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PRESENTATION

Operator

Good day, everyone, and welcome to the Vonage Holdings Corporation third quarter 2010 earnings conference call. Just as a reminder, today's call is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Ms. Leslie Arena, Vice President of Investor Relations. Please go ahead, Ms. Arena.

Leslie Arena - *Vonage Holdings Corp. - IR, Vice President*

Thank you.

Good morning, and welcome to our third quarter 2010 conference call. Speaking on our call this morning, will be Marc Lefar, Chief Executive Officer, and Barry Rowan, CFO and Chief Administrative Officer. Marc will discuss the Company's planned refinancing and progress in the quarter. Barry will discuss the details of our refinancing and our financial results. Slides that accompany Barry's discussion are available on the Investor Relation's website. At the conclusion of our prepared remarks, we will be happy to take your questions.

As referenced on slide two, I would like to remind everyone that statements made during this call that are not historical facts or information, may be forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These and all forward-looking statements are based on management's current beliefs and expectations, and depend on assumptions or data that may be incorrect or imprecise. Such forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially. More information about those risks and uncertainties is highlighted on the second page of the slides, and contained in Vonage's SEC filings. We caution listeners not to rely unduly on forward-looking statements, and we disclaim any intent or obligation to update. During this call, we will be referring to non-GAAP financial measures. A reconciliation of these measures to comparable GAAP measures is available on the Investor Relations website. And now, I will turn the call over to Marc.

Marc Lefar - *Vonage Holdings Corp. - CEO*

Thank you, Leslie. And thank you all for joining our call. This morning, we announced plans for refinancing the Company. This marks a major milestone in our continued transformation. In many ways, it's the culmination of the significant and sustained progress we've achieved in our operating performance over the past two years. It's the realization of our strategy to build a vibrant Company, unencumbered by inefficient capital structure and restrictive covenants. Yesterday, we entered into an agreement with our debt holders to retire 100% of our outstanding debt. And today, we announced plans to issue approximately $200 million of new debt, essentially restructuring our balance sheet. We expect this transaction will lead to earnings accretion of at least 40% due to dramatically lower interest rates, along with the added benefit of far less restrictive covenants. We'll have much greater flexibility to operate, and to grow the business. This is exciting news for Vonage, for our employees, and our shareholders.

It was just two years ago, during my first two full quarter at Vonage, we were forced to refinance our debt during the toughest credit market in recent history. Our business operations were not efficient, and customer loyalty was weak. Churn was well over 3%, EBITDA was a third of what it is today, and free cash flow was negative $35 million. Over the past two years, we've dramatically improved our core operations and significantly improved loyalty, while improving the quality of our customer base. We've enhanced our cost structure, and driven churn to its lowest level in many years. We battled through threats of stock delisting, and we resolved all of the major litigation issues facing us. We launched new products, including Vonage World, and entered the mobile market with an international calling application, and Vonage Mobile for Facebook. Today, trailing four quarter EBITDA and free cash flow are roughly $150 million each, and we have $185 million in cash. Although we have much more to do, we have made tremendous progress.

Let's move on to our current results. Our financial progress has been strong. Year-to-date, we generated $115 million in EBITDA, nearly as much as we generated in all of 2009. Our third quarter results were solid. Our core businesses continues to generate substantial cash, driven by an aggressive focus on cost management and process improvements throughout our operations, and in our call centers. We stabilized our customer base, and reduced churn to the lowest third quarter level in five years. We generated nearly $40 million in EBITDA, excluding non-operational litigation costs, and reduced expenses in virtually every category.

Year-over-year, we reduced SG&A by 7%, and drove customer care costs per line down by 24%, while increasing customer satisfaction ratings. And we continue to reduce international termination rates, which decline meaningfully since the third quarter of last year. Consistent with our prior guidance, revenue declined sequentially to $214 million. It's important to note, that more than half of the decline was driven by non-operational items. The first was a decline in universal service fund fees, which do not impact earnings. These revenues are direct pass-throughs. The second item affecting the quarter, is a reserve for refunds paid to customers as part of our consumer class action settlement. This was recorded against revenue.

