Vonage settles patent suit with Sprint

By PETER SVENSSON, AP Technology Writer

NEW YORK - Internet phone company Vonage Holdings Corp. took a step back from the brink Monday, saying it has settled for $80 million a patent suit filed by Sprint Nextel Corp.

On Sept. 25, a jury in the U.S. District Court in Kansas City, Kan., found that Vonage infringed on six Sprint patents, and ordered Vonage to pay $69.5 million in damages.

Monday's settlement resolves all claims in the dispute, the companies said.

Sprint agreed to license Vonage its portfolio of more than 100 patents on connecting calls between a regular telephone network and a packet-switched network such as the Internet.

The $80 million Vonage agreed to pay consists of $35 million for past use of the patents, $40 million for a fully paid future license, and $5 million in prepayment for services.

In morning trading, Vonage shares were up 84 cents, or 73 percent, at $1.99.

"We are pleased to resolve our dispute with Sprint and enter into a productive future relationship," said Sharon O'Leary, chief legal officer of Holmdel, N.J.-based Vonage.

In March, another jury awarded Verizon Communications Inc. $58 million in damages in March plus 5.5 percent royalties on future revenues after finding that Vonage violated three Verizon patents. Litigation continues in that suit. Vonage says it has deployed workarounds for two of the patented technologies.

The patent litigation has put heavy pressure on Vonage's stock, but the company has a reserve of cash pulled in by its initial public offering last year, when its stock sold for $17 a share.
According to its latest earnings report, it had $344 million in cash on June 30.

Vonage's troubles, and the sudden shutdown of rival Sunrocket Inc. in July, have raised questions about the future of standalone Internet telephone companies. Their subscribers use adapters to connect their phones to their broadband Internet connections, and pay around $25 a month for unlimited domestic calling.

Vonage was a pioneer in this market and was until last year the biggest player. But its subscriber growth has stalled this year, leaving it with 2.3 million subscribers at the end of the second quarter.

Even if it put its patent troubles behind it, Vonage still faces challenges in its business, chiefly the high cost of attracting new customers through advertising. It spent $287 for every new subscriber in the second quarter.

Meanwhile, cable companies have rolled out voice-over-Internet technology and have quickly gained customers among their video subscribers. Comcast Corp. ended the second quarter with 3.1 million subscribers.
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