares can I vote?***

**A:** Each share of Vonage common stock issued and outstanding as of the close of business on April 16, 2012, which we refer to as the Record Date, is entitled to vote on all items being voted on at the annual meeting. You may vote all shares owned by you as of the Record Date, including (1) shares held directly in your name as the *stockholder of record* and (2) shares held for you as the *beneficial owner in street name* through a broker, trustee or other nominee such as a bank. On the Record Date, we had 226,363,907 shares of common stock issued and outstanding.

***Q: How many votes am I entitled to per share?***

**A:** Each holder of shares of common stock is entitled to one vote for each share of common stock held as of the Record Date.

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### ***Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?***

**A:** Most Vonage stockholders hold their shares through a broker, trustee or other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

#### *Stockholder of Record*

If your shares are registered directly in your name with our transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the *stockholder of record*, and these proxy materials are being sent directly to you by Vonage. As the *stockholder of record*, you have the right to grant your voting proxy directly to Vonage or to vote in person at the annual meeting. We have enclosed or sent a proxy card for you to use.

#### *Beneficial Owner*

If your shares are held in a brokerage account or by a trustee or other nominee, you are considered the *beneficial owner* of shares held *in street name*, and these proxy materials are being forwarded to you together with a voting instruction card by your broker, trustee or nominee, as the case may be. As the *beneficial owner*, you have the right to direct your broker, trustee or nominee how to vote, and you are also invited to attend the annual meeting.

Since a *beneficial owner* is not the *stockholder of record*, you may not vote your shares in person at the annual meeting unless you obtain a legal proxy from the broker, trustee or nominee that holds your shares giving you the right to vote the shares at the meeting. Your broker, trustee or other nominee can provide you information on how to obtain a legal proxy. Your broker, trustee or nominee has enclosed or provided voting instructions for you to use in directing the broker, trustee or other nominee how to vote your shares.

### ***Q: How can I attend and vote at the annual meeting?***

**A:** You are entitled to attend the annual meeting only if you were a Vonage stockholder or joint holder as of the Record Date, the close of business on April 16, 2012, or you hold a valid proxy for the annual meeting. We will be hosting the 2012 annual meeting live via webcast. A summary of the information you need to attend the annual meeting online is provided below:

Any stockholder can attend the 2012 annual meeting live via the Internet at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG)

Webcast starts at 10:00 a.m. local time

Stockholders may vote and submit questions while attending the annual meeting on the Internet

Please have your 12-Digit Control Number to enter the annual meeting

Instructions on how to attend and participate via the Internet, including how to demonstrate proof of stock ownership, are posted at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG)

Assistance with questions regarding how to attend and participate via the Internet will be provided at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG) on the day of the annual meeting

Webcast replay of the annual meeting will be available until June 30, 2012

***Q: How can I vote my shares without attending the annual meeting?***

**A:** Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct how your shares are voted without attending the annual meeting. If you are a stockholder of record, you may vote by submitting a proxy. If you hold shares beneficially in street name, you may vote by submitting

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voting instructions to your broker, trustee or nominee. For directions on how to vote, please refer to the instructions below and those included on your proxy card or, for shares held beneficially in street name, the voting instruction card provided by your broker, trustee or nominee.

*By Internet* Stockholders of record of Vonage common stock with Internet access may submit proxies by following the VOTE BY INTERNET instructions on their proxy cards until 11:59 p.m., Eastern Time, on June 6, 2012. Most Vonage stockholders who hold shares beneficially in street name may vote by accessing the web site specified on the voting instruction cards provided by their brokers, trustees or nominees. Please check the voting instruction card for Internet voting availability.

*By Telephone* Stockholders of record of Vonage common stock who live in the United States or Canada may submit proxies by following the VOTE BY TELEPHONE instructions on their proxy cards until 11:59 p.m., Eastern Time, June 6, 2012. Most Vonage stockholders who hold shares beneficially in street name and live in the United States or Canada may vote by phone by calling the number specified on the voting instruction cards provided by their brokers, trustees or nominees. Please check the voting instruction card for telephone voting availability.

*By Mail* Stockholders of record of Vonage common stock may submit proxies by completing, signing and dating their proxy cards and mailing them in the accompanying pre-addressed envelopes. Proxy cards submitted by mail must be received by the time of the meeting in order for your shares to be voted. Vonage stockholders who hold shares beneficially in street name may vote by mail by completing, signing and dating the voting instruction cards provided by their brokers, trustees or nominees and mailing them in the accompanying pre-addressed envelopes.

### ***Q: Can I change my vote?***

**A:** You may change your vote at any time prior to the vote at the annual meeting. If you are the stockholder of record, you may change your vote by granting a new proxy bearing a later date (which automatically revokes the earlier proxy) using any of the methods described above (and until the applicable deadline for each method), by providing a written notice of revocation to Vonage's Corporate Secretary at Vonage Holdings Corp., 23 Main Street, Holmdel, NJ 07733 prior to your shares being voted, or by attending the annual meeting on the Internet and voting. Attendance at the meeting on the Internet will not cause your previously granted proxy to be revoked unless you specifically so request. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, trustee or nominee following the instruction it has provided, or, if you have obtained a legal proxy from your broker or nominee giving you the right to vote your shares, by attending the meeting and voting while attending the annual meeting on the Internet.

### ***Q: How many shares must be present or represented to conduct business at the annual meeting?***

**A:** The quorum requirement for holding the annual meeting and transacting business is that holders of a majority of the voting power of the issued and outstanding common stock of Vonage must be present in person or represented by proxy. Broker non-votes (described below) are counted for the purpose of determining the presence of a quorum.

### ***Q: What is the voting requirement to approve each of the proposals?***

**A:** Directors are elected by a plurality of the votes cast. This means that the three Class III candidates for election as directors receiving the highest number of FOR votes will be elected. Stockholders cannot cumulate votes in the election of directors. Votes withheld and broker non-votes are not considered votes cast on this proposal and will not have any effect on the election of directors.

The proposal to ratify the appointment of BDO USA, LLP as our independent registered public accounting firm requires the affirmative FOR vote of a majority of those shares present in person or represented by proxy and voting on the proposal at the annual meeting. Abstentions are considered votes cast and, accordingly, will have the same effect as a vote against the proposal.

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### ***Q: What is the effect of not casting a vote?***

**A:** If you hold shares beneficially in street name and do not provide your broker with voting instructions, your shares may constitute broker non-votes. Generally, broker non-votes occur on a matter when a broker is not permitted to vote on that matter without instructions from the beneficial owner and instructions are not given. Under New York Stock Exchange rules, brokers would have discretionary voting power with respect to ratification of BDO USA, LLP, but not for the election of directors. **We encourage you to provide instructions to your broker, trustee or other nominee regarding the voting of your shares.**

If you are a stockholder of record and do not return a proxy card, no votes will be cast on your behalf on any of the items of business at the annual meeting. If you are a stockholder of record and return your proxy card but it does not indicate any voting instructions, such proxy will be voted FOR the election of all director nominees named in this proxy statement and FOR the proposal to ratify of BDO USA, LLP.

### ***Q: What happens if additional matters are presented at the annual meeting?***

**A:** Other than the items of business described in this proxy statement, we are not aware of any other business to be acted upon at the annual meeting. If you grant a proxy, the persons named as proxy holders will have the discretion to vote your shares on any additional matters properly presented for a vote at the meeting. If for any reason any of our nominees is not available as a candidate for director, the persons named as proxy holders will vote your proxy for such other candidate or candidates as may be nominated by our board of directors.

### ***Q: Who will serve as inspector of elections?***

**A:** The inspector of elections will be a representative from Broadridge Investor Communications Services.

### ***Q: What should I do if I receive more than one set of voting materials?***

**A:** You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each Vonage proxy card and voting instruction card that you receive.

### ***Q: What is householding and how do I revoke my consent to the householding program?***

**A:** Vonage has adopted a method of delivery for its proxy materials and annual report called householding. Under this method, we deliver only one copy of the proxy materials and annual report to one or more stockholders who share the same last name and address, unless such stockholders have notified us that they wish to continue to receive multiple copies. Vonage adopted the householding method to reduce the amount of duplicative material that its stockholders receive and to lower printing and mailing costs. Householding is in effect for the 2012 Annual Meeting of Stockholders and will remain in effect for all future annual meetings.

If you are a registered stockholder who previously received multiple copies and wish to continue to receive multiple copies of our proxy materials at the same address, additional copies will be provided to you upon request. You may request multiple copies by notifying us in writing or verbally that you wish to opt out of the householding program at:

Vonage Investor Relations

23 Main Street

Holmdel, NJ 07733

732.365.1328

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You may opt out of householding at any time 30 days prior to the mailing of proxy materials. If you own our common stock in street name (such as through a broker), please notify your broker if you wish to continue to receive multiple copies of the proxy materials.

Stockholders who share an address and receive multiple copies of our annual report, including our Form 10-K, and proxy materials can request to receive a single copy of these materials and notices of Internet availability of proxy materials (if applicable) in the future by following the instructions above. Stockholders can also revoke their consent and receive separate copies of these documents in the future by following the instructions above.

***Q: How may I obtain an additional copy of our 2011 annual report and proxy materials?***

**A:** Any stockholder may request additional copies of our annual report, including our Form 10-K (without exhibits), and proxy materials by sending an e-mail through the Vonage Investor Relations website at <http://ir.vonage.com/>, calling 732.365.1328 or writing to:

Vonage Investor Relations

23 Main Street

Holmdel, NJ 07733

We will promptly deliver the requested copies. Current and prospective investors can access or order free copies of our annual report, including our Form 10-K (without exhibits) and proxy statement by following these same instructions.

***Q: Who will bear the cost of soliciting votes for the annual meeting?***

**A:** Vonage is making this solicitation and will pay the entire cost of preparing, assembling, printing, mailing, and distributing these proxy materials and soliciting votes. If you choose to access the proxy materials or vote over the Internet, you are responsible for Internet access charges you may incur. If you choose to vote by telephone, you are responsible for telephone charges you may incur. In addition to the mailing of these proxy materials, the solicitation of proxies or votes may be made in person, by telephone or by electronic communication by our directors, officers, and employees, who will not receive any additional compensation for such solicitation activities. We have retained Georgeson Inc. at an estimated cost of \$7,500, plus expenses, to assist in the solicitation of proxies.

***Q: What is the deadline to propose actions for consideration at the 2013 annual meeting of stockholders or to nominate individuals to serve as directors?***

**A:** You may submit proposals, including director nominations, for consideration at future stockholder meetings.

*Stockholder Proposals:* Any stockholder proposals (other than proposals to nominate directors) intended to be presented at an annual meeting of stockholders called for a date between May 8, 2013 and July 7, 2013 and to be considered for inclusion in our proxy materials must be received by December 28, 2012 and must comply with the procedures of Rule 14a-8 under the Securities Exchange Act of 1934. Stockholder proposals failing to comply with the procedures of Rule 14a-8 will be excluded. Proposals should be addressed to:

Vonage Holdings Corp.

Attn: Corporate Secretary

23 Main Street

Holmdel, NJ 07733

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For a stockholder proposal (other than proposals to nominate directors) intended to be presented at an annual meeting of stockholders called for a date between May 18, 2013 and August 6, 2013 that is not intended to be included in Vonage's proxy statement under Rule 14a-8, the stockholder must (1) provide the information required by Section 1.11 of our bylaws and (2) give timely notice to the Corporate Secretary of Vonage in accordance with our bylaws, which, in general, require that the notice be received by the Corporate Secretary of Vonage:

not earlier than February 7, 2013, and

not later than March 9, 2013.

However, in the event that the date of the annual meeting is not held between May 18, 2013 and August 6, 2013, a written proposal that is not intended to be included in Vonage's proxy statement under Rule 14a-8 must be received not earlier than the 120th day prior to the annual meeting and not later than the close of business on the later of (A) the 90th day prior to the annual meeting and (B) the tenth day following the day on which notice of the date of the annual meeting is mailed or public disclosure of the date of the annual meeting is made, whichever first occurs.

*Nomination of Director Candidates:* You may propose director candidates for consideration by the board of directors nominating and governance committee. Any such recommendations should include the nominee's name and qualifications for board of directors membership and should be directed to the Corporate Secretary of Vonage at the address of our principal executive offices set forth above. For additional information regarding stockholder recommendations for director candidates, see Corporate Governance Director Nomination Process below in this proxy statement.

In addition, our bylaws permit stockholders to nominate directors for election at an annual stockholder meeting. To nominate a director, the stockholder must provide the information required by Section 1.10 of our bylaws. In addition, the stockholder must give timely notice to our Corporate Secretary in accordance with our bylaws, which, in general, require that the notice be received by our Corporate Secretary within the time period described above under Stockholder Proposals for stockholder proposals that are not intended to be included in our proxy statement under Rule 14a-8.

*Copy of Bylaw Provisions:* You may contact our Corporate Secretary at Vonage Holdings Corp., Attn: Corporate Secretary, 23 Main Street, Holmdel, NJ 07733 for a copy of the relevant bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates.

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**PROPOSAL NO. 1**

**ELECTION OF DIRECTORS**

**General**

Our board of directors is divided into three classes. One class is elected each year and members of each class hold office for three-year terms. The Class I, Class II, and Class III directors were elected to serve until the annual meeting of stockholders to be held in 2013, 2014, and 2012, respectively, and until their respective successors are elected and qualified. Our board of directors currently consists of ten members. Peter Barris, David C. Nagel, and Michael A. Krupka are Class I directors. Marc P. Lefar, Joseph M. Redling, John J. Roberts, and Carl Sparks are Class II directors. Jeffrey A. Citron, Morton David, and Jeffrey J. Misner are Class III directors. As discussed more fully under Corporate Governance Board Determination of Independence, our board has determined that each of Peter Barris, Morton David, Michael A. Krupka, Jeffrey J. Misner, David C. Nagel, Joseph M. Redling, John J. Roberts, and Carl Sparks is independent under New York Stock Exchange rules. In addition, our board preliminarily determined that Jeffrey Citron will become independent pursuant to Section 303A.02(b) of the New York Stock Exchange Listed Company Manual on May 6, 2012, assuming there is no intervening event impacting this determination.

Mr. Lefar's employment agreement with us provided for his election to our board of directors upon commencement of his employment in July 2008. His agreement provides that, during the term of his employment, subject to legal and regulatory requirements, our board of directors shall nominate him for re-election at the end of each then current term.

No director, director nominee, or associate of any director or director nominee, is a party adverse to us or any of our subsidiaries in any material proceeding or has any material interest adverse to us or any of our subsidiaries. No director, director nominee or executive officer is related by blood, marriage or adoption to any other director or executive officer.

**Board Composition and Nominees**

We believe that each member of our board of directors should possess certain qualities, including ethical character, sound judgment, and demonstrated business acumen. In addition, board members should be familiar with our business and industry, be able to work collegially, be free of conflicts of interest, be willing to devote sufficient time to satisfy obligations as a director, and be willing to act in the best interests of all stockholders. While we do not have a formal diversity policy, we seek to have directors representing a range of experiences, qualifications, skills, and backgrounds. In addition, our nominating and governance committee has made board diversity a priority in its evaluation of director candidates.

The persons named in the enclosed proxy card will vote to elect each of the following nominees as a director, unless the proxy is marked otherwise. Each nominee has indicated a willingness to serve as a director, if elected. If any nominee becomes unable or unwilling to serve, the proxies may be voted for substitute nominees selected by our board of directors.

***Nominees for Terms Expiring in 2015 (Class III Directors)***

*Jeffrey A. Citron*, age 41, has been the Chairman of our board of directors since January 2001. Mr. Citron was also our Chief Executive Officer from January 2001 through February 2006. He served as our Chief Strategist from February 2006 to July 2008 and assumed the additional role of Interim Chief Executive Officer from April 2007, upon the resignation of Vonage's prior Chief Executive Officer, until July 2008. In 1995, Mr. Citron founded The Island ECN, a computerized trading system designed to automate the order execution process. Mr. Citron became the Chairman and CEO of Datek Online Holdings Corp., an online trading firm, in February 1998 and departed The Island ECN and Datek Online Holdings Corp. in October 1999.



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As a Founder and former Chief Executive Officer and Chief Strategist of Vonage, Mr. Citron brings deep institutional knowledge and perspective regarding our strengths, challenges, opportunities, and operations to his role as our Chairman. Having successfully founded and grown several businesses, Mr. Citron brings entrepreneurial and business-building skills and experience to Vonage. He also brings the perspective of a stockholder with significant stock ownership in us. In addition, Mr. Citron possesses an extensive understanding of telecommunications technologies, including VoIP technology.

*Morton David*, age 75, joined our board of directors in August 2001. Mr. David served as the Chairman and Chief Executive Officer of Franklin Computer Corporation (later Franklin Electronic Publishers, Inc.) from 1983 to 1998. Mr. David previously served on the board of directors of Datek Online Holdings Corp. from 1998 until its acquisition by Ameritrade Holdings in 2002 and on the board of directors of Sharper Image Corporation from 1998 until 2008.

Mr. David, chairman of our compensation committee, brings extensive experience to Vonage from his service as chairman and chief executive officer of large and growing technology organizations, as well as public company board experience. In addition, Mr. David has institutional knowledge from his longstanding service on our board.

*Jeffrey J. Misner*, age 58, joined our board of directors in March 2008. Mr. Misner served as Executive Vice President and Chief Financial Officer of Continental Airlines, Inc. from August 2004 until his retirement in August 2008. Mr. Misner joined Continental Airlines, Inc. in 1995 and previously served in various capacities, most recently as Senior Vice President and Chief Financial Officer.

As a result of his experience at Continental Airlines, Mr. Misner is familiar with the challenges of a global enterprise and has had direct responsibility for public company accounting, tax, risk management, disclosure, and financial system management. Mr. Misner, a member of our audit committee, has been determined to be an Audit Committee Financial Expert under the SEC's rules and regulations. His public company management experience is also useful in his role as the chairman of our nominating and governance committee.

### ***Directors Whose Terms Expire in 2013 (Class I Directors)***

*Peter Barris*, age 60, joined our board of directors in September 2004. Mr. Barris has served as Managing General Partner of New Enterprise Associates, Inc., or NEA, a venture capital firm, since 1999. He has been with NEA since 1992, and he serves as either an executive officer, Manager, Director or General Partner of various entities affiliated with NEA. Mr. Barris currently serves on the boards of directors of four other public companies, Groupon, Inc., Innerworkings, Inc., Neutral Tandem, Inc. and Echo Global Logistics, Inc., as well as several private companies in the NEA portfolio. Mr. Barris is a member of the Board of Trustees of Northwestern University.