From an operations perspective, we continue to make fundamental improvements in the customer experience. Network call quality continues to improve, as a percent of impaired calls declined by more than 20% over the past year. And the number of customers experiencing one or more impaired calls, dropped more than 40% in the last quarter alone. Platform reliability is also improving, as we delivered a 26% decrease in incidents from a year ago, and reduced our average time to restore by 20% sequentially. These improvements, and the attractive value proposition of Vonage World drove a 100 basis point decline in churn from a year ago. More than 900,000 customers are now on Vonage World, and more than half of those are international callers, who churn at a rate of less than half that of domestic callers. Gross line adds increased by 5% sequentially to 163,000, as we gained late quarter traction behind our Hispanic marketing efforts and our no-contract offer. However, as a result of the slight seasonal increase in churn from 2.3% to 2.4% sequentially, net adds were flat, at negative 5,000.

We're making progress. We must accelerate our penetration in the international long distance segments, where there is significant additional market opportunity. The targeted roll out of our ethnic marketing campaigns are providing us with valuable learnings. The Hispanic market research, copy testing and call center agent focus groups have provided insight and data, enabling us to optimize our marketing strategy. With an addressable Hispanic population of 26 million households, we consider this segment, along with the Asian Indian market to be very large growth opportunities for us.

And our early results are very encouraging. In September, we launched national Hispanic television advertising, which along with our end-to-end Spanish sales and support is helping us attract new customers. Hispanic callers now make up - over 25% of sales call volume, and Hispanic orders have quadrupled. Recently launched television and direct mail campaigns, better addressing the Asian Indian market, are also expected to drive additional call volume into our sale centers. In September, we also brought Vonage World north, by launching Vonage world into Canada. This product offers unlimited calling to more than 60 countries including the US, UK, France, Germany, India, and China. Early results are positive. Although the base is small, gross line additions have doubled in Canada since launch.

Increasing confidence in the value of our customer offer, as well as evolving industry trends precipitated our no-contract offer launch in September. Although early, we're already seeing lower return rates. And importantly, churn for the no-contract customers is the same or better than for customers under contract. While we've seen improvements in international which strengthens our base, we're adding domestic customers at a lower rate. We are focusing on identifying the appropriate balance of investment between these markets, to drive long-term value. In the fourth quarter, we plan a deeper focus on Hispanic and Indian markets, while continuing to target domestic callers and leverage promotions where necessary. Our active search for an exceptional Chief Marketing Officer is continuing. I will continue to personally manage the Company's marketing efforts, until we announce this individual, and will of course remain closely involved thereafter.

Let me talk now about some of the market dynamics, and our future direction. At the same time that we've been driving our core business, we've also been laying the foundation to deliver next generation products. As we discussed on prior calls, the market for next generation services is very attractive, and built on strong fundamentals. Smartphone sales have continued to grow, and media tablets such as iPads have exploded in popularity. Today, they are more than 500 million portable devices worldwide, with expectations for this market to grow to more than a billion by 2014. International calling revenue exceeds $80 billion, and US text messaging revenue is roughly $25 billion.

Our development team has made significant progress preparing for the rollout of next generation products. We're strengthening our R&D team, and building out the infrastructure to support messaging, and to open our platform to multiple social communities. Our August launch of Vonage Mobile for Facebook was another step in our mobile strategy. Vonage Mobile for Facebook demonstrated how with a single digital identity, a person can initiate and receive calls and messages over our networks, using their existing social networks and existing contact lists. This concept can be extended to any broadband-connected device, whether it's a PC, a gaming console, television, e-reader, or mobile phones.

This application garnered significant attention, and many visits to our Vonage talk free site. We're directly focused on expanding the number of downloads and users. This concept is not limited to just a single community, and we expect to announce applications for other social communities in upcoming quarters. In the future, we anticipate a full range of services, many of which we monetize including international calling plans, text messaging, premium services like readable voice mail, and custom communities, as well as an integrated address book leveraging the existing mobile device. We'll also expand these services to additional platforms, such as a PC & Mac in the near future.

