



Will WorldGate Quietly Pass Ooma in the Residential HD Voice Race?

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By [Doug Mohney](#), Contributing Editor

Best known for its iconic Ojo videophone, WorldGate Communications ([News - Alert](#)) (www.wgate.com) has conducted a reorganization and recapitalization that positions the company to cranking out a ton of consumer video endpoints over the next two years -- at least 300,000 if all goes according to plan. Its second-generation hardware is capable of supporting both HD voice and video calling, giving the company a leg-up in the move to deliver wideband voice and video to consumers.

WorldGate CEO George Daddis freely admits he had some "trepidation" in joining the company. Gaddis had sold IP PBX maker Allworx ([News - Alert](#)) to PAETEC in August 2009 and was taking time off when he was approached to join the company.

"With a deeper look, I got excited about the opportunity," said Gaddis. "What's changed with the recapitalization is the business model." WorldGate has been developing videophone endpoints since 1995, but the initial business model was centered around a private network to deliver service and the cost of endpoint hardware was very high -- \$350 to \$400 for an end-point. It did well in niche markets, such as in the deaf and hard of hearing community, but the monthly service revenues weren't all that great.

Meanwhile, privately-held ACN (www.acninc.com) had nearly the exact opposite problem. A direct seller of telecommunications services, ACN was moving video phones to residences at a clip of 15,000 to 20,000 units per month, but it needed better hardware.

WorldGate had good hardware while ACN had access to capital and a powerful sales network, so ACN took a majority stake into WorldGate and entered into an agreement to purchase 300,000 videophones over a two year period for the sum of \$60 million. With ACN as an anchor customer, WorldGate was able to negotiate favorable terms with suppliers, pushing down prices.

In addition, WorldGate brought in a new management team and revised its business model. At one end of the spectrum, it will simply be a hardware OEM, just selling videophones. On the other end, it will offer integrated digital phone service through a network of agents at \$29.99 per month for unlimited local and long-distance calling, along with unlimited video calling. In the middle is the ability for service providers to purchase pieces rather than a fully managed service.

"We have a full pipeline of cable companies and ILECs who want to move from straight digital phone service into video phone service," said Gaddis. "The value proposition is pretty strong. They've been selling on price into the residential market for decades and are looking for an opportunity to change the proposition. Video telephony is an emotion-based sale instead of a value-based sale, so they can add a new application into residential telephony."

Last month, WorldGate shipped out the first 15,000 second-generation videophones to ACN and Gaddis said the company had a P.O. in hand for another 26,000 phones already. The Ojo Vision features a 7 inch LCD screen, a TI DaVinci CPU doing the heavy lifting for video processing and built-in support for the G.722 wideband codec.

Comparing ooma ([News - Alert](#)) to WorldGate is an interesting exercise. Ooma has yet to officially announce support G.722 on its service, despite statements made in January at CES ([News - Alert](#)) that it would be ready in April. The company said it had shipped 100,000 units total, including 25,000 of its second-generation HD voice compatible hardware in the fourth quarter of 2009.

If one works the averages for WorldGate and ooma, WorldGate looks to have the potential to ship more hardware faster just through its ACN contract. Add on the prospects for agent sales and a la carte offering of phones plus various services and WorldGate videophone numbers have the potential for significant upside.

Meanwhile, ooma has a lot of retail channels, but has yet to announce any white label or reseller deals. WorldGate is looking at retail options, but a "Big Box" deal isn't going to happen soon.

Finally, there are a couple of intangibles. Ooma is offering a nice voice phone and service, but we've been down that road before. WorldGate is offering a nice voice phone service plus video on top and we've sorta been down that road before, but perhaps not as aggressively on price as in past efforts to bootstrap video calling into the residential market.

On the other hand, video is the "hot ticket" in the mobile space and with Skype's ([News - Alert](#)) push into the TV world. If Daddis has cable companies and ILECs ready to resell a white-label video phone, WorldGate might sell a lot of HD voice phones in short order.

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