As Managing General Partner of a venture capital firm that owns approximately 5.2% of our common stock as of April 16, 2012, and a director of other public technology companies, Mr. Barris has a broad understanding of the operational, marketing, financial, and strategic issues facing public technology companies.

*Michael A. Krupka*, age 47, joined our board of directors in July 2007. Mr. Krupka has served as Managing Director of Bain Capital Venture Partners, LLC, a venture capital firm, since its founding in 2000. Prior to Bain Capital Ventures, Mr. Krupka was a Managing Director and Principal with the Private Equity Group of Bain Capital Partners, LLC from 1994 to 2000, during which time he focused on technology and technology-driven companies, including software, hardware, database and telecommunication services. Earlier at Bain Capital Partners, LLC, from 1991 to 1994, Mr. Krupka was a Principal of Information Partners, a fund focused on early-stage information technology investing. He joined Bain Capital in 1991 and focused on early-stage technology-related companies. Mr. Krupka serves on the board of directors of Princeton Review Inc., a publicly traded provider of test preparation and tutoring services, and a number of privately held companies. Mr. Krupka became our Lead Independent Director in February 2010.

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As a long-time venture capitalist in the technology area, Mr. Krupka brings strategic insight and extensive experience with technology companies to our board of directors, both in our core businesses as well as in emerging products and technologies. He also has deep experience with different business models and with the capital markets. Mr. Krupka brings this experience to his role as our Lead Independent Director.

*David C. Nagel*, age 67, joined our board of directors in August 2010. From December 2001 until his retirement in May 2005, Dr. Nagel served as the President, Chief Executive Officer, and a director of PalmSource, Inc., a provider of operating system software platforms for smart mobile devices. From September 2001 to December 2001, he was Chief Executive Officer of the Platform Solutions Group at Palm, Inc., a provider of mobile computing solutions. Prior to joining Palm, from April 1996 to September 2001, Dr. Nagel was Chief Technology Officer of AT&T Corp., a communications service provider, President of AT&T Labs, a corporate research and development unit of AT&T, and Chief Technology Officer of Concert, a partnership between AT&T and British Telecom. Earlier in his career, Dr. Nagel was senior vice president at Apple Computer where he led the worldwide research and development group responsible for Mac OS software, Macintosh hardware, imaging and other peripheral products development. Before joining Apple, Dr. Nagel was head of NASA human factors research at NASA's Ames Research Center. Dr. Nagel currently serves on the board of directors of Align Technology, Inc., Leapfrog Enterprises, Inc., Openwave Systems Inc., and Tessera Technologies, Inc.

Dr. Nagel has prior public board experience and extensive experience and insight in research and development and network communications technologies that we expect will be helpful as we continue to develop new products and services.

### ***Directors Whose Terms Expire in 2014 (Class II Directors)***

*Marc P. Lefar*, age 48, has been our Chief Executive Officer and a director since July 2008. Prior to joining Vonage, Mr. Lefar was Founder and Principal of Marketing Insights, a technology and media consulting firm that he founded in May 2007. Prior to founding that firm, Mr. Lefar served as Chief Marketing Officer of Cingular Wireless from February 2003 to April 2007. Mr. Lefar also served as Executive Vice President, Marketing and Value-Added Services of Cable and Wireless Global from 2000 to 2002. He also held senior leadership roles at Verizon Wireless and GTE Wireless. Mr. Lefar spent the first nine years of his career at Procter & Gamble.

Mr. Lefar brings to Vonage key senior leadership experience in large, high-growth telecommunications companies and possesses a strong mix of strategy, finance, and operating skills. He is a seasoned marketing executive who played a critical role in growing customer bases, launching new product initiatives, and developing award-winning advertising campaigns. In addition, he serves as our Chief Executive Officer.

*John J. Roberts*, age 67, joined our board of directors in August 2004. Mr. Roberts served as Global Managing Partner for PricewaterhouseCoopers LLP, a provider of assurance, tax, and advisory services, from 1998 until his retirement in June 2002. From 1994 to 1998, Mr. Roberts served as Chief Operating Officer of Coopers & Lybrand, which merged with Price Waterhouse in 1998. He currently serves on the boards of directors and audit committees of Armstrong World Industries, Inc. and Safeguard Scientifics, Inc. and the board of trustees and audit committee of the Pennsylvania Real Estate Investment Trust. He is a Member of the American Institute of Certified Public Accountants.

As a result of his roles at PricewaterhouseCoopers LLP and its predecessors, Mr. Roberts, chairman of our audit committee, has experience in public company accounting, risk management, disclosure, and financial system management and has been determined to be an Audit Committee Financial Expert under the SEC's rules and regulations. He also has other public company board experience (including specific experience on audit committees).

*Carl Sparks*, age 44, joined our board of directors in February 2011. Mr. Sparks has served as the Chief Executive Officer of Travelocity Global since April 2011. Travelocity is one of the leading companies in online

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travel, and a division of Sabre Inc. Prior to joining Travelocity, he served as President of Gilt Groupe, an invitation-only online retailer of luxury products and experiences. Mr. Sparks joined Gilt as Chief Marketing Officer in October 2009 and was promoted to President in March 2010, serving in that role until April 2011, when he joined Travelocity. Mr. Sparks also served five years at Expedia Inc., an online travel company, from June 2004 until October 2009, in a variety of leadership roles including Senior Vice President, Marketing and Retail Operations at Hotels.com from June 2004 to May 2006, Chief Marketing Officer at Expedia.com from June 2006 to December 2007, and General Manager at Hotels.com USA, Latin America & Canada from January 2008 to October 2009. Earlier in his career, Mr. Sparks served as Vice President of Direct Business and Brand at Capital One Financial Corp., a financial institution, and also served in senior marketing and strategy roles at Guinness & Co., PepsiCo Inc., and The Boston Consulting Group.

Mr. Sparks has senior leadership experience in digital marketing for high-growth companies maintaining a strong online sales presence. He also has significant international business and brand marketing expertise.

*Joseph M. Redling*, age 53, joined our board of directors in June 2011. Mr. Redling has served as President and Chief Executive Officer of NutriSystem, Inc., a weight loss company, since May 2008. Mr. Redling also served as Chairman of NutriSystem, Inc.'s board of directors until April 2012 and had served as President and Chief Operating Officer of NutriSystem, Inc. from September 2007 to May 2008. Prior to joining NutriSystem, Inc., Mr. Redling held a number of executive positions at AOL, Inc., a global web services company, including Chief Marketing Officer, President of AOL Access, President of AOL Paid Services and Customer Management and Chief Executive Officer of AOL International from September 2001 to March 2007.

Mr. Redling has deep expertise in online marketing, which will be instrumental as we continue to deliver new communications products to customers worldwide. In addition, Mr. Redling has held multiple executive positions at NutriSystem, Inc. and other major corporations, and has served as the Chairman of NutriSystem, Inc.'s board, providing him with a significant understanding of board processes and public company governance practices.

## **Transactions with Related Persons**

### *Policies and Procedures for Related Person Transactions*

Our board has adopted written policies and procedures for the review of any transaction, arrangement or relationship in which Vonage is a participant, the amount involved exceeds \$120,000, and one of our executive officers, directors, director nominees, or 5% stockholders (or their immediate family members), each of whom we refer to as a related person, has a direct or indirect material interest.

If a related person proposes to enter into such a transaction, arrangement or relationship, which we refer to as a related person transaction, the related person must report the proposed related person transaction to our chief legal officer. The policy calls for the proposed related person transaction to be reviewed and, if deemed appropriate, approved or ratified by the board's audit committee. Whenever practicable, the reporting, review, and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the audit committee will review, and, in its discretion, may ratify the related person transaction. The policy also permits the chairman of the audit committee to review and, if deemed appropriate, approve proposed related person transactions that arise between committee meetings, subject to ratification by the audit committee at its next meeting. Any related person transactions that are ongoing in nature will be reviewed annually.

A related person transaction reviewed under the policy will be considered approved or ratified if it is authorized by the audit committee after full disclosure of the material terms of the transaction and the related person's interest in the transaction. As appropriate for the circumstances, the audit committee will review and consider:

the related person's interest in the related person transaction;

the approximate dollar value of the amount involved in the related person transaction;

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the approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;

whether the transaction was undertaken in the ordinary course of our business;

whether the terms of the transaction are no less favorable to us than terms that could have been reached with an unrelated third party;

the purpose of, and the potential benefits to us of, the transaction; and

any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The audit committee may approve or ratify the transaction only if the audit committee determines that, under all of the circumstances, the transaction is in, or is not inconsistent with, our best interests. The audit committee may impose any conditions on the related person transaction it deems appropriate.

In addition to the transactions that are excluded by the instructions to the SEC's related person transaction disclosure rule, the board has determined that the following transactions do not create a material direct or indirect interest on behalf of related persons and, therefore, are not related person transactions requiring approval or ratification for purposes of this policy:

interests arising solely from the related person's position as an executive officer of another entity (whether or not the person is also a director of such entity) that is a participant in the transaction, where (a) the related person and all other related persons own in the aggregate less than a 10% equity interest in such entity, (b) the related person and his or her immediate family members are not involved in the negotiation of the terms of the transaction and do not receive any special benefits as a result of the transaction, (c) the amount involved in the transaction equals less than the greater of \$1 million dollars or 2% of the annual gross revenues of the other entity that is a party to the transaction, and (d) the amount involved in the transaction equals less than 2% of Vonage's annual gross revenues; and

a transaction that is specifically contemplated by provisions of Vonage's charter or bylaws.

The policy provides that transactions involving compensation of executive officers shall be reviewed and approved by the compensation committee in the manner specified in its charter.

As previously disclosed and approved by our board of directors, in connection with his additional investment in the company, on April 17, 2002, Vonage's principal stockholder and Chairman, Jeffrey A. Citron, received a warrant to purchase 514,000 shares of our common stock at an exercise price of \$0.70 per share that would have expired on June 20, 2012. As a result of the dilutive effects of the issuance of our prior convertible notes, the exercise price was reduced to \$0.58. At the time the warrant was exercised during the first quarter of 2011, we determined that the aggregate fair value of the warrant was \$1,847,000. In addition, we received proceeds of \$298,000 from our Chairman in connection with the exercise of the warrant.

**Information Concerning our Chairman**

As previously disclosed, prior to joining Vonage, Mr. Citron was associated with Datek Securities Corporation and Datek Online Holdings Corp., including as an employee of, and consultant for, Datek Securities and, later, as one of the principal executive officers and largest stockholders of Datek Online. Datek Online was a large online brokerage firm. Datek Securities was a registered broker-dealer that engaged in a number of businesses, including proprietary trading and order execution services. During a portion of the time that Mr. Citron was associated with Datek Securities, the SEC alleged that Datek Securities, Mr. Sheldon Maschler (another principal executive officer and large stockholder of Datek), Mr. Citron, and certain other individuals participated in an extensive fraudulent scheme involving improper use of the Nasdaq Stock Market's Small



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Order Execution System, or SOES. In January 2003, Mr. Maschler, Mr. Citron and others entered into settlement agreements with the SEC to resolve charges that they had improperly used SOES from 1993 until early 1998, when Datek Securities' day-trading operations were sold to Heartland Securities Corporation. Mr. Maschler and others, but not Mr. Citron, were alleged to have continued such improper use until June 2001 at Heartland Securities. To settle the charges, Mr. Maschler, Mr. Citron, and the other individuals paid \$70 million in civil penalties and disgorgements of profits, of which Mr. Citron paid \$22.5 million in civil penalties. In addition, Mr. Citron was enjoined from future violations of certain provisions of the U.S. securities laws, including the antifraud provisions set forth in Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934. Mr. Citron also agreed to accept an SEC order that permanently bars him from association with any securities broker or dealer. Mr. Maschler and the other individuals and corporations agreed to similar restrictions. Mr. Citron settled the charges without admitting or denying the allegations in the SEC's complaint.

**Recommendation of our Board of Directors**

Our board of directors recommends a vote FOR the election to our board of directors of Messrs. Citron, David, and Misner as Class III directors.

**Table of Contents****PROPOSAL NO. 2****RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM****General**

Vonage is asking the stockholders to ratify the audit committee's appointment of BDO USA, LLP as Vonage's independent registered public accounting firm for the year ending December 31, 2012. Although stockholder approval of the audit committee's appointment of BDO USA, LLP is not required by law, our board of directors and the audit committee believe that it is advisable to give stockholders an opportunity to ratify the appointment. In the event the stockholders fail to ratify the appointment, the audit committee will reconsider this appointment. Even if the appointment is ratified, the audit committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if the audit committee determines that such a change would be in Vonage's and its stockholders' best interests.

BDO USA, LLP has audited Vonage's consolidated financial statements annually since Vonage's 2004 fiscal year. Representatives of BDO USA, LLP are expected to be present at the meeting and will have the opportunity to make a statement if they desire to do so. It is also expected that those representatives will be available to respond to appropriate questions.

**Auditors' Fees**

The following table summarizes the fees BDO USA, LLP billed to us for each of the last two fiscal years.

| <b>Fee Category</b>    | <b>Fiscal Year 2011</b> | <b>Fiscal Year 2010</b> |
|------------------------|-------------------------|-------------------------|
| Audit Fees (1)         | \$ 1,118,641            | \$ 1,254,089            |
| Tax Fees (2)           | 134,738                 | 32,865                  |
| Audit Related Fees (3) | 87,000                  | 83,000                  |
| Total Fees             | \$ 1,340,379            | \$ 1,369,954            |

- (1) Audit fees consist of amounts billed for the audit of our annual financial statements included in our annual report on Form 10-K, the review of the interim financial statements included in our quarterly reports on Form 10-Q, the audit of internal control over financial reporting and other professional services provided in connection with statutory and regulatory filings.
- (2) Tax fees consist of amounts billed for advisory services regarding tax compliance issues and the completion of corporate tax returns. None of our tax fees billed in fiscal year 2011 or 2010 were provided under the de minimis exception to the audit committee pre-approval requirements.
- (3) Audit related fees consist of other services not directly related to audit or review services.

**Pre-Approval Policies and Procedures**

Our audit committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by our registered public accounting firm. This policy generally provides that we will not engage our independent registered public accounting firm to render audit or non-audit services unless the service is specifically approved in advance by the audit committee or the engagement is entered into pursuant to one of the pre-approval procedures described below.

From time to time, our audit committee may pre-approve specified types of services that are expected to be provided to us by our independent registered public accounting firm during the next 12 months. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount.





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Our audit committee has also delegated to the chairman of the audit committee the authority to approve any audit or non-audit services to be provided to us by our independent registered public accounting firm. Any approval of services by the chairman of the audit committee pursuant to this delegated authority is reported on at the next meeting of the audit committee.

The Audit Committee pre-approved all of the Audit, Audit Related, and Tax Fees billed to us by BDO USA, LLP for 2011.

**Recommendation of our Board of Directors**

Our board of directors recommends that the stockholders vote FOR the ratification of the appointment of BDO USA, LLP to serve as Vonage's independent registered public accounting firm for the year ending December 31, 2012.

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### **CORPORATE GOVERNANCE**

Our board of directors believes that good corporate governance is important to ensure that Vonage is managed for the long-term benefit of stockholders. This section describes key corporate governance principles and practices that our board has adopted. Complete copies of our governance principles, committee charters, code of conduct, and finance code of ethics are available on the Corporate Governance section of our web site at <http://ir.vonage.com/>. Alternatively, you may request a copy of any of these documents by writing to Vonage Holdings Corp., Attn: Corporate Secretary, 23 Main Street, Holmdel, NJ 07733.

#### **Governance Principles**

Our board has adopted governance principles to assist in the exercise of its duties and responsibilities and to serve the best interests of Vonage and our stockholders. These principles, which provide a framework for the conduct of the board's business, provide that:

the board's principal responsibility is to oversee the management of Vonage;

a majority of the members of the board shall be independent directors;

the non-management directors meet regularly in executive session;

directors have full and free access to management and, as necessary and appropriate, independent advisors;

new directors participate in an orientation program and all directors are encouraged to participate in continuing director education on an ongoing basis; and

at least annually, the board and its committees will conduct a self-evaluation to determine whether they are functioning effectively.

#### **Board Leadership Structure**

The following section describes our board leadership structure, the reasons why the structure is in place at this time, the roles of various positions, and related key governance practices.

Our board of directors is currently composed of eight independent directors, Mr. Citron, our Chairman of the Board, and Mr. Lefar, our Chief Executive Officer. As provided in our governance principles, our board of directors has designated one of the independent directors as Lead Independent Director. Our board of directors has established audit, compensation and nominating and governance committees. Each of the board committees is composed solely of independent directors, each with a different independent director serving as committee chair.

According to our governance principles, in the absence of an independent Chairman of the Board, our nominating and governance committee must nominate a Lead Independent Director, who must be approved by a majority of the independent directors. Our Lead Independent Director (i) has the responsibility to schedule and prepare agendas for and to chair meetings of non-management or independent directors, (ii) facilitate communication between our Chairman of the Board and our Chief Executive Officer and the other directors (however, directors are free to communicate directly with our Chairman of the Board and our Chief Executive Officer), (iii) cause the dissemination of information to the other members of our board of directors, and (iv) raise issues on behalf of the outside directors when appropriate. Mr. Krupka was appointed as our Lead Independent Director in February 2010.

With respect to the roles of Chairman of the Board and Chief Executive Officer, our governance principles provide that our board of directors may fill these positions based upon what is in the best interests of Vonage and its stockholders at any point in time. In the event of the separation of the two roles, a non-independent director may serve in the position of Chairman of the Board. In July 2008, our board of directors first determined that the positions of Chairman of the Board and Chief Executive Officer should be held by different persons, with



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Mr. Citron serving as Chairman and Mr. Lefar serving as Chief Executive Officer. While Mr. Lefar has now acquired the institutional knowledge that initially was a primary reason for separating the roles, our board of directors has continued the separation. As further discussed under Board Determination of Independence below, though our board of directors has preliminarily determined that our Chairman of the Board will be independent under New York Stock Exchange rules as of May 6, 2012 (assuming no intervening events impacting his independence status) we believe that maintaining our current leadership structure, including a separate Chairman and Lead Independent Director, is the best approach to maintaining an appropriate level of checks and balances in our governance and allows our board of directors to function effectively.

Our nominating and governance committee oversees annually a self-evaluation by our board of directors of its performance during the prior year. As part of this process our nominating and governance committee will conduct an evaluation to review the progress and effectiveness of our board of directors and its committees, and submits comments to the Lead Independent Director. Following discussion with the Lead Independent Director, our nominating and governance committee reports back to our board of directors, and the full board of directors will consider and discuss the committee's report, including assessing whether the current leadership structure continues to be appropriate for Vonage and its stockholders. Our governance principles provide the flexibility for our board of directors to modify our leadership structure in the future as appropriate. We believe that Vonage, like many U.S. companies, has been well-served by this flexibility.