We will continue to leverage our innovative and flexible IP platform to deliver new products, which we expect will contribute meaningfully to top line growth in the second half of 2011. We'll provide guidance on the impact of next generation products, when we report our fourth quarter results for the year end. In summary, today's announcement of our planned debt refinancing provides a clean slate for the Company. With the stabilization of our customer base, our strong cash flow, and a transformed capital structure, we now have a solid platform on which to grow. We look forward to providing you with continued updates on our progress in the quarters ahead. And now I'll turn the call over to Barry.

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

Thanks, Marc. I'm pleased to review today's debt announcement, and our third quarter results with you. Let me begin by reiterating how pleased we are to be able to announce this refinancing. This is a transforming event for Vonage, and represents the culmination of strong operating performance over many quarters, combined with very strong credit markets. This refinancing will replace approximately $194 million of restructuring debt, at interest rates ranging from 16% to 20%, with a comparably sized $200 million pre-payable term loan facility, carrying interest rates anticipated to be less than half the blended rate that we are currently paying.

As the third lien notes are also expected to be converted in this transaction, Vonage will exit the planned refinancing with a completely restructured balance sheet. We expect the refinancing to be highly accretive to earnings. In addition, the new term loan facility will be pre-payable, and we are highly confident that it will contain far less stringent covenants than our existing debt. This will de-risk our business, and substantially increase the financial and operating flexibility we desire, to accelerate the performance of the business going forward.

Viewed in the aggregate, we believe the benefits of this comprehensive refinancing, significantly outweigh the costs required to complete the transaction. In addition to the debt announcement, we reported a solid financial quarter, as we generated strong EBITDA and cash flow based on on-going operational improvements and expense management. We reported the lowest third quarter churn in five years, and made continued progress in improving customer care processes, and network operations laying the foundation to deliver next generation products and services.

So let's review the details of the refinancing beginning on slide three. As Marc highlighted, this planned refinancing is made possible by the significant operational progress made over past several years, and in recent quarters, substantial cash generation, achieved through working capital management and the release of restricted cash from vendors based on the Company's solid financial performance.

Through this combination of strong cash flow generated from operations and cash management, we have grown our cash balance from $35 million to $166 million, or over $130 million just since the end of last year. This was a key component of our two-part strategy, of first pre-paying as much debt as possible at par through the excess cash flow provision of our debt agreements, a total of $41 million during the past few quarters, and now affecting this global refinancing.

Let me explain the transaction in more detail, breaking it into two components, the repayment and the new debt issue. Please turn to slide four. Yesterday, we entered into definitive agreements to exercise our make-whole right on our first lien, and pay a premium on the second lien discounted from the full make-whole price, thereby fully retiring the first and second lien debt. This $93 million premium is comprised of a 21% or $20.6 million premium to par on the first lien, and then a 81% or $72.8 million premium to par on the second lien, and represents a more than 25% discount to the full make-whole premium on the second lien. In addition to the premium payments required to retire the debt, we agree to pay administrative and consent fees to the lenders. Certain fees will be required to be paid to the lenders, in the event that a refinancing is not consummated within the next four months.

In addition to this agreement with the first and second lien lenders, the third lien holders have also agreed to convert the remainder of their notes, as part of this overall transaction. The third lien notes will be converted into 8.3 million shares of the Company's common stock. In addition, the third lien note holders will receive a cash payment of $2.2 million, plus accrued interest of $1.1 million. Through this retirement of first, second and third liens, and based on the anticipated rates on the new debt, we expect to save over $20 million in interest costs per year.

Now that we have reached agreement on repayment terms with the first, second and third lien holders, we're proceeding aggressively with plans to raise the approximately $200 million in term loans, and have engaged Banc of America Merrill Lynch and Deutsche Bank to lead this effort. The combination of the proceeds from this new issuance, plus our existing cash will retire all of our current high cost restructuring debt, that was put in place at a time when the Company's very survival was in question, and in an environment of extraordinarily difficult capital market.

