Before the MASSACHUSETTS DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Investigation by the Department)	
of Telecommunications and)	
Energy on its own Motion to)	D.T.E. 06-8
Establish Retail Billing and)	
Termination Practices for)	
Telecommunications Carriers	ý	

JOINT REPLY COMMENTS OF SKYPE COMMUNICATIONS S.A.R.L., UNITED ONLINE INC. AND YAHOO! INC.

I. <u>INTRODUCTION</u>

Skype Communications S.a.r.l. ("Skype"), United Online Inc. ("UOL") and Yahoo! Inc. ("Yahoo") (together, the "Joint Commenters"), submit these reply comments in the above-referenced case. The Joint Commenters commend the Massachusetts Department of Telecommunications and Energy ("Department") for opening this proceeding to consider matters of great importance to Massachusetts consumers of communications services. The Joint Commenters submit these reply comments to assist the Department in its inquiry.

The Joint Commenters understand that the intent of this proceeding is to examine the current telecommunications carrier consumer protection requirements in place in Massachusetts (the "Rules and Practices Relating to Telephone Service to Residential Customers" ("Practices")), and to assess the need for revisions to those requirements given the current competitive marketplace for voice communications in Massachusetts. As part of this proceeding, the Department is also investigating whether to subject Voice over Internet Protocol ("VoIP") services to such consumer protection and service quality obligations.

While the Joint Commenters support the Department's efforts to examine the need for consumer protections and service quality requirements for residential and small business consumers in Massachusetts, the Joint Commenters emphasize that VoIP services are offered in a highly competitive

marketplace, and that that Federal Communications Commission ("FCC") has undertaken several proceedings and decisions aimed at the regulation of VoIP and other IP-enabled services. Moreover, the VoIP services offered by the Joint Commenters, are not used by consumers as a replacement for traditional wireline telecommunications services. Subjecting such services to regulations adopted in the context of wireline telecommunications services would harm consumers, competition and innovation. In these reply comments, the Joint Commenters strongly recommend that the Department refrain from regulating VoIP services for the reasons set out herein.

II. VOIP APPLICATIONS AND SERVICES OFFERED BY THE JOINT COMMENTERS

The Joint Commenters each offer VoIP applications and services. Skype¹ develops Internet communications software applications and offers free PC-to-PC VoIP software to consumers worldwide.² By registering with Skype and downloading its software, users are able to make free voice or video calls, or send instant messages ("IM") to other Skype users. The Skype software maintains a distributed directory of Skype users so that users wishing to communicate with other Skype users can announce their online availability. Skype requires users to provide their own Internet connections, and works in conjunction with the end user's existing broadband Internet access (e.g., DSL, cable modem, wireless). Because Skype routes communications in a peer-to-peer fashion, it utilizes strong encryption to ensure that no peer or other unauthorized party may intercept a communication before it arrives at its intended destination.

Skype also markets two separate product offerings, known as Skype Out and Skype In, to consumers for a fee. Skype Out allows users to complete one-way PC-to-PSTN calls using one of Skype's third-party providers. No numbering resources are used (*i.e.*, no telephone number is assigned to the call), and Skype users who purchase only Skype Out cannot receive calls from the PSTN. Skype

eBay Inc., which runs an online marketplace, is the parent company of Skype and PayPal, but both of the latter companies retain separate corporate identities. Skype Communications is a Luxembourg-based company.

² See Skype Home Page, available at: http://www.skype.com/helloagain.html.

also offers a *beta* version of a separate product, Skype In, which allows users to receive calls from the PSTN. Through this offering, one of Skype's provider partners assigns phone numbers to the Skype In subscribers and delivers to those subscribers incoming calls from the PSTN. Skype Out and Skype In are completely separate and independent one-way offerings, with separate pricing schedules, and relatively few users purchase both offerings.

Recently, Skype announced that all calls to the PSTN in the United States and Canada will be free. Thus every consumer in Massachusetts with a broadband connection and a computer can make phone calls to traditional landlines or mobile phones for free.

