



Cell Phone Makers Fight Resales

'Don't Leave a Phone Behind': Cell Phone Makers Fight Resales

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The Associated Press

COLUMBUS, Ohio - People moving state to state, armed with cash and tricks to avoid scrutiny, are buying cheap prepaid mobile phones by the thousands with plans to sell them in Latin America and Hong Kong.

Cell phone companies say the practice is costing them millions of dollars, and some have hired private investigators to document what they say is illegal tampering with their phones. Wal-Mart, Radio Shack and other retailers are limiting how many phones they will sell at one time.

The buying has raised concerns the phones might be used to aid terrorism, though those in the trade say it's nothing but capitalism at its best no different than reselling stock for more than you paid.

The Federal Bureau of Investigation and Department of Homeland Security issued nationwide bulletins earlier this year warning police to be on the lookout for bulk purchases of cell phones. Authorities are worried that profits from the trade could end up financing terrorism or that the phones could be used as detonators in attacks.

The practice at the center of court cases in Florida, Ohio and Michigan appears widespread and in no danger of subsiding soon. Participants in the trade don't appear very bashful.

"Don't leave a phone behind. To make real money buy them all," urged an e-mail by Larry Riedeman of Larry's Cell in Altamonte Springs, Fla., that was included in a lawsuit against that entity by TracFone Wireless Inc. "Thousands a day if you can!"

Riedeman and other small companies are considered the middlemen in a system that starts with buyers snapping up phones at retailers such as Wal-Mart Stores Inc. and ends with resale of the phones overseas.

In Ohio, two men acknowledged last month to authorities that they had delivered 600 TracFones to a middleman over three months.

Also in August, three Dallas men briefly charged in Michigan with trafficking counterfeited goods told the FBI that several businesses in Texas buy telephones "from hundreds of people like

themselves," according to an FBI filing in that case. The phones are then sold to middlemen in California, New York or Miami.

Another buyer, Bilal Mustafa, 22, of Minneapolis, told The Associated Press he travels around the Midwest a week at a time in search of phones. He and a buddy will buy four to six at once at small-town department stores, as many as 250 a day.

Mustafa sells them to a cell phone business he wouldn't identify. He says he's doing nothing illegal and scoffs at FBI concerns that the practice could aid terrorists.

"If it did, I wouldn't do it," said Mustafa, a Palestinian immigrant from the West Bank. "I'm not stupid."

Purchasing cell phones in bulk is not illegal and authorities haven't had much luck trying to prosecute the buyers. Earlier this week, a federal judge threw out the charges against the men in the Michigan case, saying there wasn't enough evidence to take the case to trial.

The Michigan charges alleged that by removing the cell phones from their original packaging, the men made it easier to repackage the phones with counterfeit trademarks in violation of federal copyright law.

The men arrested in Ohio in August face a low-level charge of giving misleading information to police, including changing their story about why they had so many cell phones when they were first stopped.

Terrorism charges were leveled in both cases but quickly dropped.

The middlemen indicate an apparently insatiable hunger for the phones, with profits in some cases of 100 percent for a handset that retails for as little as \$20.

The phones are so cheap because TracFone and other providers of prepaid cellular service sell them at a loss to create a market for their real profit maker, selling customers more call time.

For example, a Nokia 1100 one of the phones referenced in TracFone's lawsuit against Larry's Cell was being sold in stores for about \$20 a phone. However, it probably cost TracFone about \$25 per phone wholesale, said Paul Sagawa, an industry analyst with Sanford C. Bernstein & Co. in New York.

The Dallas men arrested in Michigan said they had spent \$20,000 on phones within just a few days.

The Riedeman e-mails promise earnings of \$10,000 a month for aggressive buyers. Riedeman offered bonuses to such suppliers, from \$120 to anyone bringing in 400 phones a month to \$2,000 for someone buying 2,000 a month, according to court documents.

Mustafa wouldn't say how much he earns on each \$20 phone but said it's a reasonable profit.

"I don't think I'll make a million bucks," he said. "Just enough to take care of my car, my gas, a hotel and make a little money."

Buyers often young men pay cash, frequently making purchases in the middle of the night to avoid scrutiny and to skirt store sales limits, according to affidavits and other filings in state and federal court.

They make up stories about why they need the phones, move from cashier to cashier or simply buy the limit from a store, wait awhile, then return.

"I have many times used other shoppers to help me," said the Riedeman e-mail. "You would be surprised how many folks will lend a helping hand."

Riedeman could not be reached to comment. E-mail and phone messages were not immediately returned. No lawyer for him is listed in federal court documents. A phone for his brother, Clint, who is also named in the lawsuit, rang unanswered.

After receiving the phones from the buyers, often in bulk shipments, the middlemen deactivate a software lock on the devices so they can be used on other cellular services. The phones are then repackaged and shipped to their next destination, records show.

A lawsuit filed in January by Nokia Corp. accuses Pan Ocean Communications of Pompano Beach, Fla., of buying \$20 cell phones from Wal-Mart, Sam's Club and Target Corp. stores, disabling their software, then reselling them for \$39 as legitimate Nokia handsets. The company sold them to distributors, wholesalers, exporters and flea market booth operators, the lawsuit said.

A judge ordered Pan Ocean and another company, Sol Wireless Group of Miami, to stop reselling the phones. Messages seeking comment were left with attorneys representing the businesses.

Destinations have changed over the years, from Singapore in the past to Mexico today, said John Walls, a spokesman for CTIA, a cellular industry trade association that opposes the practice.

"You're able to deliver a pretty good product that will operate on the Mexican network, the black market can deliver a handsome profit on that device, and Mexican consumers have the opportunity to save themselves a few dollars," Walls said.

Lawsuits filed by TracFone and Nokia also name markets in Latin America and Hong Kong, where resale prices are higher.

Since TracFones that haven't been tampered with can work only in the United States, overseas buyers ought to know they aren't being sold legitimately, said Jim Baldinger, a TracFone attorney in West Palm Beach, Fla.

Lawyers for the men arrested in Michigan and Ohio say their clients were conducting legal business and are being targeted only because they are of Middle Eastern descent.

"All these individuals were doing was buying and reselling phones," said Detroit attorney Nabih Ayad. "There's nothing illegal about it. They buy cell phones from one retailer and sell them to another retailer who can sell them for more."

Retailers, wireless service providers and phone makers don't see it that way. "Resale on the black market is never a good thing," said Wendy Dominguez, a Radio Shack Corp. spokeswoman.

At West Broad Cellular near downtown Columbus, owner Abdul Salameh sells prepaid phones starting at \$50, far above the price charged by rivals whom he suspects of scooping them up at places such as Wal-Mart.

Salameh, 26, says he's being undercut by the practice but isn't sure how to combat it:

"If people are selling them for real cheap, we're getting destroyed."

On the Net:

TracFone: <http://tracfone.com>

Nokia: <http://www.nokia.com/index.html>

CTIA: <http://www.ctia.org>

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