In contrast, we expect to exit this refinancing with a strong balance sheet, characterized by low leverage, ample liquidity, significant operating flexibility, and accretion to earnings during the first year of at least 40%, based on the lower interest rate on the new debt. Our capital structure will be significantly enhanced through a conventional term, loan allowing for prepayments at par. We anticipate pro forma total leverage to be at or below 1.5 times debt to EBITDA, and net debt to be approximately 1.1 times, leaving us with ample liquidity of at least $55 million in cash after the refinancing.

Importantly, we will also have eliminated the highly restrictive covenants contained in the existing debt agreements, including those associated with acquisitions and returning capital to shareholders. The new financing will include standard maintenance covenants, such as total leverage, interest coverage and capital expenditures, but we believe these will be set with more than adequate cushion to provide the financial and operating flexibility we seek. While we're confident of our ability to raise the new issue in accordance with the terms we have described, there can be no assurance of the completion of this new debt issuance, and of course, it is subject to market conditions. We are certainly very pleased to be in the position to announce this planned comprehensive refinancing transaction today.

Let's now move to a review of our financial results, beginning on slide five. In summary, we reported a solid financial quarter, generally in line with expectations. EBITDA increased 5% from the year ago quarter to $35 million, driven by higher service ARPU and overall operating efficiencies. As anticipated, EBITDA declined sequentially due to the continuing impact of short-term promotions, increased investments in new products, and a $4 million non-recurring charge for settlements. During this quarter, we settled the long pending consumer class action lawsuit, and a state and local tax matter, which in aggregate negatively impacted EBITDA by $4 million this quarter. Excluding these non-operational impacts, EBITDA was $39 million, down slightly from $40 million sequentially.

Turning to slide six, we reported net income of $8 million or $0.04 per share excluding adjustments, up from net income of $5 million or $0.03 per share excluding adjustments in the third quarter of 2009, and down from $12 million or $0.06 sequentially. The $55 million or $0.26 per share GAAP net loss for the quarter, includes a $60 million charge related to the make-whole provisions in the Company's debt, which is treated as an embedded derivative for accounting purposes. This charge is based on accounting rules that require that we value the make-whole by estimating both the price at which the transaction might occur and the likelihood of it occurring, taking into consideration the facts and circumstances as of September 30, 2010. Assuming the refinancing occurs during the fourth quarter of this year as planned, the balance of the make-whole amount, along with all of the other accounting charges associated with the transaction would be reflected during the fourth quarter.

Turning to slide seven. As we move to a discussion of revenue, let me begin by pointing out that total revenue in the quarter was reduced by two non-operational drivers that meaningfully impacted our reported numbers. First, in the third quarter, we reached an agreement in principle, to settle the consumer class action lawsuit, which reduced revenue by $2 million, due to refunds to customers which were classified as contra-revenue. Secondly, USF fees, a pass-through on the revenue line, declined by roughly $4 million sequentially. Excluding these impacts, revenue would have been $220 million compared to the $214 million we reported, representing a 2% decline sequentially, and less than a 1% decline from the year ago quarter.

Telephony Services revenue of $212 million was down from $216 million a year ago, and from $222 million sequentially as expected, due to short-term promotions combined with the decline in the USF rate, offset in part by improved customer mix. Telephony Services ARPU increased to $29.45 from $29.16 in the year ago quarter, aided by customer mix and service fee increases implemented in the second quarter for unlimited 411 directory assistance, as well as improvements in bad debt. Sequentially, telephony services ARPU declined 4% from 31-- excuse me -- from $30.71 driven by promotions.

Now looking at slide eight. Costs of telephony services, or COTS declined to $60 million sequentially from $63 million, driven by the $4 million USF benefit that I mentioned, offset by an expected increase in international termination costs from additional Vonage World customers. On a per line basis, total COTS declined to $8.36, down from $8.72 sequentially. Excluding USF, COTS increased sequentially, driven by the anticipated higher international usage, though we continue to successfully offset these usage increases by aggressively focusing on reducing rates.

We expect COTS to increase sequentially, as we add Vonage World customers, and have factored this into our business model. We've continued to strengthen our customer base through our focus on international callers, and approximately 900,000 customers, or nearly 40% of our customers are now on Vonage World. Nearly 60% of these are ILD callers, who churn at less than half of our overall churn rate. As we discussed before, these ILD customers incur higher COTS cost, but their net present value is actually higher than domestic callers, because of their very low churn rates.