UOL (NASDAQ: UNTD) provides consumer Internet subscription services, including dialup Internet access, premium e-mail, personal web hosting and community-based networking, through brands such as NetZero, Juno and Classmates. United Online recently launched NetZero Voice that works with any Internet service provider's service, whether high-speed or not. NetZero Voice includes four different calling plans that encompass two separate VoIP service products under its NetZero brand: (1) a peer-to-peer VoIP service; and (2) a product that allows for both inbound and outbound calling, including termination of traffic over the Public Switched Telephone Network ("PSTN"). NetZero also offers PrivatePhone, a free voicemail service. PrivatePhone allows customers to sign up to receive a unique telephone number and space to store up to ten voicemail messages, and sends a notification alert to the customer's mobile phone or Message Center when new voicemails are received.

NetZero VoIP customers must access the service through a general purpose computer, such as a laptop or a desktop PC, and a software program. NetZero's initial VoIP services are a natural extension of the existing online consumer communications it offers such as email and instant messaging. Except for PrivatePhone, all of these communications capabilities require that the consumer actively use the PC to access the various communication interfaces.

Yahoo! provides a variety of online products and services for consumers and businesses to connect with Internet users around the world.³ Yahoo!'s instant messaging application, Yahoo! Messenger with Voice, allows consumers to make PC-to-PC calls to other Messenger users anywhere in the world for free.⁴ By downloading Yahoo! Messenger's software and registering with Yahoo!, users are able to set up a list of contacts. If a contact is available online, users can begin a text, voice, or video conversation with the click of a button. If a contact is not available, users may send a text message or leave a voicemail that can be retrieved easily. Yahoo! Messenger with Voice enables users to share photos, play games, or search the Internet, and is integrated with other Yahoo! applications, including Yahoo! 360, which allows members to receive instant notification when new content (such as a blog entry, bookmark or photo) is posted, and Yahoo! Music Unlimited, Yahoo!'s music subscription service. Yahoo! Messenger with Voice requires end users to provide their own Internet connections.

Yahoo! recently introduced in the United States a new version of its instant messaging application, Yahoo! Messenger with Voice, which offers members enhanced PC-based calling capabilities. In addition to the features offered by the original Messenger with Voice, the new version offers separate "Phone Out" and "Phone In" products for a fee. Phone Out enables U.S. members to make outgoing PC-to-PSTN phone calls to traditional and mobile phones. Yahoo! relies on third-party provider partners to terminate Phone Out calls to the PSTN. Phone In allows U.S. users to receive calls on their PCs from traditional and mobile phones. Phone In users are able to select personal phone numbers⁵ and receive incoming calls from the PSTN. Phone In and Phone Out are completely separate and independent offerings, with separate pricing schedules. There is no requirement on users to

Yahoo! Inc. is filing these comments on behalf of itself and its subsidiaries including Yahoo! Communications USA Inc., which provides PC-to-PSTN and PSTN-to-PC services to U.S. subscribers.

See Yahoo! Messenger with Voice Home Page, available at: http://messenger.yahoo.com/.

Yahoo!'s Phone Out service provides users with telephone numbers that Yahoo! obtains from its third-party provider partners.

purchase either or both applications. Users can and do purchase only Phone Out without purchasing Phone In and *vice versa*.⁶ Because these applications serve different purposes for different users, Yahoo! offers them on an unbundled basis.

The VoIP services offered by the Joint Commenters are adjuncts to the customer's Internet experience. None of these services are designed to replace traditional telephone service. As the provision of these services traditionally generate little or no revenue, the imposition of regulatory costs has a significantly pronounced effect. Whereas traditional telecommunications carriers may have the ability to absorb such regulatory costs through the revenues generated by their service offerings, free and low-cost VoIP services could turn into little more than vehicles to pass through regulatory fees, as they have little ability to absorb such costs.

III. THE COMPETITIVE MARKETPLACE PROVIDES SUFFICIENT CONSUMER PROTECTIONS AND VOIP SERVICES OFFER NUMEROUS CONSUMER BENEFITS

Prior to determining whether it is necessary to subject VoIP services to service quality or consumer protection regulations, the Joint Commenters recommend that the Department consider whether regulations are necessary in the first instance. Consumer protection and service quality regulations are adopted in marketplaces where competition is either non-existent or not prevalent enough to produce consumer benefits like acceptable quality of service standards or reasonable terms of service. The marketplace for residential or small business wireline telecommunications services is characterized by few providers where regulation of a dominant provider may be appropriate.

