

Vonage Bills Customers in IPO

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by [staff](#)



Reversing course, Vonage now expects its customers to pay for shares they ordered, but didn't pay for, in the VoIP provider's disappointing IPO. Meanwhile, the stock fell further on Thursday and is now down nearly 30 percent since last week's market debut.

Before the company went public May 24 at \$17 per share, it set aside 4 million shares for its customers. However, some customers who placed an order are now balking at paying for the stock, which fell \$0.11 to \$11.91 in recent trading (see [Wall Street Hangs Up on Vonage](#)).

Wall Street Hangs Up on Vonage

Earlier this week, it appeared the company might reimburse investment bankers for the shares rather than alienate its hard-won customers (see [Vonage May Pay for Stock](#)). That would have been in keeping with the registration documents the company filed with the U.S. Securities and Exchange Commission.

Vonage May Pay for Stock

In those documents, Vonage said it would indemnify its underwriters—Citigroup, Deutsche Bank, and UBS—for the part of its stock offering that its customers said they would buy.

"In connection with the Directed Share Programs, we have agreed to indemnify the underwriters against certain liabilities, including those that may be caused by the failure of Directed Share Program participants to pay for and accept delivery of the common stock which had been allocated to them or were subject to a properly confirmed agreement to purchase," according to documents forwarded to RedHerring.com on Wednesday by Vonage spokesperson Mitchell Slepian (see [Vonage May Pay for Stock](#)).

Vonage May Pay for Stock

Obligated to Pay

However, Vonage has now reversed course, issuing a statement that suggests customers would have to pay for the shares after all.

"Pursuant to the terms of our Customer Directed Share program, if a customer was allocated shares in the Customer Directed Share Program, that customer is obligated to purchase their share allocation from the underwriters," said the statement.

"To be clear, we have not offered and are not offering to repurchase any of the shares of common stock from our customers," the company added.

It is not clear if Vonage may now chase down the customers who haven't paid for the stock, or if the underwriters will have to do that. The company risks alienating customers and shareholders if it decides to become a collection agency.

Mixed Feelings

Vonage did not immediately respond to a request for comment, but its shareholders had mixed feelings about the company's moves.

"I really don't see how Vonage can bail out just the people who don't pay for their shares without opening up themselves to major lawsuits from all the people who did meet their obligation and pay for their shares," said one member's message posted on [Vonage-Forum.com](#).

Vonage-Forum.com

Another member wondered, "Do I stop payment so that I can be included in this group of buy-backs, or do I hold on and see if the IPO will be canceled?"

Other investors wondered if the IPO would be canceled, or whether Vonage ever should have raised its offering price to \$17 from \$8.

However, Soleil Securities Group analyst Gregory H. Lundberg does not expect a reimbursement for investors who paid \$17. "We don't believe that the IPO will be canceled, nor will non-sub retail investors be made whole," he wrote in a research note.

Contact the writer: MCohn@RedHerring.com

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