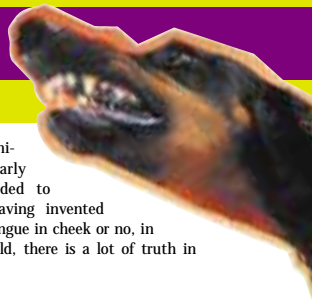


beware! the other ip

INTELLECTUAL PROPERTY, THAT IS by Gene Retske



Patents in telecommunications

Patents are an important part of an industrial society. They give the inventor an incentive to refine, manufacture and distribute the results of his creativity and work by protecting him against copycats for a period of time. Patents were so important, that the basis for issuing them is embedded in the United States Constitution. The first patent law laying out the guidelines, procedures and remedies was enacted in 1790.

A noted American inventor, Benjamin Franklin, was one of the Founding Fathers, and provided much of the structure for patents, which are seen to favor the rights of inventors. Many think that the protections afforded inventors by the US laws were responsible for the wave of technological innovation that has shaped American history and led to its dominance in science and industry. Some wags point out that the often convoluted and bureaucratic patent laws have also created a rich environment for patent attorneys.

Because telecommunications is a complex technical service, it is heavily impacted by patent law. In fact, the history of the telephone has a patent infringement case as one of the early chapters. Alexander Graham Bell's patent for the telephone was filed only hours before a similar patent by Elishu Gray. In one of the most significant cases in US patent litigation to that date, Bell was awarded the patent because of the slight time differential, and the fact that his filing described a device, while Gray's filing did not.

In the years just prior to the divestiture of the Bell System in 1983, the research and development arm, Bell Laboratories, averaged one patent a day. Anyone who has ever filed for a single patent can appreciate how much effort goes into getting a single patent accepted.

But the creation and subsequent protection of intellectual property such as patents, had strategic importance to the Bell System, so the investments were made. Nearly every innovation in telecommunications since Bell has been subject to one or more patents. Touchtone, the transistor, fiber

optics, ad infinitum. An early Lucent ad alluded to Bell Labs as having invented "everything." Tongue in cheek or no, in the telecom world, there is a lot of truth in this bold claim.

Patents in prepaid

Very interesting, you say, but how does this apply to my prepaid calling business? Good question, deserving of a comprehensive answer, but first, the short answer. Not taking the right steps to avoid patent infringement suits could easily cost you your entire business, or more.

Wait a minute, you say, I haven't manufactured anything, written one line of code or even plugged in a single cable, so I am not at risk in a costly and time consuming patent infringement action, right?

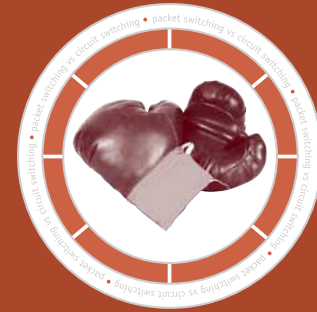
No. Under the US patent law, the holder of a legitimate patent can bring an infringement action against anyone who is involved in the infringement. This would include, in addition to the manufacturer, the vendor OR THE USER.

What? Say that again. You mean if I buy a product from an established vendor, not at the local flea market, made by a Fortune 500 manufacturing company, not by two guys in a garage in Cupertino, I could be sued if it infringed a patent I don't even know about?

You got it! The US patent law provides wide latitude to patent holders to enforce their patents, so even the "innocent" end users can be forced to pony up. Depending on how the patent is written, the exposure could even be beyond the cost of the equipment involved.

continued on pg. 12...

how does VoIP stack up?

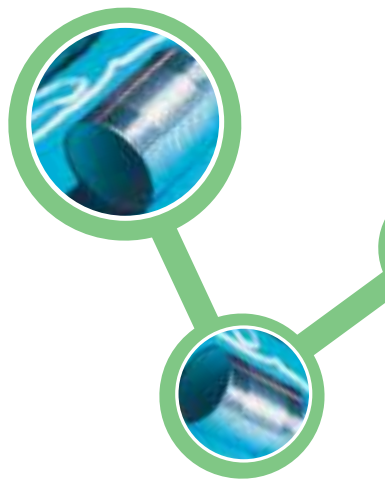


find out on pg. 14

stored value cards have taken on a surge in an ever-growing marketplace



learn why on pg. 10



are old-school telecoms beyond hope?

by Brian Bergstein

MANY BIG TELECOMMUNICATIONS companies now resemble hobbled thoroughbred racehorses: They still can run, but not as well as in their not-too-distant glory days when they made piles of money for their owners.

Several familiar telecom contenders want the federal government to offer some cures — including changes in regulations, restrictions on fraudulent rivals who could be rejuvenated by bankruptcy and a careful monitoring of upstart technologies.

Forty-four digital policy gurus and technology

developers are proposing a more drastic approach: Put the telecom racehorses out of their misery.

In an Oct. 21 letter to Federal Communications Chairman Michael Powell, the group urged him to "resist at all costs the telephone industry's calls for bailouts" and let failing companies "fail as quickly as possible."

The reason: New wireless and Internet-based communications technologies will make the ancient circuit-based phone system obsolete. So there's no point in artificially extending the lives of phone companies that are tied to it and paralyzed by debt they mistakenly chose to take on.

"It's just time for the incumbents to manage down, restructure their debt and step aside for new kinds of networks and new forms of business," said the organizer of the letter, David Isenberg, a former AT&T Corp. engineer and now an independent consultant.

continued on pg. 16...