But the marketplace for VoIP services is robustly competitive. It is neither necessary nor would it be efficient to subject VoIP providers to quality of service regulations. Strong competition between VoIP providers and other voice communications service providers demands that VoIP providers deliver a product and service that meets acceptable quality of service standards and requires that the terms under

On April 26, 2006, Yahoo! and AT&T announced the release of a co-branded version of Yahoo! Messenger with Voice to AT&T Yahoo! High Speed Internet subscribers and all Yahoo! users in AT&T's traditional 13-state local service area.

which services are made available are reasonable and favorable to consumers. Customers dissatisfied with their VoIP service have ample opportunity to migrate either to another VoIP provider, or to a traditional telephone or wireless service provider without any difficulty. In an environment where many voice services are free and margins slim or nonexistent, placing unreasonable quality of service standards on free services would amount to a direct regulatory tax on Massachusetts consumers because the entirety of the cost would be caused by regulation and not market forces. Should free and low-cost VoIP services be constrained by regulatory fees and other costly requirements, end users will be required to foot the bill for such costs. This could result in making it much more difficult for low and no-cost providers to continue to offer their services, thereby reducing competition and the benefits it provides to end users.

It should also be noted that the Joint Commenters, along with many other VoIP providers, do not control the physical facility, i.e., the broadband or dial-up Internet access line, used by consumers to access their VoIP service. The services offered by the Joint Commenters are not intended to be replacements of traditional telephone services, but instead are meant to be adjuncts to users' Internet experiences. Without control of the physical facility, the VoIP consumer is free to sign up for service from a new VoIP service provider within minutes. Accordingly, such a VoIP service provider does not have the ability to obstruct a customer from migrating to a new communications service offering.

Further, the vibrantly competitive marketplace for VoIP services has resulted in many consumer benefits often not found with other forms of traditional communications services. As noted above, consumers in Massachusetts using the Skype software can place an unlimited number of phone calls to the PSTN for free. Other VoIP subscribers often enjoy one or more months of free trial service, with the option to cancel at any time, before any billing for the service commences. Unlike many other voice services, VoIP consumers typically do not face termination fees should they choose to migrate to a different voice service provider. The rates for VoIP services are extremely low, or even free in certain instances, providing consumers with low-cost, high quality voice services. Additionally, many features

and functionalities that consumers must purchase separately from legacy wireline telecommunications service providers, like voicemail, caller identification, and customized ringing services, are typically part of the overall package for VoIP services. Many VoIP customers already benefit from online or Internet billing. Most VoIP providers offer an online account management feature which allows customers to obtain account information, pay bills, and manage their account through the VoIP provider's Internet portal.

VoIP providers also offer innovative services that are simply unavailable to residential and small business customers from traditional providers of wireline telecommunications services. For example, users of VoIP services may choose to receive an email with a voicemail attached when a message is left for them. VoIP users can customize their VoIP application so that calls from certain parties receive priority or are presented with different voicemail messages. Providers of VoIP services allow customers mobility in that consumers may use their VoIP service from any location where broadband Internet access is available.

In this environment, the Joint Commenters question the need for the Department to impose regulations on providers of VoIP applications and services. VoIP services and applications are offered by new market entrants. None of the Joint Commenters exercise control over the physical facility used by customers to access the Joint Commenters' VoIP services. Moreover, VoIP service providers are making innovative communications services available to residential and small business consumers at low rates. Accordingly, the Joint Commenters submit that there is no need to regulate the Joint Commenters' VoIP service offerings, especially in light of the fact that such services are not intended as replacements of traditional telephone service, and the imposition of fees and regulatory requirements on low-cost or free services will have a profound impact on the ability of providers to offer such services, and will thus reduce the competitive benefits enjoyed by consumers in the VoIP market.

IV. MANY CONSUMER ABUSES IN THE TRADITIONAL WIRELINE TELECOMMUNICATIONS MARKETPLACE ARE INAPPLICABLE TO VOIP SERVICES

The Joint Commenters recognize that certain consumer protection regulations are important in the wireline and wireless telephony markets. However, most of these requirements are simply irrelevant to many VoIP service offerings. For example, unauthorized carrier changes, referred to as "slamming," are not possible with most VoIP services. Most VoIP services, including those offered by the Joint Commenters, require customers to have a preexisting Internet access service (often, but not always, a broadband service) and use either specialized hardware or software to use the VoIP service. Thus, slamming cannot occur because VoIP customers must actively configure software and purchase hardware to utilize the service, which prevents unauthorized changes of service.