## **Risk Management**

Our Chief Executive Officer reports directly to our board of directors and is responsible for the day-to-day management of our company, including all material risks. Our Chief Financial Officer is responsible for day-to-day financial risk management under the direction of our Chief Executive Officer. Management has implemented an enterprise risk management process to identify, assess, and manage the most significant risks facing us and conducts risk assessments of our business periodically. The risk assessment process is global in nature and has been developed to identify and assess our risks, including the nature of the risk, as well as to identify steps to mitigate and manage each risk. Our senior leadership team, functional heads, and other managers are surveyed and/or interviewed to develop this information. The enterprise risk management process is led by our Chief Legal Officer, who reports to our Chief Executive Officer, and our Vice President, Internal Audit, who reports directly to our audit committee. In fiscal year 2011, our Chief Legal Officer and Vice President, Internal Audit provided regular status updates on our enterprise risk management process and activities to our audit committee.

Our board of directors is involved in oversight of Vonage's risk assessment and monitoring processes, although much of the board's oversight efforts are conducted through the committees of the board. Management reviews significant risks with our board of directors throughout the year, as necessary and/or appropriate, and conducts a formal review of its assessment and management of the most significant risks with our board of directors on a periodic basis. Our audit committee has oversight responsibility to review management's risk assessment and risk management policies, including the policies and guidelines used by management to identify, monitor and manage our exposure to risk. Our audit committee reviews and discusses with our management, our outside auditor and our internal auditors the risks facing Vonage and our management's plan to manage the risks identified as a result of the enterprise risk management process and reports on its review to the full board of directors. Our compensation committee reviews risks arising from our compensation policies and practices and reports on its review to the full board of directors.

## **Board Determination of Independence**

Under applicable New York Stock Exchange rules, a director will only qualify as independent if our board affirmatively determines that he or she has no material relationship with Vonage (either directly or as a partner, stockholder or officer of an organization that has a relationship with us). Our board has established guidelines to

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assist it in determining whether a director has such a material relationship. The guidelines are included in our governance principles, which are available on our website as discussed above. Under these guidelines, a director is not considered to have a material relationship with Vonage if he or she is independent under Section 303A.02(b) of the New York Stock Exchange Listed Company Manual and he or she:

is an executive officer of another company which is indebted to Vonage, or to which Vonage is indebted, unless the total amount of either company's indebtedness to the other is more than 1% of the total consolidated assets of the company for which he or she serves as an executive officer; or

serves as an officer, director or trustee of a tax exempt organization, unless Vonage's discretionary contributions to such organization are more than the greater of \$1 million or 2% of that organization's consolidated gross revenues. Vonage's automatic matching of employee charitable contributions will not be included in the amount of Vonage's contributions for this purpose.

In addition, ownership of a significant amount of our stock, by itself, does not constitute a material relationship.

For relationships not covered by the guidelines set forth above, the determination of whether a material relationship exists is made by the other independent members of our board.

Our board has determined that Peter Barris, Morton David, Michael A. Krupka, Jeffrey J. Misner, David C. Nagel, John J. Roberts, Carl Sparks, and Joseph M. Redling meet the categorical standards described above, that none of these directors has a material relationship with Vonage and that each of these directors is independent as determined under Section 303A.02(b) of the New York Stock Exchange Listed Company Manual. Our board also determined that J. Sanford Miller, during his tenure as a director, met the categorical standards described above, that he did not have a material relationship with Vonage and that he was independent as determined under Section 303A.02(b) of the New York Stock Exchange Listed Company Manual. Mr. Miller declined to stand for reelection as a director at our last annual meeting due to other business commitments, including the time demands associated with his venture capital firm. In determining the independence of the directors listed above, our board considered the transactions discussed in Transactions with Related Persons. In addition, our board preliminarily determined that Jeffrey Citron will become independent pursuant to Section 303A.02(b) of the New York Stock Exchange Listed Company Manual on May 6, 2012 assuming there is no intervening event impacting this determination. The board will confirm Mr. Citron's independence at a meeting subsequent to May 6, 2012. In making its determination that Mr. Citron will become independent, the board considered, in addition to the items discussed under Transactions with Related Persons above, the fact that the company provided health insurance and medical care payments to Mr. Citron in the amount of \$15,807 in 2009, \$18,002 in 2010, and \$21,889 in 2011.

## **Board Meetings and Attendance**

Our board met eight times during fiscal year 2011. During fiscal year 2011, each current director attended at least 75% of the aggregate of the number of board meetings and the number of meetings held by all committees on which he then served.

## **Director Attendance at Annual Meeting of Stockholders**

Our governance principles provide that directors are encouraged to attend the annual meeting of stockholders. All of our directors then serving on our board attended the 2011 annual meeting of stockholders.

## **Director Retirement Age**

Our governance principles do not establish an age limit for serving as a director. However, the governance principles provide that upon reaching the age of 72 years, each director must submit to our board of directors a letter of resignation to be effective at the next meeting of stockholders held for the election of directors. In each instance, our board of directors will accept the letter of resignation unless our nominating and governance

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committee determines otherwise. In making such determination, our nominating and governance committee balances the benefits of a director's contributions and continuity against the benefits of having a fresh viewpoint from a new director and such other factors as our board of directors or the nominating and governance committee may consider appropriate.

### **Directors Changing Their Present Job Responsibilities**

Our governance principles require directors who substantially change their present job responsibilities to tender their resignation to the Chairman of the Board, who must refer it to our nominating and governance committee for review. Our board of directors, upon the recommendation of the nominating and governance committee, determines whether to accept the resignation. In cases in which a director is uncertain as to whether he or she ought to tender his or her resignation, our board of directors expects such director to consult with the chairman of the nominating and governance committee. The nominating and governance committee shall consider a director's other job responsibilities in its annual deliberations concerning directors' standing for re-election.

### **Board Committees**

Our board has established audit, compensation, and nominating and governance committees, each of which operates under a charter that has been approved by our board. Current copies of each committee's charter are posted on the Corporate Governance section of our web site at <http://ir.vonage.com/>.

Our board has determined that all of the members of each of these committees are independent as defined under the rules of the New York Stock Exchange, including, in the case of all members of the audit committee, the independence requirements contemplated by Rule 10A-3(b)(1) under the Securities Exchange Act of 1934.

### ***Audit Committee***

The audit committee's responsibilities include:

appointing, approving the compensation of, and assessing the independence of our registered public accounting firm;

overseeing the work of our independent registered public accounting firm, including through the receipt and consideration of reports from such firm;

reviewing and discussing with management and the independent registered public accounting firm our annual and quarterly financial statements and related disclosures;

monitoring our internal controls over financial reporting and disclosure controls and procedures;

overseeing our internal audit function;

reviewing management's risk assessment and risk management policies;

establishing policies regarding hiring employees from our independent registered public accounting firm and procedures for the receipt, retention, confidential treatment, and investigation of accounting or auditing related complaints and concerns;

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meeting independently with our internal auditing staff, independent registered public accounting firm and management;

reviewing and approving or ratifying any related person transactions; and

preparing the audit committee report required by Securities and Exchange Commission rules, which is included below in this proxy statement.

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The members of our audit committee are Mr. Roberts (Chairman), Mr. David, and Mr. Misner. J. Sanford Miller served as a member of our audit committee until June 9, 2011, when he ceased to be a director. Each member of our audit committee meets, and Mr. Miller met, the standards for financial literacy for companies listed on the New York Stock Exchange. In addition, our board of directors has determined that Mr. Roberts and Mr. Misner are each an audit committee financial expert as defined by applicable Securities and Exchange Commission rules, each of whom is independent under applicable rules governing independence of audit committee members. No member of our audit committee simultaneously serves on the audit committees of more than three public companies, except for Mr. Roberts, who serves on three audit committees in addition to ours. Our board of directors has determined that Mr. Roberts' simultaneous service does not impair his ability to effectively serve on our audit committee. Our audit committee met five times during fiscal year 2011.

### ***Compensation Committee***

The compensation committee's responsibilities include:

annually reviewing and approving corporate goals and objectives relevant to the compensation of our chief executive officer and other executives;

determining, along with our other independent directors, compensation for our chief executive officer;

reviewing risks arising from our compensation policies and practices;

reviewing and approving the compensation of our other executive officers;

overseeing and administering our cash and equity incentive plans;

reviewing and discussing annually with management our Compensation Discussion and Analysis, which is included below in this proxy statement; and

preparing the compensation committee report required by Securities and Exchange Commission rules, which is included below in this proxy statement.

The compensation committee has the authority to engage its own independent advisors to assist in carrying out its responsibilities under its charter. The compensation committee utilizes the services of an independent compensation consultant, Meridian Compensation Partners, LLC, to advise the committee in connection with its oversight of our compensation program. The compensation consultant attends meetings of the compensation committee and also communicates with the compensation committee outside of meetings. The compensation consultant reports to the compensation committee rather than to management, although the compensation consultant may meet with management from time to time for purposes of gathering information on proposals that management may make to the compensation committee. The compensation committee is free to replace the compensation consultant or hire additional consultants at any time. The compensation consultant does not provide any services to management. The processes and procedures followed by our compensation committee in considering and determining executive compensation are described below under the heading Compensation Discussion and Analysis.

Our management, aided by our human resources and finance departments, provided statistical data and made recommendations to the compensation committee to assist it in determining 2011 compensation levels. While the compensation committee utilized this information and valued management's observations with regard to compensation, the ultimate decisions regarding executive compensation were made by the compensation committee.

Compensation committee meetings typically have included, for all or a portion of each meeting, not only the committee members but also other board members, our chief executive officer, chief financial officer, members of our legal staff and a representative from our human resources



department.

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The members of our compensation committee are Mr. David (Chairman), Mr. Barris, Mr. Krupka, and Mr. Redling. Our compensation committee met five times during fiscal year 2011. Mr. Krupka and Mr. Redling were appointed to our compensation committee in February 2011 and September 2011, respectively. J. Sanford Miller served on our compensation committee until June 9, 2011 when he ceased to be a director.

### ***Nominating and Governance Committee***

The nominating and governance committee's responsibilities include:

identifying individuals qualified to become board members;

recommending to our board the persons to be nominated for election as directors and to each of the board's committees;

making recommendations to our board on the size of and qualifications for membership on the board and board committees;

reviewing and making recommendations to the board with respect to the compensation of non-executive directors;

developing and recommending governance principles to the board; and

overseeing an annual self-evaluation of the board and its committees.

An independent compensation consultant, Meridian Compensation Partners, LLC, advised the committee in connection with reviewing the compensation of non-executive directors during 2011. The processes and procedures followed by the nominating and governance committee in identifying and evaluating director candidates are described below under the heading "Director Nomination Process."

The members of our nominating and governance committee are Mr. Misner (Chairman), Mr. Barris, Dr. Nagel and Mr. Sparks. In April 2011, Dr. Nagel and Mr. Sparks were appointed to this committee and Mr. Krupka resigned from this committee. Our nominating and governance committee met six times during fiscal year 2011.

### **Director Nomination Process**

To identify and evaluate director candidates, our nominating and governance committee makes requests to board members and others for recommendations, meets from time to time to evaluate biographical information and background material relating to potential candidates and sets up interviews of selected candidates by members of the committee and the board. We also use the services of third-party search firms to identify and evaluate potential director candidates.

Stockholders may recommend individuals to our nominating and governance committee for consideration as potential director candidates by submitting their names, together with appropriate biographical information and background materials and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of our common stock for at least a year as of the date such recommendation is made, to our nominating and governance committee, Vonage Holdings Corp., Attn: Corporate Secretary, 23 Main Street, Holmdel, NJ 07733. Assuming that appropriate biographical and background material has been provided on a timely basis, the committee will evaluate stockholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others. If the board determines to nominate a stockholder-recommended candidate and recommends his or her election, then his or her name will be included in our proxy card for the next annual meeting.

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Stockholders also have the right under our bylaws to directly nominate director candidates, without any action or recommendation on the part of the committee or the board, by following the procedures set forth under Questions And Answers About The Proxy Materials And The Annual Meeting What is the deadline to propose actions for consideration at the 2013 annual meeting of stockholders or to nominate individuals to serve as directors? However, candidates nominated by stockholders in accordance with the procedures set forth in the bylaws will not be included in our proxy card for the next annual meeting.

### **Communicating with the Independent Directors**

Our board will give appropriate attention to written communications that are submitted by stockholders and other interested parties, and will respond if and as appropriate. Communications are forwarded to all directors if they relate to important substantive matters or include suggestions or comments that the Lead Independent Director considers to be important for the directors to know. In general, communications relating to corporate governance and corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances, and matters as to which we receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to our Lead Independent Director or the independent directors as a group or the board should address such communications to such directors or the board of directors, Vonage Holdings Corp., Attn: Corporate Secretary, 23 Main Street, Holmdel, NJ 07733.

### **Codes of Conduct**

We have adopted a code of conduct applicable to all our directors, officers, and employees and a finance code of ethics applicable to our chief financial officer and other employees in our finance organization. The code of conduct and the finance code of ethics are posted in the Corporate Governance section of our Investor Relations website, <http://ir.vonage.com/>. We will provide you with printed copies of our codes free of charge on written request to Vonage Holdings Corp., Attn: Corporate Secretary, 23 Main Street, Holmdel, NJ 07733. We intend to disclose any amendments to, or waivers from, provisions of our codes that apply to our principal executive officer, principal financial officer, principal accounting officer or controller, or any person performing similar functions, on our Investor Relations website promptly following the date of such amendment or waiver.

### **Audit Committee Report**

The audit committee has reviewed our audited financial statements for the fiscal year ended December 31, 2011 and discussed them with our management and our independent registered public accounting firm.

The audit committee has also received from, and discussed with, our independent registered public accounting firm various communications that our independent registered public accounting firm is required to provide to the audit committee, including the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU Section 380) as adopted by the Public Company Accounting Oversight Board in Rule 3200T.

The audit committee has received the written disclosures and the letter from our independent registered public accounting firm required by the applicable requirements of the Public Company Accounting Oversight Board regarding the independent registered public accounting firm's communications with the audit committee concerning independence, and has discussed with our independent registered public accounting firm their independence.

Based on the review and discussions referred to above, the audit committee recommended to our board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2011 for filing with the SEC.

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

John J. Roberts, Chairman

Morton David

Jeffrey J. Misner

**Compensation Committee Interlocks and Insider Participation**

During fiscal year 2011, the members of our compensation committee were Mr. David, Mr. Barris, Mr. Krupka, and Mr. Redling. Mr. Miller served as a member of our compensation committee from January 1, 2011 through June 9, 2011, the date of the 2011 annual meeting at which Mr. Miller declined to stand for re-election. None of the members of our compensation committee was at any time in fiscal year 2011, 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. See Transactions with Related Persons. During fiscal year 2011, 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 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 our board of directors that the Compensation Discussion and Analysis be included in this proxy statement for filing with the Securities and Exchange Commission.

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

Morton David, Chairman

Peter Barris

Michael A. Krupka

Joseph M. Redling

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**EXECUTIVE OFFICERS**

Set forth below is certain information concerning our executive officers. Biographical information for Mr. Lefar is included under Proposal No. 1 Election of Directors.

*Barry L. Rowan, Executive Vice President, Chief Financial Officer, Chief Administrative Officer, and Treasurer.* Mr. Rowan, age 55, joined us as Executive Vice President, Chief Financial Officer, Chief Administrative Officer, and Treasurer in March 2010 and is responsible for all finance and treasury functions, as well as Carrier Operations, Business Development, and Investor Relations. Mr. Rowan served in various positions for Nextel Partners, Inc., a wireless communications services company, from August 2003 to June 2006, most recently as Executive Vice President and Chief Financial Officer. From January 2002 to August 2003, he was a principal at Rowan & Company, LLC, a consulting and private investment firm, and from 1999 to 2001, Mr. Rowan was the Chief Financial Officer at Velocom, Inc., an international communications company, during which time he served as Chief Executive Officer of Vesper, the company's Brazilian subsidiary, for six months. From 1992 until 1999, Mr. Rowan held a number of executive management positions at Fluke Corporation, including Chief Financial Officer, and Senior Vice President and Division General Manager. Mr. Rowan served on the board of directors of ICO Global Communications (Holdings) Limited, a development stage next-generation mobile satellite service operator, from June 2006 until June 2011.

*Kurt M. Rogers, Chief Legal Officer and Secretary.* Mr. Rogers, age 40, joined us as Chief Legal Officer and Secretary in July 2009, overseeing the Law Department and legal, intellectual property, and regulatory matters regarding Vonage. In 2010, Mr. Rogers assumed additional responsibility for Vonage's Program Management Office. Mr. Rogers also heads Vonage's enterprise risk management program. Prior to joining us, he was a partner at the law firm of Bingham McCutchen LLP from August 2008 to July 2009 with a focus in litigating patents, trade secrets, copyrights, and trademarks. Prior to that he was an attorney at the law firm of Latham & Watkins LLP from April 2000 to August 2008, most recently as a partner.

*Nicholas P. Lazzaro, Senior Vice President, Product Development and Information Technology & Managing Director, Mobile Services.* Mr. Lazzaro, age 42, joined us as Senior Vice President, Product Development and Information Technology in March 2009 and assumed the additional responsibilities of Managing Director, Mobile Services in April 2012. Mr. Lazzaro is responsible for the Information Technology, Software Development, Device Development and Certification, and Quality Assurance teams and oversees our research and development efforts at our headquarters in Holmdel, New Jersey and in our research and development center in Tel Aviv, Israel. He has an extensive background in technology and telecommunications. He held several leadership roles at Amdocs, a provider of software products and services to the communication, media, and entertainment industries, from 2001 to March 2009, most recently serving as Unit President. He previously held roles at SBC Communications, a communications company, Ernst & Young, a professional services organization, and Iridium, a provider of mobile voice and data communications services, and served as Vice President at Fujitsu, a provider of IT-based business solutions.

*Kimberly L. O Loughlin, Senior Vice President of Customer Care & Managing Director International Markets.* Ms. O Loughlin, age 49, joined us as Senior Vice President of Customer Care in April 2009. Ms. O Loughlin assumed the additional responsibilities of Managing Director International Markets in June 2011 and leads our international growth initiative. Ms. O Loughlin has more than 20 years of experience in customer service, Internet (web) services, operations, information technology, product management, marketing, and strategic planning at the senior executive level. Most recently, Ms. O Loughlin was Vice President, Customer Care Operations and Systems at AIG, Inc., an insurance and financial services company, from May 2005 to April 2009. Previously she held several leadership roles at AT&T Wireless, a communications company, from January 2000 to April 2005, most recently as Vice President, Business Operations.

