

March 20, 2002 Patent/Competition Hearings...

● Alcatel Company Presentation

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... enabling any type of content to be delivered to any type of customer anywhere in the world.

Complete portfolio
of network
solutions

Global presence

Alcatel
the enabler of
global
communication

Integration capabilities
of any network type

An unmatched portfolio of products and solutions in 2001 ...

**N° 1
IN SERVICE PROVIDER
INFRASTRUCTURE**

**N° 1 in
Broadband
access**

**N° 1 IN GLOBAL
OPTICAL TRANSPORT**

- **ATM:
N° 2 ww**

- **N° 1 in
Contact centers**

- **DWDM & SDH:
N° 1 ww**

- **ww leader
in Intelligent
Networks**

- **Satellites:
N° 4 ww**

- **leader
in enterprise
voice & data
convergence**

**Unique
broadband
access:
Fixed or Mobile**

**Reliable and carrier
grade
core networks**

**Revenue-ready
value added
applications**

**Complete
professional
services**

2001 facts and figures ...

25,4 billion Euros sales

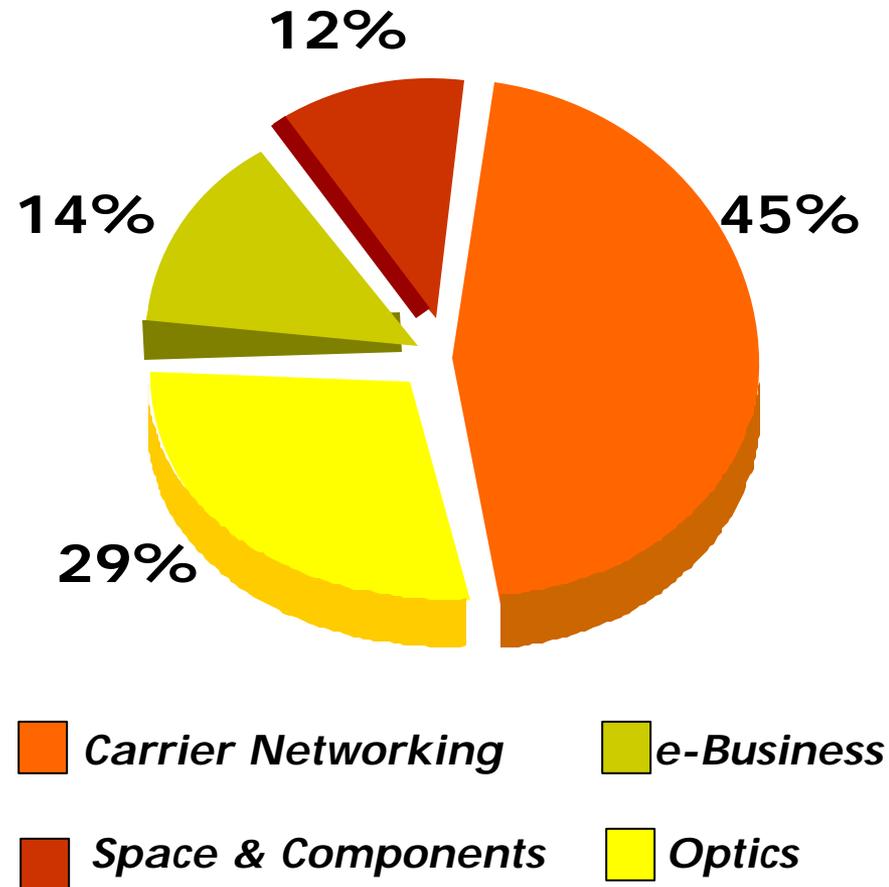
11.3% invested in Research & Development