Now turning to slide nine. Our focus on driving efficiency led to further reductions in SG&A, which at $59 million was down 7% from the third quarter of 2009, and 3% sequentially. Care expense per line was down 24% year-over-year, as we have effectively managed staffing to support demand, and continue to improve our online support capabilities. We carefully monitor care metric, including averaged handle time, first call resolution, and customer satisfaction, which all remain strong, even as we reduce costs. Customer satisfaction, which measures how satisfied customers are with their last interaction with our care organization, increased 150 basis points from last year for example. We are focused on achieving further improvements in SG&A over time, as we continue to emphasize online sales and support.

During the quarter, we added 163,000 gross lines, up 5% from the previous two quarters. Our marketing yield improved modestly, reflected in a 5% decline in SLAC, as we began to make progress in further penetrating the targeted Hispanic market, and with the introduction of the no contract offer. As Marc mentioned, we launched our no-contract offer in early September, and we are pleased with the low churn rates we are seeing so far. On to slide ten. We've reduced marketing expenses by 14% from the $57 million level a year ago, and we've improved customer and prospect interactions with Vonage, by delivering a complete end-to-end Spanish language experience.

On slide 11, you can see that we continue to effectively manage churn which is 2.4% this quarter, down 100 basis points from a year ago, and as we mentioned, our best third quarter result in five years. This is up a modest 10 basis points from the 2.3% achieved last quarter. Our churn success continues to be driven by the mix of Vonage World customers, and improvements in the overall customer experience. Our customer base is stable, as we maintained net line losses at last quarter's 5,000 lines.

Now please turn to slide 12. CapEx was $9 million for the quarter, and stands at $25 million year-to-date. Based on expense control and the timing of some projects, we are lowering our CapEx expectations for the year from the mid $40 million range to the low $40 million. Our $35 million in EBITDA, resulted in $31 million in operating cash flow and $22 million in free cash flow during the quarter. While our cash balances grew quite substantially in earlier quarters, due to working capital management and release of cash from vendors, this quarter we were approximately working capital neutral, bringing cash flow from operations more closely in line with EBITDA.

During this quarter, we were able to release an additional $5 million in restricted cash through negotiations with our vendors, and based on the Company's sustained financial performance, bringing the total to $32 million of restricted cash released during the second and third quarters of this year. Total cash at quarter-end stood at $185 million. On restricted cash was $136 million, up from $126 million in the second quarter. And restricted cash was reduced from $54 million to $49 million sequentially, and includes the $30 million concentration account required under our existing debt agreements.

In summary, we are pleased with the progress we have made this quarter. We announced plans for a transformational refinancing, that will release us from the heavy interest costs and restrictive covenants of our 2008 restructuring debt. This planned transaction meaningfully de-risks our business, and is expected to provide us with the increased financial and operational flexibility we desire. Operationally, the quarter was solid. With a freshly restructured balance sheet, our cost structure in order, a stabilized customer base, and all major litigation behind us, we have a solid platform on which to build the future success of the Company.

Looking forward, we expect fourth quarter EBITDA to increase year-over-year and sequentially. As Marc mentioned, we expect the growth initiatives we are undertaking to begin to meaningfully impact revenue by the second half of next year. We plan to provide more detailed guidance on our expectations for these initiatives, when we report our fourth quarter results. Thank you again for your interest in Vonage. And now I will turn the call back over to Leslie to initiate the Q & A session.

Leslie Arena - *Vonage Holdings Corp. - IR, Vice President*

Thank you, Barry. And now, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions).

We have a question from Michael Rollins of Citi Investment. Your line is open.