*Michael Tempora, Senior Vice President of Product Management.* Mr. Tempora, age 49, joined us as Senior Vice President of Product Management and Strategic Initiatives in December 2008. In this role, he led the

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execution of our strategic imperatives aimed at tightening fundamentals across the company and delivering an improved experience for our customers. In 2010, as Senior Vice President of Product Management, he began leading a dedicated, cross-functional team aimed at driving profitable revenue growth by increasing Vonage's market share of key segments making outbound international calls from the United States. Mr. Tempora has 26 years of experience in telecommunications and financial services. Most recently, from January 2005 to December 2008, he was an Executive Director of AT&T, a communications company, and led AT&T's efforts to develop integrated wireless and consumer broadband products including video, Internet, and home phone. Prior to that, Mr. Tempora was Vice President Consumer Marketing & Product Management at AT&T Wireless from August 2004 to January 2005 and VP Operations Transformation at AT&T from September 1999 to May 2004.

*Graham McGonigal, Senior Vice President of Network Operations.* Mr. McGonigal, age 54, joined us as Senior Vice President of Network Operations in February, 2012. Mr. McGonigal has more than 30 years of technical experience and has held senior leadership roles within AT&T, Cingular Wireless and Bellsouth. From September 2007 to January 2012, Mr. McGonigal was the Chief Operations Officer at nsoro MasTec LLC., a professional services company serving the telecommunications industry. At AT&T Mobility, Mr. McGonigal led the national data and service delivery networks and created highly competitive wireless data networks. He has successfully launched many data products and services, including the iPhone. He possesses a broad engineering, operations and quality background.

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**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 follows this discussion. We also discuss the goals that we seek to achieve through our executive compensation program and other important factors underlying our compensation practices and policies.

***Executive Summary***

Our executive compensation philosophy is designed to focus our executive officers on key business objectives that create shareholder value. Our compensation program is designed to measure results against our strategic plan and reward exceptional individual performance. In 2011, building on the financial and operational progress made in prior years, our management team focused on driving our business by executing on our strategic imperatives. Building on the momentum of the previous two years, Vonage delivered strong financial and operational results in 2011, as follows:

Increased adjusted EBITDA\* by 7 percent, to \$168 million.

Generated net income excluding adjustments\* of \$96 million, more than doubling the \$47 million reported in 2010.

Produced free cash flow\* of \$108 million, the second consecutive year above \$100 million.

Increased gross line additions by 5% for the year.

Grew average telephony service revenue per user by 1% over 2010 and 9% since 2008.

Lowered adjusted selling, general and administrative expense by 2% from 2010 and 27%, or \$87 million, over the past four years.

Completed our second refinancing within eight months, cutting our overall debt level by two-thirds and saving \$43 million in annual interest expense compared to early 2010.

\*Adjusted EBITDA, net income excluding adjustments and free cash flow are non-GAAP financial measures. We define adjusted EBITDA as GAAP income from operations excluding depreciation and amortization and share-based expense. We define net income excluding adjustments as GAAP net income (loss) excluding the change in fair value of embedded features within notes payable and stock warrant, the loss on extinguishment of notes and deferred tax (benefit) expense. We define free cash flow as net cash provided by operating activities minus capital expenditures, acquisition of intangible assets, and acquisition and development of software assets. We define adjusted selling, general and administrative expense as GAAP selling, general and administrative expense less IP litigation settlements and severance expense. Please refer to Appendix A for reconciliations of: (1) adjusted EBITDA to GAAP income from operations, (2) net income excluding certain adjustments to GAAP net income (loss), (3) free cash flow to GAAP cash provided by operating activities, and (4) adjusted selling, general and administrative expense to GAAP selling, general and administrative expense.

While we largely offset general market trends associated with declining domestic home phone service usage, certain of our results fell short of our expectations, as follows:

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Telephony service revenue of \$867 million, down 1% from \$873 million in 2010.

Churn of 2.6% in 2011, up from 2.4% in 2010.

Net subscriber line losses of 29,996.



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As a result, and as discussed in detail below, while we delivered strong financial and operational results in 2011, bonus payouts under our non-equity incentive plan reflect the shortfall against certain performance targets established by our board. Bonus payouts for 2011 for our named executive officers were paid at between 50% and 57% of targeted levels. These payouts are lower as a percentage of target bonuses compared to 2010.

**Annual Cash Bonus Payouts 2011 v. 2010**

| Name                | 2011 Bonus Award | 2011 Award as Percentage of Target Bonus | 2010 Bonus Award | 2010 Award as Percentage of Target Bonus |
|---------------------|------------------|--|------------------|--|
| Marc P. Lefar       | \$ 659,000       | 57%                                      | \$ 1,058,000     | 106%                                     |
| Barry L. Rowan      | \$ 235,000       | 50%                                      | \$ 549,000       | 122%                                     |
| Kurt M. Rogers      | \$ 116,000       | 50%                                      | \$ 273,000       | 122%                                     |
| Nicholas P. Lazzaro | \$ 105,000       | 50%                                      | \$ 190,000       | 96%                                      |

Key components of 2011 executive compensation were as follows:

*Salary/Annual Cash Bonuses:* In 2011, base salary was targeted at the 75th percentile for our Chief Executive Officer and Chief Financial Officer and at the 50th percentile of the market sample (as defined below) for our other named executive officers. Total cash compensation, which includes salary and annual cash bonus, was targeted at up to the 75th percentile for our named executive officers. 2011 annual cash bonuses for our named executive officers took into account the level of achievement of objective performance criteria and discretionary factors relating to the executive's individual performance.

*Long-Term Incentives:* 2011 stock option and restricted stock unit grants to executive officers were based on 2010 corporate performance, competitive data with respect to the market sample, available shares under our equity incentive plan at the time of grant and anticipated future grant requirements, the level of the individual's responsibility, and individual contributions to Vonage.

*Discretionary Bonus:* For 2011, the board of directors approved discretionary bonuses for our Chief Financial Officer and Chief Legal Officer reflecting their significant individual achievements.

*Compensation of our Former Chief Marketing Officer*

Scott Ballantyne served as our Chief Marketing Officer from May 2011 until March 2012, when he ceased serving in that capacity to pursue a startup venture outside of the telecommunications industry. The total 2011 compensation listed for Mr. Ballantyne in the Summary Compensation Table, as calculated under applicable rules, was \$4,075,131. However, Mr. Ballantyne only ultimately realized \$358,034 of that amount as:

All of the stock options granted to Mr. Ballantyne, which had a grant date value of \$3,697,097 calculated as required in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718, were forfeited by Mr. Ballantyne upon termination of his employment with us prior to any exercise.

Mr. Ballantyne is required to repay to us his \$20,000 sign-on bonus.

We did not make any payments to Mr. Ballantyne upon the termination of his employment with us.

*Compensation Objectives*

The 2011 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.

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Reinforce the importance of meeting and exceeding identifiable and measurable goals, while not encouraging our management to take unreasonable risks. We refer to this objective as performance incentives.

Provide meaningful equity ownership that will encourage 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 2011 compensation are as follows:

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

When reviewing the compensation program, including performance metrics and weighting for annual bonuses, our compensation committee, with the assistance of an independent compensation consultant, considers the impact of the compensation program on Vonage's risk profile. Our compensation committee believes that our compensation program has been structured to provide strong incentives for executives to appropriately balance risk and reward. See also Impact of Compensation Policies on Risk Management.

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

***Engagement of Compensation Consultant***

The compensation committee has the authority to engage its own independent advisor to assist in carrying out its responsibilities under its charter. The compensation committee utilized an independent compensation consultant, as described in further detail under Compensation Committee above, to advise the committee in connection with its oversight of our compensation program for 2011.

***Determination of Competitive Compensation***

As part of our annual process for assessing the competitiveness of executive compensation, we compare the compensation of our executives, other than recently hired executives, to survey data. For 2011, we used the following data sources:

2010 Culpepper Executive Survey, covering 11 companies in Internet, Software, and Telecommunications, where we focused on companies with an annual revenue size of \$500 million to \$2.5 billion.

2010 Radford Global Technology Survey, covering 50 companies in Internet, Software, and Telecommunications, where we focused on companies with an annual revenue size of \$600 million to \$3.0 billion.

Because the compensation committee was seeking survey data covering a broad range of companies meeting the criteria set forth above, the compensation committee did not focus on, or ascertain the identities of, the individual companies included in the survey data. We refer to the data sources described above as the market sample.



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We placed equal weight on each survey source. We believe that Internet, Software and Telecommunications 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.

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 contemplated 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 wanted the flexibility to reward company and individual performance that met or exceeded our performance goals. In evaluating the initial compensation for Mr. Ballantyne, applicable data from the market sample with respect to new chief marketing officer hires was also considered.

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.

**Employment Arrangements with our Named Executive Officers**

Mr. Lefar's 2011 compensation was governed in part by the terms of the employment agreement he signed in 2008, as amended in 2009, which is described in detail below under *Potential Post-Employment Payments* *Employment and Related Agreements*.

Mr. Rowan's 2011 compensation was governed in part by the terms of the employment agreement he signed in 2010, which is described in detail below under *Potential Post-Employment Payments* *Employment and Related Agreements*.

Mr. Rogers and Mr. Lazzaro's 2011 compensation was governed in part by the terms of the respective letter agreements they signed in 2009, which as amended are described in detail below under *Potential Post-Employment Payments* *Employment and Related Agreements*.

Mr. Ballantyne's compensation was governed principally by the terms of the offer letter he signed with us in May 2011 upon joining Vonage as Chief Marketing Officer. He ceased serving in that capacity in March 2012.

**Salaries**

The salaries of three of our named executive officers were increased as of April 8, 2011 after a review of the competitive guidelines described above and our performance in 2010 as follows:

| <b>Name</b>         | <b>2010 Salary</b> | <b>2011 Salary</b> |
|---------------------|--------------------|--------------------|
| Marc P. Lefar       | \$ 925,000         | \$ 925,000         |
| Barry L. Rowan      | \$ 450,000         | \$ 475,000         |
| Kurt M. Rogers      | \$ 375,000         | \$ 390,000         |
| Nicholas P. Lazzaro | \$ 340,000         | \$ 355,000         |
| Scott Ballantyne    | \$                 | \$ 390,000         |

Mr. Ballantyne's salary of \$390,000 per annum (pro rated from the time he joined us) was fixed in accordance with the terms of his offer letter with us.

**Annual Cash Bonuses**

When determining the annual cash bonuses of our executive officers, the compensation committee takes into account achievement of objective performance criteria. The compensation committee may also consider discretionary factors relating to the executive's individual performance. Based on the financial and operational performance of the company in 2011, actual payouts were made below target.

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For 2011, the target bonus opportunity percentages for the named executive officers were as follows:

| <b>Name</b>         | <b>Target Percentage of Base Salary</b> |
|---------------------|---|
| Marc P. Lefar       | 125%                                    |
| Barry L. Rowan      | 100%                                    |
| Kurt M. Rogers      | 60%                                     |
| Nicholas P. Lazzaro | 60%                                     |
| Scott Ballantyne    | 60%(1)                                  |

(1) Mr. Ballantyne's target bonus opportunity was pro rated to 37% for his partial employment in 2011.

As required by the employment agreement with Mr. Lefar, a review of his target annual bonus opportunity was conducted by the compensation committee in 2011. After this review, Mr. Lefar's target bonus was increased from 110% in 2010 to 125% in 2011 by our board of directors upon recommendation of our compensation committee.

There were three base metrics applicable to all participants in the 2011 bonus program: adjusted EBITDA, telephony services revenue, and churn. Certain of our employees, including Mr. Lazzaro, were subject to a fourth metric, with the weighting for the three base metrics correspondingly reduced. For those employees, the fourth metric measured performance specific to the employee's functional area of responsibility. For Mr. Lefar, as our chief executive officer, a portion of his bonus was based upon all three additional metrics specific to functional areas. The metrics utilized under our 2011 bonus program and the weighting of those measures for our named executive officers, as approved by the compensation committee, were as follows:

| <b>Metrics</b>                            | <b>Weighting</b>                                       |
|---|--|
| Adjusted EBITDA                           | 40% of target bonus; 35% for Mr. Lefar and Mr. Lazzaro |
| Telephony services revenue                | 40% of target bonus; 35% for Mr. Lefar and Mr. Lazzaro |
| Churn                                     | 20% of target bonus; 15% for Mr. Lefar and Mr. Lazzaro |
| Cost of telephony services ( COTS )       | 5% of target bonus for Mr. Lefar                       |
| Platform availability                     | 15% of target bonus for Mr. Lazzaro; 5% for Mr. Lefar  |
| Subscriber Line Acquisition Cost ( SLAC ) | 5% of target bonus for Mr. Lefar                       |

Adjusted EBITDA is income (loss) from operations determined in accordance with U.S. generally accepted accounting principles excluding depreciation and amortization and share-based expense. Adjusted EBITDA is an important performance measure because it is a bottom line indicator of our long-term viability, and our operational performance. We believe it is appropriate to include a measure that excludes depreciation, amortization, and non-cash stock compensation expense because they represent non-cash charges that do not reflect on management's performance.

Telephony services revenue is monthly subscription fees we charge our customers under our service plans plus usage and ancillary charges, excluding Federal Universal Service Fund fees and activation fees. We use telephony services revenue because it provides an indicator of our success growing our business and managing pricing, promotions, and customer credit policies and moving users to higher priced services that are regarded as strategically important. We exclude Federal Universal Service Fund fees from this measure because they represent a portion of our revenue that is not within the control of management and such fees are completely passed through to customers. We discontinued charging activation fees in 2010. Accordingly, we also exclude activation fees, which represent deferred fees that we recognize for accounting purposes from prior years.

Churn relates to the average monthly percentage of customers that terminate service. We calculate churn by dividing the number of customers that terminate during the year by the simple average number of customers during the year, and dividing the result by twelve. The simple average number of



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customers is the number of customers on the first day of the year plus the number of customers on the last day of the year, divided by two. We use churn because it addresses our success in retaining subscribers. Reducing churn may have a significant positive impact on revenue and profitability.

COTS is an additional metric for our carrier operations team and Mr. Lefar. COTS is a blend of per-minute termination rates, including domestic and international calls, plus a component for non-termination COTS costs. We use COTS because it is a major driver of our cost structure and reductions in COTS may have a significant impact on adjusted EBITDA and profitability.

Platform availability is an additional metric for our development, information technology, and network operations teams and Mr. Lefar. Platform availability is the percentage of time during the year that certain platform applications are available. We use platform availability because our technology systems are a core function of our business and enable our customers to use and subscribe to our products and services and allow our customer care team to effectively support our customers.

SLAC is an additional metric for our marketing team and Mr. Lefar. SLAC is total marketing expense divided by subscriber line additions during the year. We use SLAC because it is an effective measure of how efficiently we spend funds to acquire new customers.

With respect to the base metrics, we added telephony services revenue for 2011 and eliminated the adjusted revenue per user and net subscriber line additions metrics we used in 2010. We used telephony services revenue instead of adjusted revenue per user because it focuses on top-line growth which was a goal for management in 2011, while also indicating our success managing pricing, promotions, and customer credit policies and moving users to higher priced services. We eliminated net subscriber line additions as it is also a metric that we primarily use to measure growth and is a component of churn. We increased the weighting for adjusted EBITDA by 5% in 2011 from 2010, while reducing the weighting for churn by 5%. As applicable, the portion of the bonus based upon additional metrics specific to various functional areas of responsibility was reduced in 2011 to 15% from 20% in 2010. In 2011, we used total COTS as an additional metric, rather than COTS per line, because it has a more direct impact on our profitability.

For each metric, there is a target level of performance that would result in a payment equal to 100% of the weighted target bonus for the metric, a minimum level of performance that would result in a payment equal to 50% of the weighted target bonus for the metric, and an outstanding level of performance that would result in a payment equal to 175% of the weighted target bonus for the metric. However, the weighted target bonus for each of the Adjusted EBITDA and Churn metrics was limited to 100% because a telephony services revenue threshold of \$810,000 was not met. If the target levels of performance for all three base metrics would have been met, the payments would have started at 130% of the weighted target bonus for each metric with additional payments up to 175% possible. In the event that outstanding levels of performance were attained for all three metrics, the payment would have equaled 225% of an individual's target bonus for those metrics.

The following table shows 2010 performance for each metric, the performance levels upon which minimum, target, and maximum bonuses would be paid and the actual 2011 performance. Adjusted EBITDA, telephony services revenue and COTS are in thousands.

| Performance Measure        | 2010        |            |            |            | 2011        |  | Percentage of Target Award for the Metric |
|----------------------------|-------------|------------|------------|------------|-------------|--|---|
|                            | Performance | Minimum    | Target     | Maximum    | Performance |  |   |
| Adjusted EBITDA            | \$ 156,000  | \$ 150,000 | \$ 160,000 | \$ 170,000 | \$ 168,000  |  | 100%(1)                                   |
| Telephony services revenue | \$ 785,000  | \$ 799,000 | \$ 837,000 | \$ 853,000 | \$ 788,000  |  | %   |
| Churn                      | 2.4%        | 2.6%       | 2.4%       | 2.2%       | 2.6%        |  | 50%                                       |
| COTS                       | n/a         | \$ 11,000  | \$ 17,000  | \$ 25,000  | \$ 25,000   |  | 175%                                      |
| Platform Availability      | 99.73%      | n/a        | 99.85%     | 99.92%     | 99.70%(2)   |  | 50%                                       |
| SLAC                       | \$ 310      | \$ 300     | \$ 268     | \$ 255     | \$ 304(3)   |  | 50%                                       |



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- (1) The attainment for Adjusted EBITDA in 2011 was 152% but was limited to 100% because a \$810,000 telephony services revenue threshold was not met.
- (2) Our compensation committee awarded the minimum attainment for this metric to reward strong performance during the fourth quarter of 2011.
- (3) This amount includes adjustments for marketing expenditures relating to a mobile product introduced in 2011, the users of which are not included within our gross line additions count, and a portion of gross line additions estimated to be lost due to system outages in 2011. The annual cash bonus awards were calculated for each executive by (1) multiplying the percentage of the target award earned for each metric by the weighting applicable to the executive for the metric and (2) further multiplying this amount by the executive's target bonus. Based on the corporate performance with respect to the performance metrics, the compensation committee approved the following annual bonus payments to the named executive officers:

| Name                | 2011 Bonus Award | Award as Percentage of Target Bonus |
|---------------------|------------------|-------------------------------------|
| Marc P. Lefar       | \$ 659,000       | 57%                                 |
| Barry L. Rowan      | \$ 235,000       | 50%                                 |
| Kurt M. Rogers      | \$ 116,000       | 50%                                 |
| Nicholas P. Lazzaro | \$ 105,000       | 50%                                 |
| Scott Ballantyne    | \$ 72,000        | 50%                                 |

These payments are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

Following performance reviews in February 2012, our Chief Executive Officer recommended the following additional bonus amounts for the other named executive officers based upon individual performance and accomplishments, which were subsequently approved by the compensation committee.

| Name           | 2011 Discretionary Bonus Award |
|----------------|--------------------------------|
| Barry L. Rowan | \$ 50,000                      |
| Kurt M. Rogers | \$ 100,000                     |

In approving the bonus award adjustment to Mr. Rowan, the compensation committee considered his extensive role in the comprehensive refinancing of our debt in July 2011. In approving the bonus award adjustment to Mr. Rogers, the compensation committee considered his role in the comprehensive refinancing of our debt in July 2011, his assumption of responsibility for program management operations, and the implementation and management of our intellectual property strategy. These adjustments are reflected in the Bonus column of the Summary Compensation Table.