Furthermore, the insertion of unauthorized charges on telephone bills, termed "cramming," is not an issue because most VoIP providers, including the Joint Commenters, have fixed service plans that cover most customer charges, including all domestic long distance calls and any additional "features" that monopoly providers charge for separately. Thus, unlike most other traditional telecommunications providers, VoIP bills do not contain a host of additional fees. Further, the Joint Commenters have not entered into arrangements with third-party service providers that would allow such parties to insert charges on the Joint Commenters' bills. Many VoIP providers also require customers to use a credit card that is billed the relevant charge for the service plan they select each month. Customers that choose to dispute VoIP charges are able not only to work with their VoIP provider to resolve the problem, but can also make use of the credit card issuers dispute procedures.

The Joint Commenters highlight that VoIP providers subject to the jurisdiction of the Commonwealth of Massachusetts are already subject to state laws of general applicability governing false advertising and business conduct. These laws and corresponding regulations are sufficient to maintain consumer protections in the event the competitive marketplace does not constrain inappropriate business practices. Thus, the real question is whether VoIP providers should be subject to heightened

regulations that have traditionally applied to telephone utilities. Legacy telephone regulations apply to common carriers because these services have been historically provided by monopoly providers not restrained by competitive forces. In a vibrantly competitive market like the VoIP application market, such regulations are not necessary as competitive forces discipline the behavior of VoIP service providers.

Further, it would be impractical to subject most VoIP providers to traditional service quality regulation as most providers do not control the underlying transmission infrastructure needed to transmit a VoIP call. For example, many VoIP providers like the Joint Commenters allow their consumers to leverage their existing investments in broadband services, but do not provide such the underlying broadband service. The majority of service quality cases arise from underlying transmission problems, not with the software or specialized VoIP equipment used to transmit the VoIP call. Most VoIP providers have no control over the underlying Internet connection, and therefore cannot directly affect the service quality associated with that infrastructure. In fact, in many cases, the VoIP provider lacks information concerning the type of Internet connection used by the customer, or which service provider the customer uses to provide that Internet connection. Accordingly, the Department should refrain from imposing quality of service obligations on VoIP service providers that do not control the underlying Internet access facility since such VoIP providers cannot control or manage the Internet access connection.

V. THE FCC IS ACTIVELY EXAMINING VOIP

A. The FCC Has Asserted Exclusive Jurisdiction over Most VoIP Services

As noted by several commenters in this proceeding,⁷ the FCC has undertaken several proceedings aimed at regulating VoIP and other IP-Enabled Services. In the *Vonage Order*, the FCC preempted individual state telecommunications regulation of Vonage's inherently interstate service,

See, e.g., Comments of Level 3 Communications, LLC at 1-2; Comments of XO Communications Services, Inc. in Response to Notice of Inquiry, at 5; Initial Comments of Comcast Phone of Massachusetts, Inc., at 5-7.

because state telecommunications regulation would conflict with the development of a unified national approach for VoIP services.⁸ This approach has enabled the FCC to establish universally applicable regulations addressing several VoIP-related issues, including the provision of E911 service by interconnected VoIP providers ("IVPs"),⁹ and the requirement that IVPs support the Universal Service Fund ("USF").¹⁰ Specifically, in recently setting VoIP USF obligations, the FCC reiterated its position on its exclusive jurisdiction over the regulation of VoIP services:

On November 9, 2004, the Commission adopted the *Vonage Order*, in which it preempted an order of the Minnesota Public Utilities Commission (Minnesota Commission) that applied Minnesota's traditional "telephone company" regulations to Vonage's DigitalVoice service – an interconnected VoIP service under the definition subsequently adopted by the Commission. Without classifying Vonage's service as either an "information service" or a "telecommunications service" under the Act, the Commission held that DigitalVoice cannot be separated into interstate and intrastate communications for compliance with Minnesota's requirements without negating valid federal policies and rules. The *Vonage Order* made "clear that this Commission, not the state commissions, has the responsibility and obligation to decide whether certain regulations apply to DigitalVoice and other IP-enabled services having the same capabilities."

See generally, Memorandum Opinion and Order, In the Matter of Vonage Holdings Corporation Petition for Declaratory Ruling Concerning an Order of the Minnesota Public Utilities Commission, WC Docket No. 03-211, FCC 04-267 (rel. Nov. 12, 2004) ("Vonage Order").

