

Skype's \$27M gamble for voice technology

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Even for the technically challenged, making calls over the Internet is no longer a daunting task, and the cheap price offered by Voice over Internet Protocol providers has made VoIP a must for many long-distance phone users.

In fact, VoIP's rapid rise has forced traditional telecommunication giants to reconsider their business plans and incorporate the prospect of providing networks online as an integral part of their future survival strategy. Moreover, the technology has encouraged companies that have had little to do with the telecommunications sector to get into the business, including major players such as Microsoft, Yahoo! and Google, all three of which have acquired smaller VoIP providers over the past year in order to get into the game.

Still, Luxembourg-based Skype Technologies, which has pioneered

marketing Internet calling to the mass market, remains the single biggest player, and it appears it will continue to fight to keep that position.

On Tuesday the company said it bought out Sonorit Holding and its U.S. subsidiary, Camino Networks, for a total sum of about \$27 million by agreeing to buy all outstanding shares of Sonorit for 700,000 shares of eBay's stock, which closed at \$38.09 per share on Monday. Skype itself was bought out by the online auction house last year for \$2.5 billion but has remained an independent unit from eBay.

"We're excited about bringing the talented Camino Networks team to Skype. They will add considerable expertise to our world-class technology team," said Skype founder and Chief Executive Niklas Zennstrom.

Sonorit is a start-up based in San Francisco but also has offices in the Danish city of Aalborg as well as in Stockholm, Sweden, with a total of 10 employees, headed by Jonathan Christensen. It specializes in building software for speech processing and coding, as well as transmission of voice communications over the Internet.

"Camino Networks is focused on innovating for next-generation voice services. Joining Skype gives us access to the best platform for bringing our technology to users," Christensen said.

Despite the hefty price tag, eBay stated that the latest transaction will not have an impact on its full-year earnings per share for 2006. Furthermore, the company said that the acquisition will allow several experts in online voice engineering to join its current team of VoIP specialists. Further details of what the purchase will actually mean for Skype as well as eBay, which initially bought out Skype as a means to enhance its online auction capabilities, are expected to be disclosed when eBay files with the U.S. regulatory authorities including the Securities and Exchange

Commission.

Some industry analysts, however, have pointed out that the deal may allow Skype to avoid paying the considerable licensing fees it pays for voice-processing technology from Global IP Sound. Global IP Sound had filed a lawsuit against Sonorit last December for violating trade secrets after several of its former employees started working for Sonorit. For now, though, eBay has stated that it will remain a client of Global IP Sound, while Global IP has declined to comment on how and whether it will proceed with its lawsuit against Sonorit.

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