As an inducement for Mr. Ballantyne to join us from his prior employer, under the terms of his offer letter with us, he was paid a sign-on bonus of \$20,000 in May 2011. This amount is reflected in the Bonus column of the Summary Compensation Table. Mr. Ballantyne is obligated to reimburse the company for his sign-on bonus due to his departure in March 2012.

**Long-Term Incentives**

*Annual Stock Option and RSU Grants:* In 2011, the compensation committee approved stock option and restricted stock unit grants to our executive officers based on positive 2010 corporate performance, competitive data for the market sample, available shares under our equity incentive plan at the time of grant and anticipated



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future grant requirements, the level of the individual's responsibility, and individual contributions to Vonage. In this regard, the compensation committee considered the recommendations of our Chief Executive Officer for the other executive officers then employed by us. The named executive officers identified below received the following equity awards in April 2011 (except as noted):

| Name                | Number of<br>Shares<br>Underlying Stock<br>Options | Number of<br>Restricted<br>Stock<br>Units |
|---------------------|--|---|
| Marc P. Lefar       | 642,641  | 171,370                                   |
| Barry L. Rowan      | 579,300  | 82,795                                    |
| Kurt M. Rogers      | 181,451  | 48,387                                    |
| Nicholas P. Lazzaro | 181,451  | 48,387                                    |
| Scott Ballantyne    | 1,000,000  |   |

In light of Mr. Rowan's strong performance in his first year of employment, in February 2011, the compensation committee approved an equity award of \$1,000,000 of stock options for the purchase of common stock to Mr. Rowan as an adjustment to the original sign-on award provided pursuant to Mr. Rowan's employment agreement, which resulted in a grant of an option for 268,817 shares. These shares are included in the table above.

As an inducement for Mr. Ballantyne to join us from his prior employer, under the terms of his offer letter with us, we made an option grant to Mr. Ballantyne for 1,000,000 shares in June 2011. All of these options were forfeited in March 2012 upon the cessation of his employment with us.

**Perquisites**

We reimburse Mr. Lefar for travel expenses between our principal offices in Holmdel, New Jersey, our Atlanta, Georgia offices, the location of our business office for certain product management and development employees and where Mr. Lefar maintains his primary residence, and other business destinations. To the extent practicable, other employees of the company travel with Mr. Lefar. There is a maximum annual amount that may be used as reimbursement to Mr. Lefar for private air travel; this is calculated as the sum of the cost of a first-class fully refundable direct flight for such travel plus \$600,000. This maximum annual amount includes business travel for which Mr. Lefar recognizes no taxable income. Under the terms of Mr. Lefar's employment agreement, we also reimburse Mr. Lefar for the cost of housing near our principal offices. In addition, we made an additional payment to relieve him of any tax liability related to the travel and expense reimbursements, as well as taxes in respect of the additional payment. We also pay the employee portion of premiums for medical, dental, and vision coverage for Mr. Lefar. These perquisites were the result of extensive negotiations, on an arms-length basis, with Mr. Lefar at the time he joined us in July 2008. At that time, a CEO search committee determined that Mr. Lefar was a uniquely well-qualified executive for Vonage, based on his tenure as Chief Marketing Officer for Cingular Wireless, as a marketing executive for Cable and Wireless Global and in senior leadership roles at Verizon Wireless and GTE Wireless, as well as his experience during nine years at Procter & Gamble. The CEO search committee believed that Mr. Lefar would provide the level of leadership and experience that was necessary to address the challenges facing our company, including increasing competition and the need to refinance our then outstanding convertible notes by December 2008. Moreover, the CEO search committee recognized that, in accepting employment with us, Mr. Lefar was relinquishing his consulting business. Based on the foregoing considerations, to secure the services of Mr. Lefar our compensation committee and our board of directors approved Mr. Lefar's employment agreement, including these perquisites. These perquisites are taken into account by our board of directors in establishing Mr. Lefar's overall level of compensation. See also the Summary Compensation Table and Potential Post-Employment Payments Employment and Related Agreements below for additional information.

Our other named executive officers also negotiated for perquisites when hired. We pay the employee portion of premiums for medical, dental, and vision coverage for Mr. Rowan. We pay for or reimburse Mr. Lazzaro for

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travel expenses between Atlanta, Georgia, where we maintain an office and Mr. Lazzaro maintains his primary residence, and our principal offices and the cost of temporary housing near our principal offices and make an additional payment to relieve him of any related tax liability. We also agreed to reimburse Mr. Rogers for lodging accommodations near our principal offices and make an additional payment to relieve him of any related tax liability. Our incremental costs for the perquisites described above are shown in note 5 to the Summary Compensation Table.

We also maintain a 401(k) savings plan, which is a tax-qualified defined contribution plan available to all of our employees. Messrs. Lefar, Rowan, and Lazzaro participated in the plan in 2011. 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 2011, we provided a matching contribution equal to 50% of each dollar contributed by a participant, up to a maximum contribution of \$6,000. The matching contributions vest after three years following the date of employment. Employee and matching contributions are based on compensation up to annual limits established under the Internal Revenue Code (the eligible compensation limit was \$245,000 in 2011). Our matching contributions for the named executive officers are shown in note 5 to the Summary Compensation Table. We do not provide any supplemental retirement benefits.

### ***Equity Grant Practices***

We do not backdate grants of stock options, restricted stock units or restricted stock, nor do we time grants to coincide with the release of material non-public information about Vonage. For newly hired or promoted employees, stock options or restricted stock units are granted on the first trading day of the month immediately following the month in which the employee commences employment with us or the promotion is effective.

The compensation committee approves all grants of stock options and restricted stock units to executive officers and to other officers reporting directly to our Chief Executive Officer or our audit committee. The compensation committee delegated to our Chief Executive Officer and our Vice President of Human Resources the ability to make equity grants (stock options or restricted stock units) aggregating up to 1,000,000 shares of common stock in any calendar year for new hires and promotions, in each case relating to employees at the Vice President level or below (in the case of the Chief Executive Officer) or the Senior Director level or below (in the case of the Vice President of Human Resources). This delegated authority also is subject to limitations on individual awards, the highest of which provides for grants to a Vice President that may not exceed 125,000 shares in any calendar year. For new hire and promotion equity grants, a restricted stock unit is deemed to be equivalent to 1.79 shares. In addition, the compensation committee delegated to our Chief Executive Officer the ability to make equity grants (stock options or restricted stock units) aggregating up to 200,000 shares of common stock in any calendar year to reward exceptional achievements, address retention issues and support incentive programs, in each case relating to employees at the Vice President level or below.

Typically, in February of each year, the compensation committee considers the annual grant of stock options and, if applicable, restricted stock units. The compensation committee's practice has been to approve the making of the grant of these options and restricted stock units effective as of the first trading day in April.

For special grants, stock options or restricted stock units are granted on the first trading day of the month immediately following the month in which the options or restricted stock units are approved.

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.

### ***Post-Employment Compensation***

We have benefit plans, employment and letter agreements, and other arrangements for our named executive officers that provide special benefits upon certain types of termination events. The employment agreements and letter agreements provide financial security, in the form of severance compensation and acceleration of vesting of

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prior equity grants, 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, including severance and acceleration of vesting provisions, 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 Post-Employment Payments** for further information regarding change in control and termination benefits under the arrangements.

***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, we retain the flexibility to authorize compensation that may not be deductible if the compensation committee believes doing so is in the best interests of our company. While the compensation for Mr. Lefar exceeded the \$1 million deduction limit in 2011, we determined that this result was appropriate, based on the considerations regarding his compensation discussed above.

Under Mr. Lefar's employment agreement, if Mr. Lefar 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. Under Mr. Rowan's employment agreement, if Mr. Rowan becomes liable for any payment of any excise tax under Section 4999 of the Internal Revenue Code, we will make an additional payment to him so long as the total of such payments upon a change in control exceeds 115% of the greatest amount that would be paid to Mr. Rowan in connection with a change in control without giving rise to any excise tax (referred to as the "refunded amount") and otherwise the payment to Mr. Rowan shall be reduced to the refunded amount. The additional payment to Mr. Lefar and, if applicable, Mr. Rowan is designed so that, after payment of all excise taxes and any other taxes payable in respect of the additional payment, Mr. Lefar and Mr. Rowan will retain the same amount as if no excise tax had been imposed. We believe that the payments relating to the excise tax are appropriate to preserve the intended benefits under their agreements, as well as the incentive for Mr. Lefar and Mr. Rowan to enter into employment with us.

***Stock Ownership Guidelines for Executives***

In December 2010, our board of directors adopted stock ownership guidelines requiring our non-employee directors, our named executive officers, and certain other covered executives to maintain a minimum equity stake in the company. Our board of directors believes that these requirements help to ensure an alignment of director and executive interests with those of stockholder interests and promote a focus on long-term growth. The following table shows required stock ownership levels for our named executive officers, which are measured on a quarterly basis:

| <b>Name</b>         | <b>Stock Ownership Level</b>                   |
|---------------------|--|
| Marc P. Lefar       | Lesser of 3.0x base salary or 1,200,000 shares |
| Barry L. Rowan      | Lesser of 1.0x base salary or 190,000 shares   |
| Kurt M. Rogers      | Lesser of 1.0x base salary or 160,000 shares   |
| Nicholas P. Lazzaro | Lesser of 1.0x base salary or 140,000 shares   |
| Scott Ballantyne    | Lesser of 1.0x base salary or 160,000 shares   |

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Shares counted in the calculation to assess compliance with the guidelines include shares owned outright, including vested restricted stock units, and 75% of vested stock options (whether or not in-the-money). Each covered executive must retain 25% of net stock options exercised or stock delivered from vested restricted stock units until the guidelines are met. Executives may be exempted from the guidelines and/or the retention requirement due to financial hardship as determined by the compensation committee in its discretion. Although there is no required time period to achieve the guidelines, each of our named executive officers other than Mr. Rogers, who exercised options and sold shares in accordance with the guidelines, and Mr. Ballantyne, met the guidelines as of December 31, 2011. It is anticipated that Mr. Rogers will meet the guidelines in the first half of fiscal year 2012.

***Claw-back and Hedging Policies***

We intend to adopt a formal claw-back policy enabling recovery or claw-back of incentive awards in the event of misstated or restated financial results after the SEC and the New York Stock Exchange issue final rules implementing the claw-back provisions set forth in the Dodd Frank Wall Street Reform and Consumer Protection Act.

While we do not have a policy that specifically prohibits our executive officers from hedging the economic risk of stock ownership, our securities trading compliance policy prohibits all employees from engaging in certain highly speculative stock transactions, including entering into short sales of our common stock or buying or selling exchange-traded options (puts or calls) on our common stock.

***Consideration of Say-on-Pay Voting Results***

We are pleased that the Company's shareholders approved our Say-on-Pay vote at last year's annual meeting. The Company and our board of directors are committed to reviewing the results of our Say-on-Pay votes and to the extent action is taken with respect to our compensation policies in response to those results, we will report those actions in this space. Based on its ongoing review of our compensation policies, no changes were made in response to the approval of our Say-on-Pay vote at last year's annual meeting.

\* \* \* \* \*

**Table of Contents****Summary Compensation Table**

| Name and<br>Principal Position  | Year | Salary     | Bonus (1)    | Stock<br>Awards (2) | Option<br>Awards (3) | Non-Equity<br>Incentive<br>Plan | All Other        | Total        |
|---|------|------------|--------------|---------------------|----------------------|---------------------------------|------------------|--------------|
|   |      |            |              |                     |                      | Compensation (4)                | Compensation (5) |              |
| Marc P. Lefar<br>Chief Executive Officer  | 2011 | \$ 925,000 |              | \$ 796,871          | \$ 2,355,642         | \$ 659,000                      | \$ 862,387       | \$ 5,598,900 |
|   | 2010 | \$ 908,000 | \$ 1,000,000 |                     | \$ 2,259,935         | \$ 1,058,000                    | \$ 801,662       | \$ 6,027,597 |
|   | 2009 | \$ 883,000 |              |                     | \$ 2,290,450         | 689,000                         | \$ 816,859       | \$ 4,679,309 |
| Barry L. Rowan (6)<br>Executive Vice President,<br>Chief Financial Officer,<br>Chief Administrative Officer,<br>and Treasurer                       | 2011 | \$ 469,230 | \$ 50,000    | \$ 384,997          | \$ 2,123,462         | \$ 235,000                      | \$ 27,889        | \$ 3,290,578 |
|   | 2010 | \$ 372,000 | \$ 250,000   |                     | \$ 3,389,903         | \$ 549,000                      | \$ 330,069       | \$ 4,890,972 |
| Kurt M. Rogers (7)<br>Chief Legal Officer and<br>Secretary  | 2011 | \$ 387,000 | \$ 100,000   | \$ 225,000          | \$ 665,120           | \$ 116,000                      | \$ 51,317        | \$ 1,544,437 |
|   | 2010 | \$ 373,000 | \$ 75,000    | \$ 74,994           | \$ 331,386           | \$ 273,000                      | \$ 39,041        | \$ 1,166,421 |
|   | 2009 | \$ 161,000 | \$ 30,000    |                     | \$ 166,624           | 228,000                         | \$ 7,976         | \$ 593,600   |
| Nicholas P. Lazzaro (8)<br>Senior Vice President of<br>Product Development and<br>Information Technology &<br>Managing Director, Mobile<br>Services | 2011 | \$ 352,000 |              | \$ 225,000          | \$ 665,120           | \$ 105,000                      | \$ 104,791       | \$ 1,451,911 |
|   | 2010 | \$ 330,000 | \$ 45,000    | \$ 74,994           | \$ 331,386           | \$ 190,000                      | \$ 131,706       | \$ 1,103,086 |
|   | 2009 | \$ 244,000 | \$ 125,000   |                     | \$ 143,938           | \$ 184,000                      | \$ 102,712       | \$ 799,650   |
| Scott Ballantyne (9)<br>Former Chief Marketing Officer  | 2011 | \$ 240,000 | \$ 20,000    |                     | \$ 3,697,097         | \$ 72,000                       | \$ 46,034        | \$ 4,075,131 |

- (1) The following amounts represent sign-on bonuses paid to such persons upon joining us: \$175,000 of the amount for Mr. Rowan for 2010, \$25,000 of the amount for Mr. Lazzaro for 2010, the 2009 amounts for Messrs. Rogers and Lazzaro, and the 2011 amount for Mr. Ballantyne. All other amounts reported represent discretionary cash bonuses earned during 2010 and 2011, as applicable. The bonuses earned in 2010 and 2011, as applicable, were paid in the first quarter of the subsequent year. Please see the section titled "Annual Cash Bonuses" in the Compensation Discussion and Analysis for more information regarding our annual cash bonuses for 2011.
- (2) Stock awards consist only of restricted stock units. The dollar amounts for the awards represent the grant-date value calculated in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 (FASB ASC 718) by multiplying the number of shares of restricted stock awarded by the closing price of our common stock on the date of grant. Refer to "Compensation Discussion and Analysis - Long-Term Incentives" for additional information. The grant-date fair value of the stock-based awards will likely vary from the actual amount the named executive officer receives. Actual gains, if any, on shares acquired upon vesting of units are dependent on other factors, including the unit holders' continued employment with us through the vesting period, the future performance of the Company's common stock, and overall stock market conditions. There can be no assurance that the values reflected in this table will be achieved.
- (3) The dollar amounts for the awards represent the grant-date fair value calculated in accordance with FASB ASC 718 for each named executive officer. 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, 2011 filed with the Securities and Exchange Commission on February 16, 2012. See "Grants of Plan-Based Awards - 2011" for further information including the exercise prices for awards made in 2011. Refer also to "Compensation Discussion and Analysis - Long-Term Incentives" for additional information. The grant-date fair value of the stock option awards will likely vary from the actual value the named executive officer receives. Actual gains, if any, on shares acquired on option exercises are dependent on other factors, including the option holder's continued employment with us through the option exercise period, the future performance of the Company's common stock, and overall stock market conditions. There can be no assurance that the values reflected in this table will be achieved.
- (4) The amounts in this column represent total performance-based bonuses earned for services rendered during 2009, 2010, and 2011. These bonuses were based on our financial performance. The bonuses earned in 2009, 2010, and 2011, as applicable, were paid in the first quarter of the subsequent year. Please see the

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section titled Annual Cash Bonuses in the Compensation Discussion and Analysis for more information regarding our annual cash bonus for 2011. We previously reported the 2009 amounts under the Bonus column.