Michael Rollins - *Citigroup - Analyst*

Hi, good morning. Thanks for taking my questions. Just a couple clarifications. First on the OBITDA, I think it said in the release, if I'm not mistaken, there were $4 million litigation costs that got caught in the roughly $35 million number. And on the call, you described $2 million of litigation in revenue, $4 million in USF that was offset by costs of service. Can you just help reconcile the differences to get back to that incremental $4 million cost? The second question I had is, when you're guiding for OBITDA for the next quarter, are you guiding sequentially higher on the reported number or the normalized number? And the final clarification, is as you do the debt refinancing, can you talk about the cash that you unlock in your restricted accounts, that could partly offset some of the premiums that you're paying for the make-whole provisions? Thanks.

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

Yes, Mike. It's Barry. Let me address those. The $4 million is correct that, that is the difference in the $35 million reported, that would have been obviously the $39 million. And that is reflective of the settlement of the consumer class action settlement, as well as the tax matter that we alluded to in the release. So that is the total amount. It is split from an accounting standpoint, between revenue as a contra-revenue entry and in the SG&A line. So the total contra-revenue impact is $2.3 million, and the balance goes to SG&A.

Regarding your question on the cash and how that is released through this transaction, there are, I think, two ways to think about the cash that is currently restricted. There is the specific concentration account that of $30 million that we are required to maintain, that cannot be used for corporate purposes at all, that would be, of course, released on the refinancing. The second dimension of cash that is tied up, is that as you know the overall covenants in our existing debt agreements provide for some substantial restrictions on our ability to use that cash for a variety of purposes.

So as, including excess cash flow sweep, that would be offered over time, but at par. As you know, on the last quarter, not all of the offer was taken at par, which was the thing that prompted us to continue to look at the ways to affect the global refinancing. So as we look forward, that cash that has grown on the balance sheet would be restricted from being able to use it for overall corporate purposes. So we are pleased to be able to build this cash balance up through operations, and through the working capital management, and release from vendors that we described, which now enables us to use that, to go toward the debt refinancing. So the debt refinancing would be a combination of the $200 million new term debt, as well as cash on the balance sheet.

Leslie Arena - *Vonage Holdings Corp. - IR, Vice President*

Next question, operator.

Operator

Thank you. Our next question is from Mike Latimore of Northern Capital. Your line is open.

Mike Latimore - *Northland Security - Analyst*

Yes, just to clarify on the prior question. In terms of the EBITDA guidance for the fourth quarter. Is that sequentially up from the $34 million, or the $39 million that you referenced?

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

It's up from the all-in $34 million, Mike.

Mike Latimore - *Northland Security - Analyst*

And how about, I think the last quarter think you gave some general guidance around revenues. Can you provide any sort of revenue outlook here for the fourth quarter?

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

We weren't specific about that, but you know, we see revenue basically flattish, maybe up slightly, but we haven't provided specific guidance on that. But that's kind of the zone that we would look for.

Mike Latimore - *Northland Security - Analyst*

And just maybe I'll pull this out of the slides, but when the financing is done is it correct, that you will have about $200 million in debt and $55 million in cash?

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

That's correct, Mike.

Mike Latimore - *Northland Security - Analyst*

Okay.

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

Of about 1.1 times, and total debt of 1.5 times or less.

Mike Latimore - *Northland Security - Analyst*

All right. Okay. Congratulations, on that refinance.

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

Thanks.

Mike Latimore - *Northland Security - Analyst*

That's great. On the -- just a minor thing on the revenues -- the equipment revenues were $2 million. Is that kind of a reasonable run rate now, equipment revenue?

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

Yes, I think that's pretty much a steady state sort of number.

Leslie Arena - *Vonage Holdings Corp. - IR, Vice President*

And there was a slight offset on the equipment revenue due to the litigation impact, that hit revenue. That was split between services revenue to a smaller degree and equipment revenue.

Mike Latimore - *Northland Security - Analyst*

Okay, got it. And in terms of the Vonage World, you mentioned the percentage base on Vonage World, what percent of gross subscribers are kind of coming in on Vonage World?

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

It's in excess of 80% now.

Mike Latimore - *Northland Security - Analyst*

And in terms of -- I know you referenced seasonality affecting churn. What's your view on -- did you see sort of positive seasonality in the fourth quarter, or how should you think about churn?

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

The third and fourth quarter are generally pretty flat. It's usually the second quarter that is -- that tends to be lower quarter.