See IP-Enabled Services, E911 Requirements for IP-Enabled Service Providers, WC Docket Nos. 04-36 & 05-196 (rel. June 3, 2005). As United Online's VoIP service does not require the use of a broadband Internet connection, the company is not considered an "IVP" as that term is defined by the FCC.

See Universal Service Contribution Methodology, Federal-State Joint Board on Universal Service, 1998
Biennial Regulatory Review —Streamlined Contributor Reporting Requirements Associated with
Administration of Telecommunications Relay Service, North American Numbering Plan, Local Number
Portability, and Universal Service Support Mechanisms, Telecommunications Services for Individuals with
Hearing and Speech Disabilities, and the Americans with Disabilities Act of 1990, Administration of the
North American Numbering Plan and North American Numbering Plan Cost Recovery Contribution Factor
and Fund Size, Number Resource Optimization, Telephone Number Portability, Truth-in-Billing and Billing
Format, IP-Enabled Services, Report and Order and Notice of Proposed Rulemaking, WC Docket No. 06122, CC Docket Nos. 96-45, 98-171, 90-571, 92-237, 99-200, 95-116 & 98-170, WC Docket No. 04-36,
FCC 06-94 (rel. June 27, 2006) ("VoIP USF Order").

¹¹ VoIP USF Order, ¶ 14 (internal citations omitted).

The FCC also preempted state jurisdiction over certain forms of VoIP traffic in the *Pulver Order*, ¹² noting that the FCC's traditional end-to-end approach to determining a communication's jurisdiction has relevance for a circuit-switched network, but it has little or no relevance with regard to computer-to-computer VoIP services. ¹³ In fact, the inherently portable nature of such VoIP services, without fixed geographic origination or termination points, means that no one truly knows where the end points are. ¹⁴ As such, it would be impossible for the Department to determine the jurisdictional nature of nomadic VoIP traffic; imposition of service regulations on such traffic would contravene the FCC's numerous orders asserting exclusive jurisdiction over VoIP services. ¹⁵

B. The FCC is Currently Examining the Need for Consumer Protection and Service Quality Regulation for VoIP

As noted above, the FCC is actively engaged in regulating the provision of VoIP services and has demonstrated its ability to establish regulatory requirements in this area. Besides the unified E911 and USF obligations the FCC has set for VoIP providers, the FCC has also established a generic proceeding aimed at the general nature of VoIP and the proper scope of the FCC's regulation thereof in the *IP-Enabled Services* proceeding. Specifically, in the *VoIP NPRM*, the Notice of Proposed Rulemaking, the FCC requested comment on whether to adopt consumer protection requirements for VoIP and other IP-enabled services, clearly evidencing the FCC's view of its primary jurisdiction over such matters. Specifically, the FCC requested comment on the appropriateness of requiring VoIP providers to adhere to customer proprietary network information requirements, service quality standards,

See Petition for Declaratory Ruling that pulver.com's Free World Dialup is Neither Telecommunications nor a Telecommunications Service, WC Docket No. 03-45, Memorandum Opinion and Order, (rel. Feb 19, 2004) ("Pulver Order").

¹³ See Pulver Order, at \P 21.

¹⁴ See id.

Several federal courts have likewise preempted state regulation over VoIP services. See, e.g., Vonage Holdings Corp. v. Minnesota Public Utilities Comm'n, 290 F. Supp. 2d 993 (D. Minn. 2003), aff'd, 394 F.3d 568 (8th Cir. 2004); Vonage Holdings Corp. v. New York State Pub. Svc. Comm'n, Preliminary Injunction, S.D.N.Y., Case No. 04 Civ.4306(DFE) (July 16, 2004).

See IP-Enabled Services, Notice of Proposed Rulemaking, WC Docket No. 04-36 (rel. Mar. 10, 2004) ("VoIP NPRM").

unauthorized preferred carrier changes or "slamming," "truth-in-billing" rules, and other consumer protection-related matters.¹⁷ Given the FCC's willingness to consider uniform regulations aimed at VoIP service providers and the FCC's assertion of exclusive jurisdiction over nomadic VoIP services, the Department should allow the FCC to continue this process, to the extent necessary, with respect to customer service and quality standards.