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(5) The amounts in this column (grossed-up for any payments to reimburse for related taxes to the extent applicable) consist of the following:

| Name                | Year | 401(k)<br>Match | Insurance<br>and<br>Medical<br>Premiums | Housing/<br>Relocation<br>Expense/<br>Reimbursement | Travel<br>Expense/<br>Reimbursement | Patent<br>Incentive<br>Award | Total      |
|---------------------|------|-----------------|---|---|-------------------------------------|------------------------------|------------|
| Marc P. Lefar       | 2011 | \$ 6,000        | \$ 21,889                               | \$ 146,236  | \$ 688,262*                         |                              | \$ 862,387 |
|                     | 2010 | \$ 6,000        | \$ 18,002                               | \$ 149,222  | \$ 628,438*                         |                              | \$ 801,662 |
|                     | 2009 | \$ 6,000        | \$ 15,807                               | \$ 146,925  | \$ 648,127*                         |                              | \$ 816,859 |
| Barry L. Rowan      | 2011 | \$ 6,000        | \$ 21,889                               |   |                                     |                              | \$ 27,889  |
|                     | 2010 | \$ 6,000        | \$ 10,501                               | \$ 313,568  |                                     |                              | \$ 330,069 |
| Kurt M. Rogers      | 2011 |                 |   | \$ 51,317   |                                     |                              | \$ 51,317  |
|                     | 2010 |                 |   | \$ 39,041   |                                     |                              | \$ 39,041  |
|                     | 2009 |                 |   | \$ 7,976  |                                     |                              | \$ 7,976   |
| Nicholas P. Lazzaro | 2011 | \$ 6,000        |   | \$ 55,212   | \$ 40,579                           | \$ 3,000                     | \$ 104,791 |
|                     | 2010 | \$ 6,000        |   | \$ 64,119   | \$ 59,587                           | \$ 2,000                     | \$ 131,706 |
|                     | 2009 |                 |   | \$ 62,501   | \$ 40,211                           |                              | \$ 102,712 |
| Scott Ballantyne    | 2011 |                 |   | \$ 46,034   |                                     |                              | \$ 46,034  |

\* Taxable income to Mr. Lefar relating to private travel was determined by using the Internal Revenue Service Standard Industry Fare Level tables, which is less than the amount listed in the table. To the extent practicable, other employees who spend time in our Atlanta, Georgia office, including Mr. Lazzaro, travel with Mr. Lefar; however, there is no additional incremental cost to us.

(6) Mr. Rowan began serving as our Executive Vice President, Chief Financial Officer, Chief Administrative Officer, and Treasurer in March 2010.

(7) Mr. Rogers began serving as Chief Legal Officer and Secretary in July 2009.

(8) Mr. Lazzaro began serving as Senior Vice President of Product Development and Information Technology in March 2009.

(9) Mr. Ballantyne began serving as our Chief Marketing Officer in May 2011 and ceased serving in that capacity in March 2012. All options granted to him were forfeited prior to exercise upon his termination and he is obligated to repay his \$20,000 sign-on bonus. See Compensation Discussion and Analysis Executive Summary Compensation of our Former Chief Marketing Officer for additional information.

The percentage of the Total column represented by each named executive officer's salary for each year is as follows:

| Name                | 2009 Salary as a<br>% of Total<br>Compensation | 2010 Salary as a<br>% of Total<br>Compensation | 2011 Salary as a<br>% of Total<br>Compensation |
|---------------------|--|--|--|
| Marc P. Lefar       | 18.9%  | 15.1%  | 16.5%  |
| Barry L. Rowan      |  | 7.6%   | 14.3%  |
| Kurt M. Rogers      | 27.1%  | 32.0%  | 25.1%  |
| Nicholas P. Lazzaro | 30.5%  | 29.9%  | 24.2%  |
| Scott Ballantyne    |  |  | 5.9%   |

**Table of Contents****Grants of Plan-Based Awards 2011**

| Name                | Grant Date | Date of Corporate Action | Estimated Possible Payouts Under Non-Equity Incentive Plan Awards (1) |              |              | All Other Stock Awards: Number of Shares of Stock or Units (2) | All Other Option Awards: Number of Underlying Securities Options (3) | Exercise or Base Price of Option Awards (4) | Grant Date Fair Value of Stock and Option Awards (5) |
|---------------------|------------|--------------------------|---|--------------|--------------|--|--|---|--|
|                     |            |                          | Minimum Threshold   | Target       | Maximum      |  |  |   |  |
| Marc P. Lefar       | 4/1/2011   | 2/10/2011                |   |              |              |  |  |   |  |
|                     | 4/1/2011   | 4/1/2011                 |   |              |              | 171,370  | \$ 4.65  | \$ 2,355,642                                |  |
|                     | 2/10/2011  |                          | \$ 578,125  | \$ 1,156,250 | \$ 2,023,434 |  |  | \$ 796,871                                  |  |
| Barry L. Rowan      | 4/1/2011   | 2/10/2011                |   |              |              |  |  |   |  |
|                     | 4/1/2011   | 2/10/2011                |   |              |              | 82,795   | \$ 4.65  | \$ 2,123,462                                |  |
|                     | 2/10/2011  |                          | \$ 237,500  | \$ 475,000   | \$ 831,250   |  |  | \$ 384,997                                  |  |
| Kurt M. Rogers      | 4/1/2011   | 2/10/2011                |   |              |              |  |  |   |  |
|                     | 4/1/2011   | 2/10/2011                |   |              |              | 48,387   | \$ 4.65  | \$ 665,120                                  |  |
|                     | 2/10/2011  |                          | \$ 117,000  | \$ 234,000   | \$ 409,500   |  |  | \$ 225,000                                  |  |
| Nicholas P. Lazzaro | 4/1/2011   | 2/10/2011                |   |              |              |  |  |   |  |
|                     | 4/1/2011   | 2/10/2011                |   |              |              | 48,387   | \$ 4.65  | \$ 665,120                                  |  |
|                     | 2/10/2011  |                          | \$ 106,500  | \$ 213,000   | \$ 372,750   |  |  | \$ 225,000                                  |  |
| Scott Balantyne     | 6/1/2011   | 5/5/2011                 |   |              |              |  |  |   |  |
|                     | 5/10/2011  |                          | \$ 72,000   | \$ 144,000   | \$ 252,000   |  | 4.69   | \$ 3,697,097                                |  |

(1) As discussed in the Compensation Discussion and Analysis, the annual cash bonus awards are attributable to financial performance measures, which are adjusted EBITDA weighted at 40% (35% for executives with an additional metric for their functional group), telephony services revenue weighted at 40% (35% for executives with an additional metric for their functional group) and churn weighted at 20% (15% for executives with an additional metric for their functional group). Mr. Lazzaro was the only named executive officer with a fourth metric weighted at 15% (platform availability). For Mr. Lefar, 15% of his target bonus was based upon an equal weighting of three additional metrics (COTS, platform availability, and SLAC). The amount shown in the Target column represents a payout at the target bonus percentage for each named executive officer's 2011 base salary. For 2011, the target percentages were: 125% for Mr. Lefar; 100% for Mr. Rowan; and 60% for Messrs. Lazzaro, Rogers and Ballantyne (Mr. Ballantyne was paid on a pro rata basis of 37% reflecting his partial employment during 2011). The amount shown in the Minimum Threshold column represents the amount payable if only the minimum level of company performance was attained for each metric applicable to the executive, which is 50% of the target amount shown above. If performance did not meet the minimum level of performance for any metric, then no bonus would have been paid. The amount shown in the Maximum column represents the amount payable if the maximum level of company performance was attained for all metrics applicable to the executive.

Please see the section titled Annual Cash Bonuses in the Compensation Discussion and Analysis for additional information including the minimum threshold, target, and maximum level of performance for each performance measure, the calculation of the award payable based upon actual performance in 2011, the amount of the award and award as a percentage of the target award opportunity, and discretionary adjustments based upon factors relating to each executive's personal contributions to us.

Except for the portion attributable to discretionary adjustments, which are reflected in the Bonus column, the annual cash bonus payments under our bonus plan for 2011 are reflected in the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table.

(2) Amounts in this column represent restricted stock units granted under our 2006 Incentive Plan. The restricted stock units vest in equal annual installments on the first through fourth anniversaries of April 1, 2011. Please see the section titled Potential Post-Employment Payments Employment and Related Agreements for a discussion of the acceleration of vesting of our restricted stock units in certain circumstances, including upon a change in control.

(3) Amounts in this column represent stock options granted under our 2006 Incentive Plan. The options for each of the named executive officers vest in four equal annual installments. Please see the section titled Potential Post-Employment Payments Employment and Related Agreements for a discussion of the acceleration of vesting of our stock options in certain circumstances, including upon a change in control.

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- (4) The amounts in this column represent the closing price of our common stock on the New York Stock Exchange on the date of grant.
- (5) The value of a stock award or option award represents the grant-date fair value calculated in accordance with FASB ASC 718. Stock

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awards consist only of restricted stock units. Actual gains, if any, on shares acquired upon vesting of restricted stock units or option exercises are dependent on other factors, including the holder's continued employment with us through the vesting period or option exercise period, the future performance of the Company's common stock, and overall market conditions. There can be no assurance that the values reflected in this table will be achieved.

**Outstanding Equity Awards at Fiscal Year-End 2011**

| Name                | Option Awards   |   |                       |                        | Stock Awards  |   |
|---------------------|---|---|-----------------------|------------------------|---|---|
|                     | Number of Securities Underlying Unexercised Options (#) Exercisable | Number of Securities Underlying Unexercised Options (#) Unexercisable (1) | Option Exercise Price | Option Expiration Date | Number of Shares or Units of Stock that Have Not Vested (1) | Market Value of Shares or Units of Stock that Have Not Vested (2) |
| Marc P. Lefar       | 4,575,000   | 1,625,000(3)  | \$ 1.42               | 7/29/2018              |   |   |
|                     | 500,000   | 500,000(4)  | \$ 1.43               | 9/1/2019               |   |   |
|                     | 500,000   | 500,000(5)  | \$ 1.29               | 12/1/2019              |   |   |
|                     | 500,000   | 1,500,000(6)  | \$ 1.37               | 4/1/2020               |   |   |
|                     |   | 642,641(7)  | \$ 4.65               | 4/1/2021               |   |   |
|                     |   |   |                       |                        | 171,370(13)   | \$ 419,857  |
| Barry L. Rowan      | 750,000   | 2,250,000(8)  | \$ 1.37               | 4/1/2020               |   |   |
|                     |   | 579,300(9)  | \$ 4.65               | 4/1/2021               |   |   |
|                     |   |   |                       |                        | 82,795(13)  | \$ 202,848  |
| Kurt M. Rogers      | 112,500   | 225,000(11)   | \$ 0.44               | 8/3/2019               |   |   |
|                     | 73,317  | 219,953(8)  | \$ 1.37               | 4/1/2020               |   |   |
|                     |   | 181,451(9)  | \$ 4.65               | 4/1/2021               |   |   |
|                     |   |   |                       |                        | 41,055(14)  | \$ 100,585  |
|                     |   |   |                       |                        | 48,387(13)  | \$ 118,548  |
| Nicholas P. Lazzaro | 225,000   | 225,000(11)   | \$ 0.42               | 4/1/2019               |   |   |
|                     | 73,317  | 219,953(8)  | \$ 1.37               | 4/1/2020               |   |   |
|                     |   | 181,451(9)  | \$ 4.65               | 4/1/2021               |   |   |
|                     |   |   |                       |                        | 41,055(14)  | \$ 100,585  |
|                     |   |   |                       |                        | 48,387(13)  | \$ 118,548  |
| Scott Ballantyne    |   | 1,000,000(12)   | \$ 4.69               | 6/1/2021               |   |   |

- (1) Please see the section titled "Potential Post-Employment Payments" Employment and Related Agreements for a discussion of the acceleration of our option and stock awards upon a change in control.
- (2) Based on the closing price of our common stock as of December 31, 2011 of \$2.45, as reported on the New York Stock Exchange.
- (3) The options vest in equal annual installments on the calendar day before the first through fourth anniversaries of July 29, 2008.
- (4) The options vest in equal annual installments on the calendar day before the first through fourth anniversaries of September 1, 2009.
- (5) The options vest in equal annual installments on the calendar day before the first through fourth anniversaries of December 1, 2009.

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- (6) The options vest in equal annual installments on the calendar day before the first through fourth anniversaries of April 1, 2010.
  
- (7) The options vest in equal annual installments on the calendar day before the first through fourth anniversaries of April 1, 2011.

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- (8) The options vest in equal annual installments on the first through fourth anniversaries of April 1, 2010.
- (9) The options vest in equal annual installments on the first through fourth anniversaries of April 1, 2011.
- (10) The options vest in equal annual installments on the first through fourth anniversaries of August 3, 2009.
- (11) The options vest in equal annual installments on the first through fourth anniversaries of April 1, 2009.
- (12) The options were forfeited upon Mr. Ballantyne ceasing to serve as our Chief Marketing Officer in March 2012.
- (13) The restricted stock units vest in equal annual installments on the first through fourth anniversaries of April 1, 2011.
- (14) The restricted stock units vest in equal annual installments on the first through fourth anniversaries of April 1, 2010.

**Option Exercises and Stock Vested 2011**

| Name                | Option Awards   |   | Stock Awards   |  |
|---------------------|---|---|--|--|
|                     | Number of Shares<br>Acquired<br>on<br>Exercise<br>(#) | Value Realized<br>on<br>Exercise<br>(\$)(1) | Number of Shares<br>Acquired<br>on<br>Vesting<br>(#) | Value Realized<br>on<br>Vesting<br>(\$)(2) |
| Marc P. Lefar       | 300,000   | \$ 831,000                                  |  | \$   |
| Kurt M. Rogers      | 112,500   | \$ 397,125                                  | 13,685   | \$ 63,635                                  |
| Nicholas P. Lazzaro |   | \$  | 13,685   | \$ 63,635                                  |

- (1) Value realized upon exercise is based on the closing sales price of our common stock on the New York Stock Exchange on the applicable exercise date.
- (2) Value realized upon vesting is based on the closing sales price of our common stock on the New York Stock Exchange on the applicable vesting date.

**Impact of Compensation Policies on Risk Management**

Our compensation committee, with the assistance of an independent compensation consultant, reviewed our compensation policies and practices for our employees, including executive officers, and determined that our compensation policies and practices are not reasonably likely to have a material adverse effect on us. Our compensation committee noted several aspects of the design of our compensation program that reduce the likelihood of excessive risk-taking:

The program design provides a balanced mix of cash and equity, and annual and longer-term incentives, which we believe is consistent with practices of comparable companies.

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We set varied performance goals that we believe are reasonable in light of past performance, future projections, market conditions, analyst expectations, and our debt covenants. These performance goals encourage a balanced emphasis on growth, profitability, and operational performance. If management overemphasized any single metric which increased risk to our long-term performance, it would likely be at the expense of other metrics resulting in a reduction in compensation. This balanced approach helps to mitigate risk and drive long-term performance.

Performance goals are team oriented rather than individually focused, and tied to measurable factors that are both transparent to stockholders and drivers of their returns.

Assuming achievement of at least a minimum level of performance, payouts under our performance-based plans result in some compensation at levels below full target achievement, rather than an all-or-nothing approach.

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Maximum payout levels for bonuses based upon performance are capped (on each measure and overall).

Our compensation committee has discretion to adjust bonus payouts, including making downward adjustments.

In addition to stock options with exercise prices at market value on the date of grant, we use restricted stock units for equity awards because restricted stock units retain value even in a depressed market so that executives are less likely to take unreasonable risks to get, or keep, options in-the-money.

Four-year ratable vesting of equity awards limits employee ability to benefit from short-term risky behavior and encourages long-term decision making and value creation.

Under our stock ownership guidelines, each named executive officer is required to own a number of shares of company common stock having a value equal to the lesser of a multiple of his or her base salary or a fixed amount of shares ranging from 140,000 to 1,200,000 shares.

Our securities trading compliance policy prohibits all employees from engaging in certain highly speculative stock transactions, including entering into short sales of our common stock or buying or selling exchange-traded options (puts or calls) on our common stock.

### **Potential Post-Employment Payments**

The following are descriptions of our employment arrangements with our named executive officers. The table following the description of our employment arrangements quantifies the potential payments and benefits to which the named executive officer would be entitled to under our arrangements with them for various scenarios involving a termination of employment or change-in-control. The amounts shown are estimated amounts that assume that the termination or change-in-control was effective as of December 31, 2011, and thus include amounts earned through such time. The actual amounts to be paid out can only be determined at the time of such executive's separation.

### ***Employment and Related Agreements***

#### *Marc P. Lefar*

We are party to an agreement with Mr. Lefar providing for his employment, as Chief Executive Officer, for an initial term of three years, that was initially entered into in July 2008 and amended in November 2009. In accordance with the terms of that agreement, the term now automatically renews each July for additional one-year periods, unless either party gives notice prior to a stated period before the end of the then-current term. In the event of a change in control, the term will also be automatically extended until the first anniversary of the change of control if the term would otherwise be terminated within such one-year period, subject to automatic annual renewals as described above. As Chief Executive Officer, Mr. Lefar reports to our board of directors. All of our employees report to Mr. Lefar or one of his designees.

Under his employment agreement, Mr. Lefar is entitled to receive an annual base salary that is currently \$950,000 and is subject to further review for increase not less often than annually by our compensation committee. Mr. Lefar is eligible to receive an annual performance-based bonus in accordance with our annual bonus program for senior executives. As required by the agreement, a review of Mr. Lefar's target annual bonus was conducted in February 2011 and February 2012 and the target annual bonus reset at 125% and 150%, respectively. In addition, Mr. Lefar's employment agreement provides for certain prerequisites as described fully under *Prerequisites* above.

During the term of his employment agreement, if we terminate Mr. Lefar's employment without cause or he resigns with good reason or if Mr. Lefar receives notice of non-renewal of his employment agreement with us and, in each case, Mr. Lefar provides us with a general release of claims, he will be entitled to a prorated annual



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bonus for the year of termination, an amount equal to two times his base salary (one year in the event of non-renewal of Mr. Lefar's employment agreement), payment of medical, dental, and vision continuation coverage premiums for Mr. Lefar and his dependents under COBRA in excess of the amount he would have paid if he were an active employee for the COBRA continuation coverage period until he receives such coverage from another employer, and up to \$50,000 of outplacement services. If Mr. Lefar's employment is terminated by reason of death or disability he will be entitled to a prorated annual bonus for the year of termination and an amount equal to his base salary for one year (reduced by the projected net amount of any disability benefits received by Mr. Lefar under our group disability policy).