PRSRST STD
U.S. Postage
PAID
Tampa, FL
Permit No. 2397

BEWARE! THE OTHER IP

continued from pg. 1

"The patent codes and case law have broadened the application of patents to include processes, which means that business models can now be patented," warned Robert M. Downey, a Boca Raton lawyer who is also a licensed patent attorney. "Look at the example of Amazon.com, who patented the process of clicking a single button on a web site to allow a return customer to have his stored information recalled for a new transaction."

Amazon successfully defended its patent against Barnes & Noble, preventing them from utilizing a similar service for its customers. There is an analogy in the telecom world, very close to prepaid service providers, callback. A professor patented the process of using DID numbers to look up a subscribers information in a database to get the number to call them back at a predetermined number. The patent was enforced primarily against callback service providers, and not necessarily the manufacturers. The cost of defending a patent action caused some of these service providers, most of whom did not build their own platforms, to pony up a portion of the revenues they had garnered by providing callback.

A quick perusal of Patent and Trademark Office records reveals several filings that are potentially relevant to a typical prepaid service provider's operation. (The SOLVOX website, www.solvox.net, has a page with over 400 patents that could have relevance to the prepaid calling industry.)

HOW TO PROTECT AGAINST SUITS

Protecting your business against infringement suits or claims depends on how your business models and technology are provisioned. For example, if you write your own code, build your own platform, or even make extensive modifications or refinements to existing equipment, you will have to do your own research. If you buy equipment from a vendor, protection may be as simple as getting the correct wording in

your purchase agreement. And, there may be insurance policies or riders that will pay for a defense, should you become the target of a claim.

The process for researching and licensing, if necessary, existing patents is an expensive and specialized procedure, probably beyond the means of all but the biggest prepaid service providers. The results are likely to be somewhat inconclusive, since many of the concepts are not clear-cut, and subject to interpretation. Unfortunately, most liability insurance policies are likely to exclude situations where the policyholder has not done the due diligence, so this liability coverage may offer little relief. If you are unsure of your exposure, the best advice is to seek the counsel of a competent patent attorney, who can help you determine your exposure.

If you are an end user, like a prepaid service provider who buys a turnkey product from a reputable vendor or manufacturer, the best thing you can do is to make sure that the contract includes a clause that makes the supplier responsible for defending patent infringement suits. This will not prevent a suit, but it will make the vendor responsible for defending the suit, and possibly paying any awards. Be sure to have an attorney carefully review this section of any contract. If you do not make this contractual, remember, you will be responsible for defending any patent infringement suit against you. "I didn't know there was an infringement," "I didn't do it," and "not my job!" are not legal defenses to a patent infringement suit.



Gene Retske is a respected authority on international telecommunications competition. He can be reached at gretske@solvox.net.

**US Patent Law at a Glance**

THE ROOTS OF THE US PATENT LAW BEGIN WITH THE CONSTITUTION IN 1787:

ARTICLE I, SECTION 8

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

The first US patent law was enacted in 1790, and underwent a general revision in 1953, which is codified in Title 35, United States Code. In 1999, Congress enacted the American Inventors Protection Act of 1999 (AIPA), which further revised the patent laws. See Public Law 106-113, 113 Stat. 1501 (1999).

The United States Patent and Trademark Office administers patent law but the patent holder is solely responsible for enforcement of the patent. US patent law spells out exactly what may be patented and the conditions for patentability. It states that any person who "invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent," subject to the conditions and requirements of the law. The law and court decisions have broadened the definition of "process" to include business models, a controversial and sometimes, troubling development for businesses.

There are two basic tests that must be met.

First, the subject matter must be "useful," meaning that it not serves a useful purpose, but must have the potential to be operative as well. This precludes patenting something like a time warp machine, unless you can prove it could actually work.

Secondly, the invention must be new, meaning that it has not been used previously in the US, already patented or described in a printed publication more than one year before the patent was applied for. "New" also means that the invention is not obvious. A patent for using a pencil eraser to remove unwanted words from a piece of paper would probably not fly.

Once a patent is granted, the inventor generally has 17 years to exclusively enjoy the rights to his invention, but may license or sell the patent to anyone else. If he fails to enforce the patent for a period of time, he may lose the patent rights forever.

US Patents relevant to Prepaid

A search of US patents issued from 1975 to 2001, not including pending patents, reveals over 200 individual patents that may have relevance to the prepaid telecommunications industry. There may be many more if you include all the business model patents that are not specifically for prepaid.

A SAMPLING OF US PATENTS:

PATENT #	DESCRIPTION
6,405,182	System for dispensing prepaid debit cards through point-of-sale terminals
6,337,903	Call setup for prepaid services
6,333,976	Method and apparatus for providing prepaid telecommunications services
6,290,127	Wireless telephone debit card system and method
6,246,757	Telephone calling card system with abbreviated code destination number capability
6,199,757	Debit card having scratch-off label strip and method of applying same
6,101,378	Prepaid cellular telephone system
5,988,509	Refundable prepaid telephone card
5,719,926	Prepaid long-distance telephone service system with flexible operating parameters
5,546,446	Public telephone system using a prepaid card to enable communication

This list is not meant to an exhaustive treatment, but should give you some indication of what may already be patented. For a more exhaustive list, containing hundreds of potentially relevant patents, visit www.solvox.net.