C. The Department Does Not Have the Authority to Regulate Either Interconnected or Non-Interconnected VoIP Services

As detailed above, the FCC has subjected "interconnected" VoIP providers to certain regulations. ¹⁸ The Department's authority to regulate such services in a manner similar to traditional providers of telecommunications service would conflict with the *Vonage Order*.

Interconnected VoIP providers can be contrasted with those VoIP services that do not meet the four-part definition set out above like those offered by the Joint Commenters. For peer-to-peer VoIP services (e.g., when a user of Skype, UOL, or Yahoo!'s VoIP service calls another customer of the same service provider) the FCC has made clear that such services are not "telecommunications services" under the Telecommunications Act. Instead, such services offer "the capability of generating, acquiring, storing, transforming, processing, retrieving, utilizing or making available information in a way contemplated by the [1996] Act as an 'information service.'"

The Joint Commenters offer some services that offer pathways to the PSTN but not in a manner that would constitute classification as an interconnected VoIP provider. Many VoIP services, like those

¹⁷ See VoIP NPRM, ¶¶ 71-72.

See VoIP E911 Order, ¶ 24; VoIP USF Order, ¶ 15 The FCC has established a four-part test to determine which VoIP providers are considered "interconnected." Specifically, the FCC has stated that interconnected VoIP services are only those services that: (1) enable real-time, two-way voice communications; (2) require a broadband connection from the user's location; (3) require IP-compatible customer premises equipment; and (4) permit users to receive calls from and terminate calls to the PSTN.

¹⁹ See Pulver Order, at ¶ 18.

²⁰ See id. at ¶ 12.

offered by the Joint Commenters, are used in conjunction with, and not as a replacement for, legacy wireline telecommunications services. Both Skype and Yahoo!'s VoIP services allows consumers to choose whether they even want to purchase a two-way voice software application and service. Many Skype and Yahoo! VoIP customers limit their usage to peer-to-peer VoIP services that do not interconnect with the PSTN. Other customers may use exclusively either the SkypeOut or Yahoo!'s Phone Out service which only allows users to place calls to, and not receive calls from, the PSTN. UOL's VoIP service is used by many consumers over traditional telephone lines which means that consumers must have basic telephone service to make use of the product. Accordingly, the Department must evaluate the particular VoIP service offering to determine whether it is even a substitute for traditional wireline telephony and whether it meets the FCC's definition of an interconnected VoIP service. The Joint Commenters join those that emphasize that the Department does not have the authority to regulate providers of interconnected VoIP services, ²¹ but also highlight that for non-interconnected VoIP providers, the Department's authority is even more restricted.

IV. <u>CONCLUSION</u>

The Joint Commenters submit that competition and existing state consumer protection regulations of general applicability are the most effective methods of dealing with quality of service and consumer protection concerns. VoIP providers operate in a highly competitive environment. If consumers are unhappy with the service or policies of their VoIP provider, they can easily migrate to a new service especially since many VoIP providers, including the Joint Commenters, do not control the Internet access facility used by consumers to make use of the VoIP application and service. The services offered by the Joint Commenters are not intended to replace traditional telephone services, and the imposition of fees or other regulatory requirements will negatively impact the consumers of low-cost

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See Comments of Level 3 Communications, LLC, at 1; Comments of XO Communications Services, Inc. in Response to Notice of Inquiry, at 5; Initial Comments of Comcast Phone of Massachusetts, Inc., at 6.

and free VoIP services as such providers are unable to absorb such costs unlike traditional telephone

service providers.

Further, given the FCC's open proceeding concerning the very issues the Department is

investigating, the Department should wait for the FCC to act. Moreover, the FCC's Vonage Pulver

orders concerning VoIP services prohibits states from regulating VoIP services in a manner similar to

traditional wireline telecommunications services. Accordingly, the Joint Commenters respectfully

request that the Department await FCC action on VoIP consumer protection and service quality

standards.

Respectfully submitted,

Ronald W. Del Sesto, Jr.

Jeffrey R. Strenkowski

BINGHAM MCCUTCHEN LLP

3000 K Street, N.W., Suite 300

Washington, D.C. 20007

Telephone: (202) 373-6000

Facsimile: (202) 424-7643

Counsel for Skype Technologies s.a.r.l., United

Ronald W. Od Septer, Jr. /MS

Online Inc. and Yahoo! Inc.

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