Consistent with the employment agreement, the option agreements governing stock option grants made to Mr. Lefar provide that upon a change of control, all outstanding unvested options granted to Mr. Lefar will become fully vested and exercisable immediately prior to such change of control. Upon termination of Mr. Lefar's employment without cause or by Mr. Lefar for good reason (in either case, other than in the context of a change of control), then for these options, an additional amount will vest and become immediately exercisable equal to the number of options that would vest on the next vesting tranche multiplied by a fraction where (1) the numerator is 12 plus the number of full and fractional months that had elapsed between the option vesting date immediately prior to such termination and such termination date and (2) the denominator is 12. Upon a non-renewal of the employment agreement by us, Mr. Lefar will vest pro rata in the next vesting tranche to the extent he continues to be employed by us beyond the expiration of the term of the employment agreement, such pro rata portion to be based on the full and fractional months that elapse from the day immediately after the expiration of such term through his termination of employment with us. The option agreements for options granted to Mr. Lefar prior to 2011 provide for the vesting of one-half of unvested shares covered by the options upon Mr. Lefar's death or disability and that outstanding options will remain exercisable for one year, or until the end of the term of the option, if earlier. The option agreement for Mr. Lefar's 2011 and 2012 option grants provide for the vesting of one-half of unvested shares covered by the options upon Mr. Lefar's death or disability and that outstanding options will remain exercisable until the end of the term of the option. Upon a termination of Mr. Lefar's employment by us without cause or for non-renewal, or by Mr. Lefar for good reason, all outstanding options granted to Mr. Lefar will, to the extent vested, remain exercisable for at least 180 days after the termination, or until the end of the term of the option, if earlier. Upon a termination of Mr. Lefar's employment by Mr. Lefar without good reason, all vested outstanding options granted by us to Mr. Lefar will remain exercisable for at least 60 days after termination, or until the end of the term of the option, if earlier.

In addition, the agreements governing restricted stock unit grants made to Mr. Lefar provide that upon a change of control, all outstanding restricted stock units granted to Mr. Lefar will become fully vested upon such change of control. Upon termination of Mr. Lefar's employment without cause or by Mr. Lefar for good reason (in either case, other than in the context of a change of control), for the restricted stock units, an additional amount will vest equal to the number of restricted stock units that would vest on the next vesting tranche multiplied by a fraction where (1) the numerator is 12 plus the number of full and fractional months that had elapsed between the vesting date immediately prior to such termination and such termination date and (2) the denominator is 12. Upon termination of Mr. Lefar's employment in the event of death or disability 50% of unvested stock options and restricted stock units covered by those agreements vest.

The employment agreement provides that Mr. Lefar will receive an additional payment to reimburse him for any excise taxes imposed pursuant to Section 4999 of the Internal Revenue Code, together with reimbursement for any additional taxes incurred by reason of such payments.

Under the terms of Mr. Lefar's employment agreement, he has agreed not to disclose any confidential information concerning our business. In addition, Mr. Lefar has agreed not to solicit or to interfere with our relationship with any of our employees, officers or representatives or to interfere with our relationship with any of our customers, clients, suppliers, licensees or other business relations until 12 months following termination of his employment. Furthermore, Mr. Lefar has entered into a noncompetition agreement pursuant to which he has

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agreed not to provide services to the portion of any entity that sells and markets residential/home broadband connectivity or broadband voice service as an employee thereof or as a direct individual consultant thereto (or through an entity specifically formed for such activity) until 12 months following termination of his employment.

### *Barry L. Rowan*

We entered into an employment agreement with Mr. Rowan that provides for Mr. Rowan's employment for an annual base salary currently set at \$485,000. Mr. Rowan is eligible for an annual cash bonus in accordance with our annual bonus program, with a target bonus of 100% of his base salary. Mr. Rowan also participates in our employee benefit plans on the same basis as available to other senior executives or in certain circumstances on the same basis as available to our Chief Executive Officer.

Mr. Rowan's employment is for an indefinite term and may be ended by him or by us upon 30 days' notice. In the event Mr. Rowan's employment is terminated without cause or he resigns with good reason, he is entitled to severance benefits equal to one year's base salary plus his target bonus amount for the year in which his employment terminates, payable over a 12 month period, and a pro rata share (based on the portion of the year elapsed) of his bonus for the year in which his employment terminates, payable when, as and if under our bonus program such bonus would otherwise be paid.

Consistent with the employment agreement, the option agreements governing stock option grants made to Mr. Rowan provide that upon a change of control, all outstanding unvested options granted to Mr. Rowan will become fully vested and exercisable immediately prior to such change of control. If Mr. Rowan's employment is terminated by us without cause or by Mr. Rowan for good reason, then all or a portion of his options then unvested shall vest; the options that shall then vest will be equal to the number of options that would vest on the next vesting tranche multiplied by a fraction where (1) the numerator is 12 plus the number of full and fractional months that had elapsed between the vesting date immediately prior to such termination and such termination date and (2) the denominator is 12. The option agreements for Mr. Rowan's option grants provide for the vesting of one-half of unvested shares covered by the options upon Mr. Rowan's death or disability and that outstanding options will remain exercisable until the end of the term of the option. The option agreements also provide that upon a change of control of us, all outstanding unvested options granted to Mr. Rowan will become fully vested and exercisable immediately prior to such change of control. In certain limited circumstances, if Mr. Rowan's employment is considered to terminate in connection with a change of control of us and benefits payable to Mr. Rowan become subject to excise taxes, he is entitled to additional cash payments from us sufficient to satisfy all the excise and any related income taxes to which he becomes subject.

In addition, the agreements governing restricted stock unit grants made to Mr. Rowan provide that upon a change of control, all outstanding restricted stock units granted to Mr. Rowan will become fully vested upon such change of control. Upon termination of Mr. Rowan's employment without cause or by Mr. Rowan for good reason (in either case, other than in the context of a change of control), for the restricted stock units, an additional amount will vest equal to the number of restricted stock units that would vest on the next vesting tranche multiplied by a fraction where (1) the numerator is 12 plus the number of full and fractional months that had elapsed between the vesting date immediately prior to such termination and such termination date and (2) the denominator is 12. Upon termination of Mr. Rowan's employment in the event of death or disability 50% of unvested stock options and restricted stock units covered by those agreements vest.

Mr. Rowan has entered into our forms of confidentiality and innovations agreement and non-competition agreement.

### *Kurt M. Rogers*

We and Mr. Rogers entered into a letter agreement at the commencement of his employment with us (which was subsequently amended by Mr. Rogers and us in December 2010 and March 2012). The letter agreement, as

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amended, provides that in the event Mr. Rogers' employment is terminated by us without cause or by him for good reason he is entitled to severance benefits equal to twelve months of base salary payable by us during our regular payroll cycle over the twelve month period following termination of employment and a pro-rated portion of his target bonus payable by us during our regular payroll cycle over the six month period following termination of employment. Mr. Rogers is also entitled to reimbursement of lodging accommodations when Mr. Rogers is working out of our headquarters. We also reimburse Mr. Rogers for any taxes in respect of the lodging accommodations. Mr. Rogers entered into our form of confidentiality and innovations agreement.

*Nicholas P. Lazzaro*

We and Mr. Lazzaro entered into a letter agreement at the commencement of his employment with us (which was subsequently amended by Mr. Lazzaro and us in December 2010). The letter agreement, as amended, provides that in the event Mr. Lazzaro's employment is terminated by us without cause or by him for good reason he is entitled to severance benefits equal to twelve months of base salary payable by us during our regular payroll cycle over the twelve month period following termination of employment and a pro-rated portion of his target bonus payable by us during our regular payroll cycle over the six month period following termination of employment. Mr. Lazzaro is also entitled to air travel to and from our headquarters and his Atlanta, Georgia residence. In addition, we provide a corporate apartment when Mr. Lazzaro is working out of our headquarters and airport transportation services. We also reimburse Mr. Lazzaro for any taxes in respect of the air travel and corporate apartment. Mr. Lazzaro entered into our forms of confidentiality and innovations agreement and non-competition agreement.

*Acceleration of Vesting of Stock Options and Restricted Stock Units - Messrs. Rogers and Lazzaro*

The option and restricted stock unit agreements for Mr. Rogers and Mr. Lazzaro provide for acceleration of vesting of (i) 100% of unvested stock options and restricted stock units 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 and (ii) 50% of unvested stock options and restricted stock units covered by those agreements in the event of death or disability.

**Table of Contents****Potential Payments Upon Termination of Employment or Change-in-Control**

The following table quantifies potential payments to our named executive officers upon termination of employment or change-in-control assuming the triggering event took place on December 31, 2011, the last business day of our last completed fiscal year. Scott Ballantyne ceased to be our Chief Marketing Officer in March 2012 and did not receive any payments that would have been reportable on this table upon termination.

| Name   | Cash Severance Payment | Bonus      | Acceleration of Stock Options (Unvested) (1) | Acceleration of Restricted Stock Units (Unvested) (2) | Continuation of Medical/Dental and Vision Benefits | Outplacement Services | Excise Tax Gross-up | Total Termination Benefits |
|--|------------------------|------------|--|---|--|-----------------------|---------------------|----------------------------|
| <b>Marc P. Lefar</b>   |                        |            |  |   |  |                       |                     |                            |
| Termination without cause or resignation for good reason                               | \$ 1,850,000           | \$ 659,000 | \$ 3,272,917                                 | \$ 104,964  | \$ 21,889  | \$ 50,000             |                     | \$ 5,958,770               |
| Non-renewal of employment  | \$ 925,000             | \$ 659,000 |  |   | \$ 21,889  | \$ 50,000             |                     | \$ 1,655,889               |
| Termination upon death or disability   | \$ 925,000             | \$ 659,000 | \$ 2,191,875                                 | \$ 209,928  |  |                       |                     | \$ 3,985,803               |
| Termination without cause or resignation for good reason following a change in control | \$ 1,850,000           | \$ 659,000 | \$ 4,383,750                                 | \$ 419,857  | \$ 21,889  | \$ 50,000             | \$ 1,289,539        | \$ 8,674,035               |
| <b>Barry L. Rowan</b>  |                        |            |  |   |  |                       |                     |                            |
| Termination without cause or resignation for good reason                               | \$ 950,000             | \$ 235,000 | \$ 1,417,500                                 | \$ 50,712   |  |                       |                     | \$ 2,653,212               |
| Termination upon death or disability   |                        | \$ 235,000 | \$ 1,215,000                                 | \$ 101,424  |  |                       |                     | \$ 1,551,424               |
| Termination without cause or resignation for good reason following a change in control | \$ 950,000             | \$ 235,000 | \$ 2,430,000                                 | \$ 202,848  |  |                       | \$ 684,800          | \$ 4,502,648               |
| <b>Kurt M. Rogers</b>  |                        |            |  |   |  |                       |                     |                            |
| Termination without cause or resignation for good reason                               | \$ 390,000             | \$ 234,000 |  |   |  |                       |                     | \$ 624,000                 |
| Termination upon death or disability   |                        |            | \$ 344,900                                   | \$ 109,566  |  |                       |                     | \$ 454,466                 |
| Termination without cause or resignation for good reason following a change in control | \$ 390,000             | \$ 234,000 | \$ 689,799                                   | \$ 219,133  |  |                       |                     | \$ 1,532,932               |
| <b>Nicholas P. Lazzaro</b>   |                        |            |  |   |  |                       |                     |                            |
| Termination without cause or resignation for good reason                               | \$ 355,000             | \$ 213,000 |  |   |  |                       |                     | \$ 568,000                 |
| Termination upon death or disability   |                        |            | \$ 347,150                                   | \$ 109,566  |  |                       |                     | \$ 456,716                 |
| Termination without cause or resignation for good reason following a change in control | \$ 355,000             | \$ 213,000 | \$ 694,299                                   | \$ 219,133  |  |                       |                     | \$ 1,481,432               |
| <b>Scott Ballantyne</b>  |                        |            |  |   |  |                       |                     |                            |
| Termination without cause or resignation for good reason                               | \$ 390,000             | \$ 72,000  |  |   |  |                       |                     | \$ 462,000                 |
| Termination upon death or disability   |                        |            | \$   | \$  |  |                       |                     | \$                         |
| Termination without cause or resignation for good reason following a change in control | \$ 390,000             | \$ 72,000  | \$   | \$  |  |                       |                     | \$ 462,000                 |

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- (1) The payments relating to stock options represent the value of unvested stock options as of December 31, 2011 that would be accelerated upon a change in control or termination of employment, calculated by multiplying the number of shares underlying unvested options by the excess of the closing price of our common stock on December 31, 2011 (\$2.45) over the exercise price.
  
- (2) The payments relating to restricted stock units represent the value of unvested and accelerated restricted stock units as of December 31, 2011 calculated by multiplying the number of unvested shares by the closing price of our common stock on December 31, 2011 (\$2.45).

**Table of Contents****DIRECTOR COMPENSATION**

We use a combination of cash and equity-based compensation to attract and retain qualified candidates to serve on our board of directors. In setting director compensation, we consider the significant amount of time that our directors expend in fulfilling their duties as well as the skill-level required by us of members of our board.

**Cash Compensation Paid to Board Members**

Directors' annual retainer fees for 2011 were as follows:

|  |            |
|--|------------|
| Chairman of the Board annual retainer (in lieu of board and committee meeting fees)*   | \$ 125,000 |
| Base annual retainer for all other non-employee directors*                             | \$ 50,000  |
| Additional annual retainers*:  |            |
| Lead director and audit committee chairperson  | \$ 25,000  |
| Other audit committee members  | \$ 5,000   |
| Compensation committee chairperson and nominating and governance committee chairperson | \$ 10,000  |
| Retainer for special committee (one-time upon appointment)                             | \$ 5,000   |

\* Pro-rated for actual service during the twelve-month period covered by the retainer.

Board and board committee meeting fees for 2011 for non-employee directors were as follows:

|  |          |
|--|----------|
| Fees per in person board meeting attended (in person or telephonic participation)            | \$ 3,000 |
| Fees per in person standing board committee meeting (in person or telephonic participation): |          |
| Audit committee  |          |
| Chairperson  | \$ 3,000 |
| Other member   | \$ 2,000 |
| Compensation committee   |          |
| Chairperson  | \$ 2,500 |
| Other member   | \$ 2,000 |
| Nominating and governance committee  |          |
| Chairperson  | \$ 2,500 |
| Other member   | \$ 2,000 |
| Fees per in person special committee meeting (in person or telephonic participation)         | \$ 2,000 |
| Fees per telephonic meeting attended:  |          |
| Telephonic board meeting   | \$ 1,000 |
| Telephonic audit committee meetings to review quarterly and annual SEC filings               | \$ 2,000 |
| Any other telephonic meeting of a standing board committee                                   | \$ 1,000 |
| Telephonic special committee meeting   | \$ 1,000 |

We reimburse all directors for reasonable and necessary expenses they incur in performing their duties as directors of our company. In addition, our board of directors has authority to make payments to directors performing services determined by our board of directors, upon recommendation of the nominating and governance committee, to be extraordinary services which significantly exceed customary and routine services performed by a director, in an amount determined by our board of directors to be appropriate compensation for the services performed. We also provide health, vision and dental benefits to our Chairman of the Board.

**Equity-Based Grants to Board Members and Stock Ownership Guidelines for Directors**

On the date they commence service on our board of directors, newly elected directors receive an option to purchase 150,000 shares of our common stock at an exercise price equal to the closing price of our common

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stock as reported on the New York Stock Exchange on the date of the grant. The stock option vests over a period of four years, vesting as to 25% of the underlying shares on the first anniversary of the date of grant and as to the remaining underlying shares in equal quarterly installments thereafter. The stock options vest in full upon a change in control.

On the first day of each quarter, non-employee directors of our company are awarded fully vested options to purchase 10,000 shares of our common stock (15,000 shares for Mr. Citron) at an exercise price equal to the closing price of our common stock on the New York Stock Exchange on the date of grant, or if such date is not a trading day, the closing selling price on the trading day immediately preceding the date of grant. In addition, on the first day of each quarter, non-employee directors of our company are awarded \$10,000 of restricted stock (1.5x such share amount of restricted stock for Mr. Citron). The stock price used to calculate the number of shares of stock to be granted, all of which are fully vested, is the closing price of our common stock on the New York Stock Exchange on the date of grant, or if such date is not a trading day, the closing selling price on the trading day immediately preceding the date of grant. In order to be eligible for grants, a non-employee director must have served on our board for the entire previous quarter. Vested options are exercisable for two years after termination of service as a director. All unvested options vest upon a change of control if the director is serving at the time of the event.

Our board of directors has adopted stock ownership guidelines requiring our non-employee and Section 16 Officers to maintain a minimum equity stake in the company. Our board of directors believes that these requirements help to ensure an alignment of director and executive interests with those of stockholder interests and promote a focus on long-term growth. Non-employee directors must maintain a stock ownership level equal to the lesser of (i) three times our annual board retainer or (ii) 60,000 shares. Shares included in the calculation to assess compliance with the guidelines include shares owned outright and 75% of vested stock options (whether or not in-the-money). Each non-employee director must retain 25% of net stock options exercised or stock delivered from vested restricted stock units until the guidelines are met. All non-employee directors have met the guidelines other than Mr. Sparks, who joined our board of directors in December 2010, and Mr. Redling who joined our board of directors in June 2011. Directors may be exempted from the guidelines and/or the retention ratio due to financial hardship as determined by the compensation committee in its discretion.

**2011 Director Compensation**

The following table summarizes the compensation paid by us to non-employee directors for the fiscal year ended December 31, 2011.

| Name                  | Fees                   |                  |                   |                        | Total      |
|-----------------------|------------------------|------------------|-------------------|------------------------|------------|
|                       | Earned or Paid in Cash | Stock Awards (1) | Option Awards (2) | All Other Compensation |            |
| Jeffrey A. Citron     | \$ 125,000             | \$ 59,990        | \$ 164,997        | \$ 21,889(3)           | \$ 371,876 |
| Peter Barris          | \$ 75,000              | \$ 39,994        | \$ 109,998        |                        | \$ 224,992 |
| Morton David          | \$ 95,500              | \$ 39,994        | \$ 109,998        |                        | \$ 245,492 |
| Michael A. Krupka     | \$ 98,000              | \$ 39,994        | \$ 109,998        |                        | \$ 247,992 |
| J. Sanford Miller (4) | \$ 18,000              | \$ 19,997        | \$ 54,567         |                        | \$ 92,564  |
| Jeffrey J. Misner     | \$ 96,500              | \$ 39,994        | \$ 109,998        |                        | \$ 246,492 |
| David C. Nagel        | \$ 68,000              | \$ 39,994        | \$ 109,998        |                        | \$ 217,992 |
| Joseph M. Redling (5) | \$ 57,000              | \$ 10,000        | \$ 539,205        |                        | \$ 606,205 |
| John J. Roberts       | \$ 98,000              | \$ 39,994        | \$ 109,998        |                        | \$ 247,992 |
| Carl Sparks           | \$ 85,833              | \$ 19,997        | \$ 512,403        |                        | \$ 618,233 |

- (1) Stock awards consist only of restricted stock. The amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown are the grant date fair value, calculated in accordance with FASB ASC 718 by multiplying the number of shares of restricted stock awarded by the closing price of our common stock on the date of grant.