Mike Latimore - *Northland Security - Analyst*

Okay. Great. Thank you.

Operator

Thank you. Your next question is from Jonathan Schildkraut of Evercore. Your line is open.

Jonathan Schildkraut. - *Evercore Partners - Analyst*

Thank you for taking the question. I have just have a question on kind of product portfolio vision. Obviously you've had a lot of success with the Vonage World product. And I noted you released a new app related to Facebook. Do you feel that you've got a portfolio of services that you need? What's your vision for services going forward, and is there any vision to include a video component in what you're doing? Thanks.

Marc Lefar - *Vonage Holdings Corp. - CEO*

We do believe that continued expansion of the product portfolio is necessary for long-term growth. We believe that that really comes in two pieces. Additional elements to focus on international ethnic calling segments, which in addition to the Vonage World flat rate calling plan, which is simple for many, we are seeing increasing needs for country-specific calling plans. Potentially those that are unbundled from domestic calling plans. Per-minute rates are still very high margin for a lot of subscribers, and with increasing penetration of smartphones, the ability to provide international long distance calling plans that are built for purpose for a lot of segments, we think are extremely profitable and there is a very large market for us. So you'll see more of that in the coming quarters.

In addition, you'll see what I referred to as next generation services, which include leveraging a suite of voice messaging and video services, across multiple devices for a single digital identifier for a person. Our philosophy will be a bit different than many other companies, in that we believe that people's digital contact list in communities already exist, whether it be in Facebook, LinkedIn, or any other ad hoc digital community that they got. And the ability to simply to enable those digital communities to communicate for all forms of communication, is what we would expect to deliver to the marketplace, across multiple platforms, mobile, pc, and other digitally broadband connected devices. So those are all part of the road map that we've talked in some detail in prior -- just prior calls.

Jonathan Schildkraut. - *Evercore Partners - Analyst*

Thank you very much.

Operator

Thank you. Our next question is from [Hugo Miller] of Cedarview Capital. Your line is open.

Hugo Miller - *Cedarview Capital - Analyst*

Good morning. Thanks for taking my questions. My fist question was actually just answered, in regards to new strategies and moving along to video calling. But in regards to the new credit facility that's going to be taken out, are there plans to include an aggressive free cash flow sweep, as there was on the existing first lien? Is there kind a leverage that you're going to be comfortable with for the near term, or continue to delever I guess for the next few years?

Barry Rowan - *Vonage Holdings Corp. - CFO, CAO*

Yes. We do expect that there will be a cash flow sweep, but it will be tied to overall leverage. And of course, we have to see where the terms for the new financing end up. But as we look at that, we are very confident at the flexibility that we will have at total leverage, and confident at the kind of cushion that will give us the adequate flexibility. We also expect that we will be able to -- well, one of the advantages of using the term loan facility is that it's pre-payable at par. When we look at the cash flow generation capability of the Company, historically and going forward, the ability to pre-pay the loan is certainly an attractive feature to us. And that is one of the reasons we have moved to that kind of facility.

So we do have the ability to prepay at par. We do expect there to be some kind of excess cash flow sweep provision, but in no way do we think that is going to be onerous to us, and enable us to effectuate kind of a prepayment that we would look to do in any case. And then the amounts outside of the cash flow sweep, would of course be available to the company for general corporate purposes, in lines with what we would need to use them for. So I think the good news from this transaction is, that we plan to exit with leverage at 1.5 times or less, which is very comparable to where it is now. And we have the ability to delever over time, because of that prepayment facility as an aspect of a new term loan.

Hugo Miller - *Cedarview Capital - Analyst*

Okay. So it's a possibility that there will likely be a less aggressive free cash flow sweep than previous, but there's the opportunity to increase that free cash flow sweep to pay down the first lien and decrease leverage. Okay. Thank you.

Operator

Thank you.

(Operator Instructions).

Leslie Arena - *Vonage Holdings Corp. - IR, Vice President*

If there are no further questions, operator, we'll conclude the call. Thank you for joining us today.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect. Have a wonderful day.