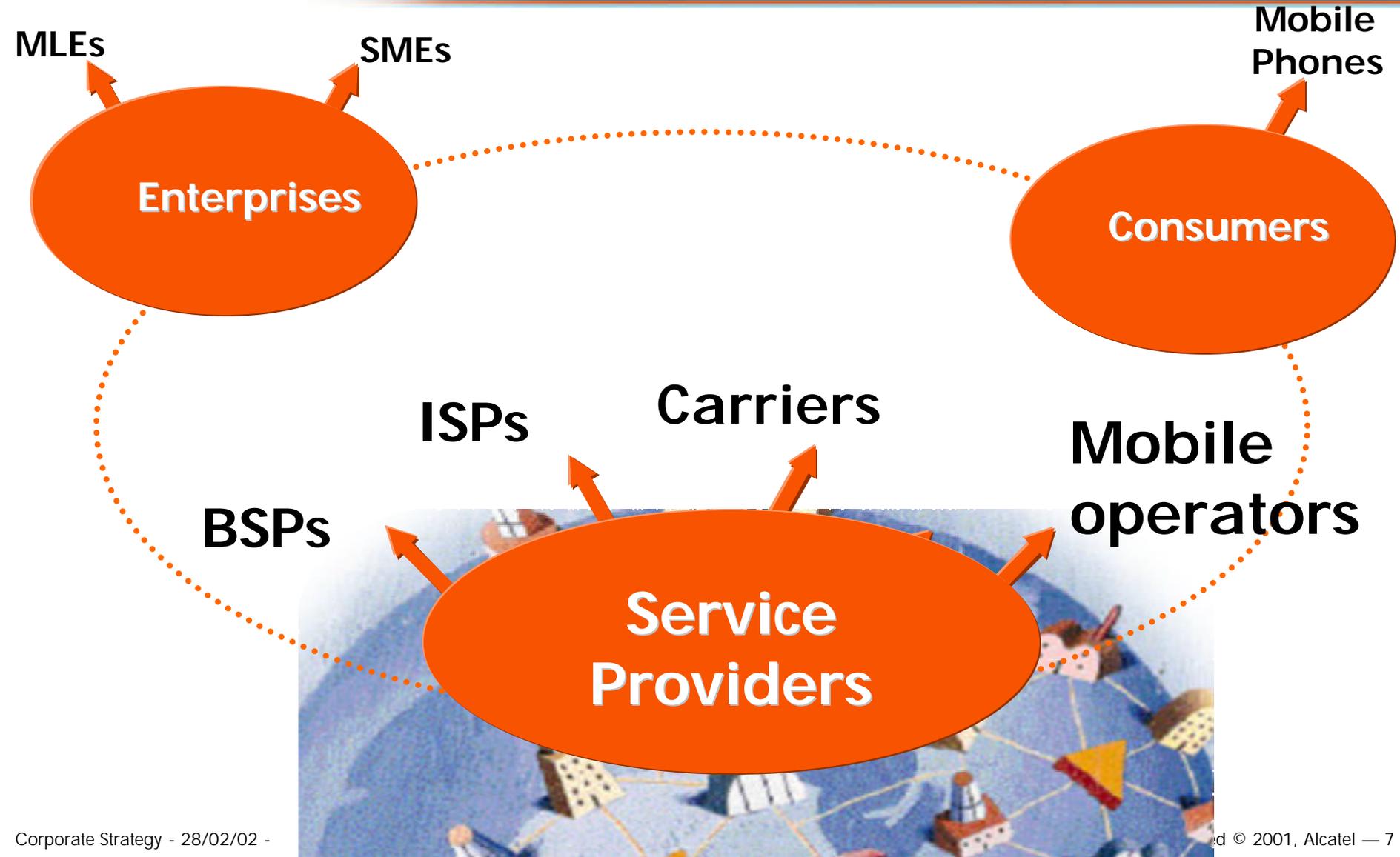
99,000 employees
active in 130 countries generated
Over 22,000 engineers



Sales by segment of activity ...



We serve all type of customers ...



And serve our customers worldwide...

North America:

- Bell
- AT&T
- Sprint
- SBC
- Level(3) COMMUNICATIONS
- Qwest
- verizon

Asia:

- CNC 中国网通 China Netcom
- NTT
- GLOBE TELECOM
- 한국통신 Korea Telecom
- SATELINDO
- PLDT THE POWER OF CONVERGENCE
- 中国电信 CHINA TELECOM
- 中国电信 CHINA TELECOM
- TELEKOM MALAYSIA
- SAIFT
- OPTUS
- CLEAR
- 中国移动通信 CHINA MOBILE
- NTT 하나로통신(주)
- SingTel
- 東森寬頻電信 Eastern Broadband Telecom
- 中国联通
- Telecom NEW ZEALAND
- KDDI
- Telstra
- 中華電信股份有限公司 Chuanhua Telecom Co., Ltd.