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- (2) The amounts shown do not reflect compensation actually received by the directors. Instead, the amounts shown are the grant date fair value with respect to stock options, computed in accordance with FASB ASC 718. 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, 2011 filed with the SEC on February 16, 2012. Actual gains, if any, on shares acquired upon option exercises are dependent on other factors, including the holder's continued board service through the option exercise period, the future performance of our common stock, and overall market conditions. There can be no assurance that the values reflected in this table will be achieved. For Messrs. Redling and Sparks, the amounts shown include the grant date fair value of their initial grant of options to purchase 150,000 shares of our common stock computed in accordance with FASB ASC 718.
- (3) This amount represents health, vision and dental benefits.
- (4) Mr. Miller declined to stand for re-election at the 2011 annual meeting.
- (5) Mr. Redling became a director in June 2011.  
As of December 31, 2011, each director held options for the following aggregate number of shares:

| Name               | Number of Shares |             |
|--------------------|------------------|-------------|
|                    | Underlying       | Outstanding |
|                    | Stock Options    |             |
| Jeffrey A. Citron* | 176,250          |             |
| Peter Barris       | 366,787          |             |
| Morton David       | 130,537          |             |
| Michael A. Krupka  | 178,750          |             |
| J. Sanford Miller  | 141,429          |             |
| Jeffrey J. Misner  | 171,250          |             |
| David C. Nagel     | 190,000          |             |
| Joseph M. Redling  | 160,000          |             |
| John J. Roberts    | 366,787          |             |
| Carl Sparks        | 170,000          |             |

- \* Represents options granted under the Company's director compensation programs. Excludes 5,544,597 shares of common stock issuable upon exercise of stock options held by Mr. Citron. See Stock Ownership Information below for more information regarding the equity ownership of our officers and directors.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table provides information about the securities authorized for issuance under our equity compensation plans as of December 31, 2011.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options and Rights<br>(a) | Weighted-average Exercise Price of Outstanding Options and Rights<br>(b) | Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in column (a)) |
|---------------|--|--|---|
|               |  |  | (c)   |
|               | 39,557,422   | \$ 2.37  | 18,563,963(1)   |



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Equity compensation plans approved by security holders

Equity compensation plans not approved by security holders (2)

|       |            |    |      |               |
|-------|------------|----|------|---------------|
| Total | 39,557,422 | \$ | 2.37 | 18,563,963(1) |
|-------|------------|----|------|---------------|

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- (1) On March 11, 2008, the Board terminated Vonage's 2001 Stock Incentive Plan, effective as of March 6, 2008. All shares of our common stock that remained available for issuance under the 2001 Stock Incentive Plan as of the effective date of the plan's termination became available for issuance under the 2006 Incentive Plan. The termination of the 2001 Stock Incentive Plan did not affect any stock options or restricted stock awards previously granted under the 2001 Stock Incentive Plan. Since June 2011, the maximum number of shares of our common stock that are authorized for issuance under our 2006 Incentive Plan are 66,400,000. In addition, any shares underlying 2001 Stock Incentive Plan options that are canceled or expire without exercise will become available for issuance under the 2006 Incentive Plan. Awards under the 2006 Incentive Plan may include restricted stock, unrestricted stock, restricted stock units, stock appreciation rights, performance shares or other equity-based awards, as our board of directors or compensation committee may determine.
- (2) We have no equity compensation plans not approved by our stockholders.

**STOCK OWNERSHIP INFORMATION**

The following table sets forth information regarding the beneficial ownership of our common stock as of April 16, 2012 by:

each person or group who is known by us to own beneficially more than 5% of our common stock;

each of our directors and director nominees;

each of our named executive officers, as defined under SEC rules; and

all of our current directors and executive officers as a group.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Shares of common stock subject to options that are currently exercisable or exercisable within 60 days of April 16, 2012 are considered outstanding and beneficially owned by the person holding the options for the purpose of computing the percentage ownership of that person but are not treated as outstanding for the purpose of computing the percentage ownership of any other person.

Unless otherwise indicated, each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned. Except as indicated below, the address for each stockholder, director or named executive officer is 23 Main Street, Holmdel, New Jersey 07733.

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This table assumes 226,363,907 shares of common stock outstanding as of April 16, 2012, assuming no exercise of outstanding options.

|  | Number of<br>Shares<br>Beneficially<br>Owned | Percentage<br>of Shares<br>Beneficially<br>Owned |
|--|--|--|
| <b><i>Beneficial Owners of More than 5%</i></b>                          |  |  |
| Jeffrey A. Citron (1)  | 50,056,044                                   | 21.7%  |
| New Enterprise Associates (2)  | 11,752,903                                   | 5.2%   |
| The Vanguard Group, Inc. (3)   | 11,925,540                                   | 5.3%   |
| Wellington Management Company, LLP (4)                                   | 21,453,920                                   | 9.5%   |
| <b><i>Directors, Director Nominees, and Named Executive Officers</i></b> |  |  |
| Jeffrey A. Citron (1)  | 50,056,044                                   | 21.7%  |
| Marc P. Lefar (5)  | 6,762,029                                    | 2.9%   |
| Barry L. Rowan (6)   | 1,658,805                                    | *  |
| Kurt M. Rogers (7)   | 330,334                                      | *  |
| Nicholas P. Lazzaro (8)  | 554,609                                      | *  |
| Scott Ballantyne (9)   |  | %  |
| Peter Barris (10)  | 12,256,355                                   | 5.4%   |
| Morton David (11)  | 859,935                                      | *  |
| Michael A. Krupka (12)   | 9,069,270                                    | 4.0%   |
| Jeffrey J. Misner (13)   | 281,665                                      | *  |
| David C. Nagel (14)  | 118,767                                      | *  |
| Joseph M. Redling (15)   | 79,951                                       | *  |
| John J. Roberts (16)   | 503,452                                      | *  |
| Carl Sparks (17)   | 92,153                                       | *  |
| All directors and executive officers as a group (17 persons) (18)        | 83,220,549                                   | 34.4%  |

\* Less than one percent.

- (1) Includes (i) 7,837,727 shares owned by Kyra Elyse Citron 1999 Descendants Annuity Trust; (ii) 7,842,126 shares owned by Noah Aidan Citron 1999 Descendants Annuity Trust; (iii) 178,959 shares of common stock owned by KEC Holdings; (iv) 1,000,000 shares held by a charitable organization for which Mr. Citron serves as a director; and (v) 4,391,472 shares of common stock issuable upon exercise of stock options. With respect to the shares held by the charitable organization, Mr. Citron disclaims beneficial ownership of such shares.
- (2) Includes: (i) 7,030,791 shares owned by New Enterprise Associates 10, Limited Partnership ( NEA 10 ); (ii) 140,618 shares owned by NEA Partners 10, Limited Partnership ( NEA Partners 10 ); (iii) 4,558,701 shares owned by New Enterprise Associates 11, Limited Partnership ( NEA 11 ); and (iv) 22,793 shares owned by NEA Partners 11, Limited Partnership ( NEA Partners 11 ). NEA Partners 10 is the sole general partner of NEA 10. The individual general partners of NEA Partners 10 are M. James Barrett, Peter J. Barris, C. Richard Kramlich, Charles W. Newhall, III, Mark W. Perry, and Scott D. Sandell. NEA Partners 10 and the individual general partners of NEA Partners 10 may be deemed to have shared voting and dispositive power over, and be deemed indirect beneficial owners of, the shares directly held by NEA 10. The individual general partners of NEA Partners 10 may be deemed to have shared voting and dispositive power over, and be deemed indirect beneficial owners of, the shares directly held by NEA Partners 10. NEA 11 GP, LLC ( NEA 11 GP ) is the sole general partner of NEA Partners 11, which is the sole general partner of NEA 11. The individual managers of NEA 11 GP are M. James Barrett, Peter J. Barris, Ryan D. Drant, Krishna Kittu Kolluri, Forest Baskett, C. Richard Kramlich, Charles W. Newhall, III, Mark W. Perry, and Scott D. Sandell. NEA Partners 11, NEA 11 GP, and the individual managers of NEA 11 GP may be deemed to have shared voting and dispositive power over, and be deemed indirect beneficial owners of, the shares directly held by NEA 11. The individual managers of NEA 11 GP may be deemed to have shared voting and dispositive power over, and be deemed indirect beneficial owners of, the shares directly held by NEA Partners 11. The aforementioned indirect holders of the shares owned by NEA 10, NEA Partners 10,

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- NEA 11, and NEA Partners 11 disclaim beneficial ownership of such shares except to the extent of its or his actual pecuniary interest therein. The address for NEA 10, NEA Partners 10, NEA 11, and NEA Partners 11 is 1954 Greenspring Drive, Suite 600, Timonium, MD 21093.
- (3) Based on a Schedule 13G filed February 10, 2012 by The Vanguard Group, Inc. disclosing sole voting power over 224,195 shares of common stock, sole power to dispose of or direct the disposition of 11,701,345 and shared power to dispose of or direct the disposition of 224,195 shares of common stock. The address of The Vanguard Group, Inc. is 100 Vanguard Blvd., Malvern, PA 19355.
- (4) Based on an amendment to Schedule 13G filed on February 14, 2012 by Wellington Management Company, LLP disclosing disclosing shared voting power over 9,885,445 shares of common stock and shared power to dispose of or direct the disposition of 21,453,920 shares of common stock. The address of Wellington Management Company, LLP is 280 Congress Street, Boston, MA 02210.
- (5) Includes 6,735,660 shares of common stock issuable upon exercise of stock options.
- (6) Includes 1,644,824 shares of common stock issuable upon exercise of stock options.
- (7) Includes 304,497 shares of common stock issuable upon exercise of stock options.
- (8) Includes 529,497 shares of common stock issuable upon exercise of stock options.
- (9) Mr. Ballantyne ceased serving as Chief Marketing Officer, and Treasurer in March 2012.
- (10) Includes: (i) 11,752,903 shares as described in footnote 2 owned by NEA 10, NEA Partners 10, NEA 11, and NEA Partners 11 and (ii) 386,787 shares of common stock issuable upon exercise of stock options. Mr. Barris disclaims beneficial ownership of such 11,752,903 shares described in footnote 2, except to the extent of his proportionate pecuniary interest therein.
- (11) Includes (i) 78,328 shares owned by Mr. David and Jeffrey Stambovsky Trustees FOB Aaron; (ii) 78,410 shares owned by Mr. David and Jeffrey Stambovsky Trustees FBO Zachary; and (iii) 346,877 shares of common stock issuable upon exercise of stock options.
- (12) Includes: (i) 8,772,605 shares as described below for entities associated with Bain Capital and (ii) 198,750 shares of common stock issuable upon exercise of stock options. Shares for entities associated with Bain Capital include (a) 1,747,634 shares owned by Bain Capital Venture Fund 2005, L.P., whose sole general partner is Bain Capital Venture Partners 2005, L.P. ( BCVP ), whose sole general partner is Bain Capital Venture Investors, LLC ( BCVI ); (b) 247,371 shares owned by BCIP Associates III, LLC, whose manager is BCIP Associates III, whose sole managing general partner is Bain Capital Investors, LLC ( BCI ) and whose attorney-in-fact with respect to such shares is BCVI; (c) 6,642 shares owned by BCIP Associates III-B, LLC, whose manager is BCIP Associates III-B, whose sole managing partner is BCI and whose attorney-in-fact with respect to such shares is BCVI; and (d) 6,770,958 shares owned by Brookside Capital Partners Fund, L.P., whose sole general partner is Brookside Capital Investors, L.P. ( Brookside Investors ), whose sole general partner is Brookside Capital Management, LLC ( Brookside Management ). Mr. Krupka is the sole managing member of BCVI. Domenic Ferrante is the managing member of Brookside Management. Each of Mr. Krupka, Mr. Ferrante, and Jonathan S. Lavine is (a) a limited partner of each of BCVP and Brookside Investors, (b) a member of BCI, BCVI and Brookside Management, and (c) a general partner of BCIP Associates III. Mr. Krupka, Mr. Ferrante, and Mr. Lavine, and the entities listed above other than record holders of the shares listed above may each be deemed to share voting and dispositive power with respect to these shares, but each disclaims beneficial ownership of such shares except to the extent of their pecuniary interests therein. The address of each listed entity and individual is 111 Huntington Avenue, Boston, MA 02199.

- (13) Includes 191,250 shares of common stock issuable upon exercise of stock options.
- (14) Includes 97,500 shares of common stock issuable upon exercise of stock options.
- (15) Includes 67,500 shares of common stock issuable upon exercise of stock options.
- (16) Includes 386,787 shares of common stock issuable upon exercise of stock options.
- (17) Includes 77,500 shares of common stock issuable upon exercise of stock options.
- (18) Includes 15,918,725 shares of common stock issuable upon exercise of stock options.

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**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, executive officers and beneficial owners of more than 10% of our common stock to file with the SEC reports regarding their ownership and changes in ownership of our securities. We believe that, during fiscal year 2011, our directors, executive officers and 10% stockholders complied with all Section 16(a) filing requirements with the exception of one late Form 4 filing for Joseph M. Redling.

In making these statements, we have relied upon examination of the copies of Forms 3, 4 and 5, and amendments thereto, provided to us and the written representations of our directors, executive officers and 10% stockholders.

**Table of Contents****APPENDIX A****VONAGE HOLDINGS CORP.****RECONCILIATION OF GAAP INCOME FROM OPERATIONS TO ADJUSTED EBITDA****(Dollars in thousands)****(unaudited)**

|                               | <b>For the Years Ended<br/>December 31,</b> |             |             |
|-------------------------------|---|-------------|-------------|
|                               | <b>2011</b>                                 | <b>2010</b> | <b>2009</b> |
| Income from operations        | \$ 116,350                                  | \$ 95,054   | \$ 57,202   |
| Depreciation and amortization | 37,051                                      | 53,073      | 53,391      |
| Share-based expense           | 14,279                                      | 8,255       | 8,473       |
| Adjusted EBITDA               | \$ 167,680                                  | \$ 156,382  | \$ 119,066  |

**VONAGE HOLDINGS CORP.****RECONCILIATION OF GAAP NET INCOME (LOSS) TO****NET INCOME EXCLUDING ADJUSTMENTS****(Dollars in thousands)****(unaudited)**

|  | <b>For the Years Ended<br/>December 31,</b> |             |             |
|--|---|-------------|-------------|
|  | <b>2011</b>                                 | <b>2010</b> | <b>2009</b> |
| Net income (loss)  | \$ 409,044                                  | \$ (83,665) | \$ (42,598) |
| Change in fair value of embedded features within notes payable and stock warrant | 950   | 99,338      | 49,933      |
| Deferred taxes (benefit) expense   | (325,601)                                   |             |             |
| (Gain) loss on extinguishment of notes   | 11,806                                      | 31,023      | (4,041)     |
| Net income excluding adjustments   | \$ 96,199                                   | \$ 46,696   | \$ 3,294    |

**VONAGE HOLDINGS CORP.****FREE CASH FLOW****(Dollars in thousands)****(unaudited)**

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|  | <b>For the Years Ended</b> |             |
|--|----------------------------|-------------|
|  | <b>December 31,</b>        |             |
|  | <b>2011</b>                | <b>2010</b> |
| Net cash provided by operating activities      | \$ 146,786                 | \$ 194,212  |
| Less:  |                            |             |
| Capital expenditures                           | (12,636)                   | (17,674)    |
| Intangible assets                              | (3,725)                    |             |
| Acquisition and development of software assets | (22,292)                   | (22,712)    |
| Free cash flow                                 | \$ 108,133                 | \$ 153,826  |

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## VONAGE HOLDINGS CORP.

## RECONCILIATION OF GAAP SG&amp;A TO ADJUSTED SG&amp;A

(Dollars in thousands)

(unaudited)

|                                     | December 31,<br>2011 | December 31,<br>2010 | 2011 vs. 2010<br>%<br>Change | December 31,<br>2007 | 2011 vs. 2007<br>% Change |
|-------------------------------------|----------------------|----------------------|------------------------------|----------------------|---------------------------|
| Selling, general and administrative | \$ 234,754           | \$ 238,986           |                              | \$ 461,768           |                           |
| IP litigation                       |                      |                      |                              | (134,300)            |                           |
| Severance                           |                      |                      |                              | (5,242)              |                           |
| Adjusted SG&A                       | \$ 234,754           | \$ 238,986           | (2)%                         | \$ 322,226           | (27)%                     |

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**VOTE BY INTERNET**

VONAGE HOLDINGS CORP.

*Before The Meeting* - Go to [www.proxyvote.com](http://www.proxyvote.com)

ATTN: LESLIE ARENA

PO BOX 310

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

HOLMDEL, NJ 07733

*During The Meeting* - Go to [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG)

You may attend the Meeting via the Internet and vote during the Meeting. Have the information that is printed in the box marked by the arrow available and follow the instructions.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

M46216-P25721  
**THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**KEEP THIS PORTION FOR YOUR RECORDS  
 DETACH AND RETURN THIS PORTION ONLY**

| VONAGE HOLDINGS CORP.  | <b>For</b> | <b>Withhold</b> | <b>For All</b> | To withhold authority to vote for any individual nominees(s), mark For All Except and write the number(s) of the nominee(s) on the line below. |
|--|------------|-----------------|----------------|--|
| <b>The Board of Directors recommends you vote FOR the following:</b> | <b>All</b> | <b>All</b>      | <b>Except</b>  |  |
| 1. Election of Directors Nominees:                                   | ..         | ..              | ..             |  |

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- 01) Jeffrey A. Citron
- 02) Morton David
- 03) Jeffrey J. Misner

**The Board of Directors recommends you vote FOR the following proposal.**

**For      Against      Abstain**

2. To ratify the appointment of BDO USA, LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

“                      “                      “

**NOTE:** To transact other business as may properly come before the meeting or any adjournment thereof.

Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN  
WITHIN BOX]

Date

Signature (Joint Owners)

Date

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**Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report are available at <http://ir.vonage.com>.

M46217-P25721

**VONAGE HOLDINGS CORP.**

**Annual Meeting of Stockholders**

**June 7, 2012 10:00 AM**

**This proxy is solicited by the Board of Directors**

The undersigned stockholder(s) revoking all prior proxies hereby appoint(s) Kurt Rogers and Henry Pickens, or either of them, as proxies, each with full power of substitution, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of VONAGE HOLDINGS CORP. that the stockholder(s) is/are entitled to vote at the Annual Meeting of Stockholder(s) to be held at 10:00 AM, local time on June 7, 2012 live via the Internet at [www.virtualshareholdermeeting.com/VG](http://www.virtualshareholdermeeting.com/VG) and any adjournment or postponement thereof.

**This proxy, when properly executed, will be voted in the manner directed herein, If no such direction is made, this proxy will be voted in accordance with the Board of Directors' recommendations.**

**Continued and to be signed on reverse side**

