

5 minutes With...

JOHN REGO CFO, Vonage

We've said many times that VoIP is having a major impact on prepaid, and will continue to shape the industry. One of the major players in the consumer VoIP market is Vonage, of Edison, New Jersey. Although Vonage does not have a prepaid product, nor do they offer any network services to prepaid service providers, they have become a major combatant in the VoIP regulatory battle, so we decided to spend 5 Minutes With John Rego, the CFO, and a primary spokesman, for Vonage.

GR: Where did you get the name Vonage?

JR: It stands for "the age of Voice over Networks." It's really hard to come up with a one word name for a company that has not been used by somebody before.

GR: Yes, especially one that does not have 2 "X"s in it. Our audience is the prepaid industry, but we share an interesting connection with Vonage in VoIP, which has become a major backbone in prepaid.

JR: Well, Net2Phone, which is a VoIP company, is really a calling card company and much of what happens when you make that call happens on the Internet. What's different here is that Vonage is the first company that actually takes the VoIP to the edge of the network, right to your house. It's great to be the clear leader in the space.

GR: Being the clear leader has also gotten you some attention from the regulators, too, I would assume?

JR: One nice part of being the clear leader is that you are the first to be called in by the regulators to explain the whole thing.

GR: Minnesota, right?

JR: Yes, Minnesota was really the first test for VoIP. Minnesota wanted to regulate Vonage as a fixed wireline service provider. We didn't think that was a good idea because that's not what we are. In fact, many of the things that a fixed wireline carrier can do, we can't do.

GR: What did you hope to accomplish in the Minnesota battle?

JR: We were looking for a couple of different things. One, about twenty years ago a lot of state PUCs like Minnesota wanted to regulate mobile phones as fixed wireline services as well. Congress stepped in. They let the dollars flow to that industry and kept it protected for ten years. In the 1980s, when they got around to regulating it, they had 80 million subscribers on the service. We feel very strongly that we are not a fixed wireline provider and that under FCC precedents that came out in the Computer <Inquiry> II proceedings that in the 1980s, and the Telecom Act in 1996, there was a four-pronged test for a fixed wireline provider. Under that test, we meet the definition of a data provider, not a telephone provider.

GR: What are the tests that differentiate you?

JR: There are two major tests. First, we require special customer premises equipment to use the service. The

second thing is that we change the protocol from the beginning of that call to the end of the call. When you call someone on a Vonage line, you originate it in IP, but are terminating it in TDM over the PSTN. Because of those two factors, under FCC rulings in the past, we can be viewed as a data provider, not a telephony provider, and the Federal Court judge in the 8th District of Minnesota agreed with us. So, for the moment, Minnesota has been permanently enjoined from regulating Vonage as a telephony service.

GR: Sounds like a significant victory.

JR: But, three days later, we get a letter from California that says they saw the decision, but they think we are a telephone in their state anyway.

GR: But, California agreed to defer for the time being, though, didn't they?

JR: They did, yes. I wrote to California to meet with the PUC to educate. We spend a lot of time doing that. We actually go to the PUCs, tell them what we are doing, why, what it is, what it isn't, and let them get comfortable with it.

GR: What about the FCC? Haven't they said that they are going to look at VoIP this year?

JR: The FCC had a panel discussion, and we actually had two conversations with them. One was on regulation, and one was on VoIP in general. We are projecting that sometime towards the end of February, they will finally open up the Notice of Proposed Rulemaking. We don't know how long that will stay open. Some say a year, some say more than a year. It's anybody's guess. Hopefully, they will get a lot of these issues surrounding VoIP, and will come out with what the answers are going to be.

GR: How do you think it will come out?

JR: FCC Chairman Powell has gone on record in publications all over the place suggesting that he would like to see no regulation here, or if need be, a light touch of regulation, whatever that means. Some of the other Commissioners have come up with a lot of the same. We do know that there is going to be some action in the Science, Commerce And Technology Committee in the Senate. They are looking at the space, and would like to keep VoIP unregulated. From the government standpoint, the Internet was left unregulated on purpose; they would like to see it grow. They wanted to see new industries created around it and it worked. Right now, that five year moratorium just ended a month ago, and they need to decide what they want to do now. A lot of states would like to line up and start taxing this thing, but I think the move is going to be to leave it unregulated. My guess is, we probably won't have an answer on this question until some time in 2005. ■



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find out on pg. 21