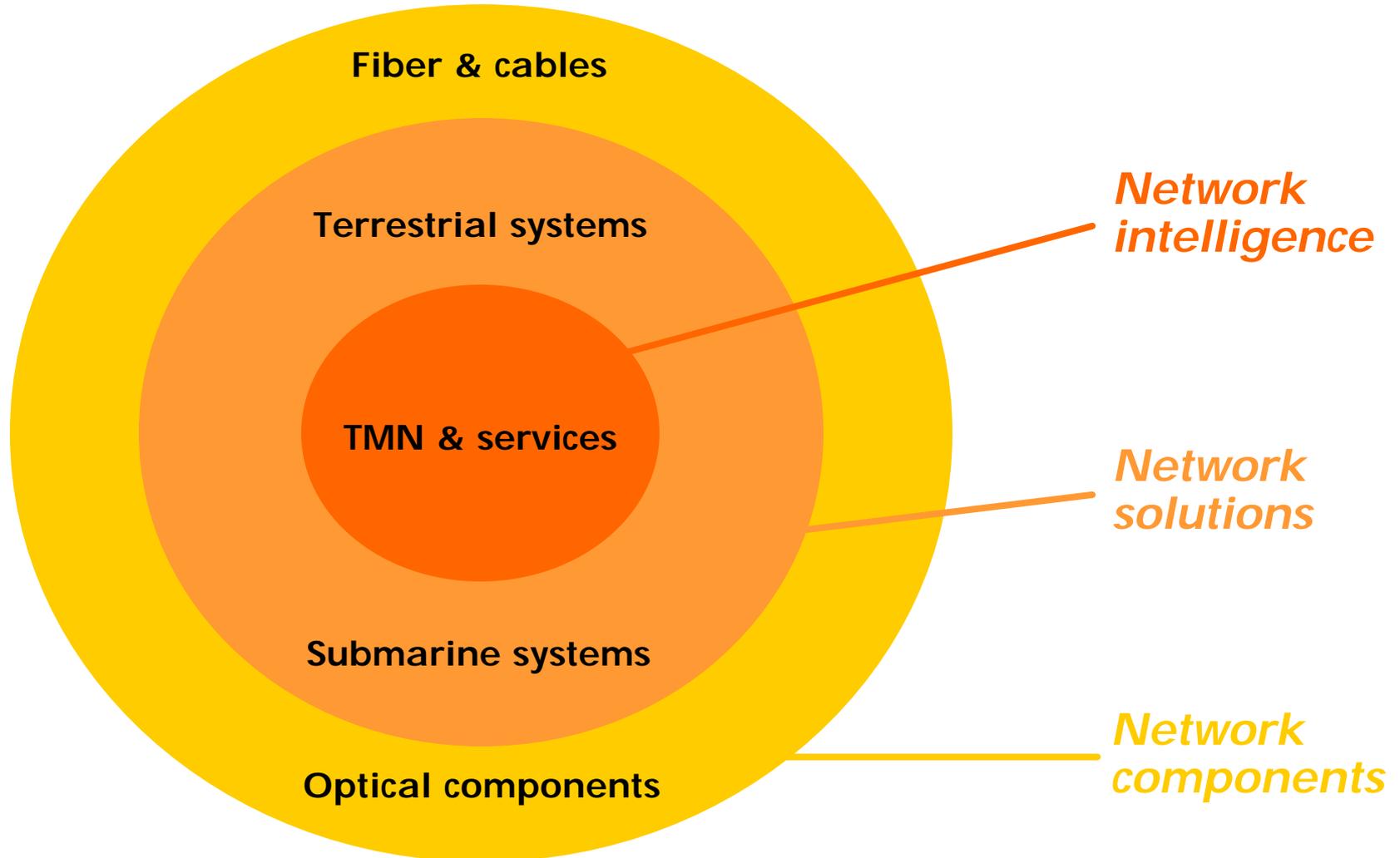
Europe:

- Telefonica
- Global One
- callino
- Mobil
- TMN
- TELECOM ITALIA
- BT
- france telecom
- dutchtone
- swisscom
- CABLE & WIRELESS
- SFR
- Deutsche Telekom
- PORTUGAL
- cegetel
- BELGACOM
- COLT

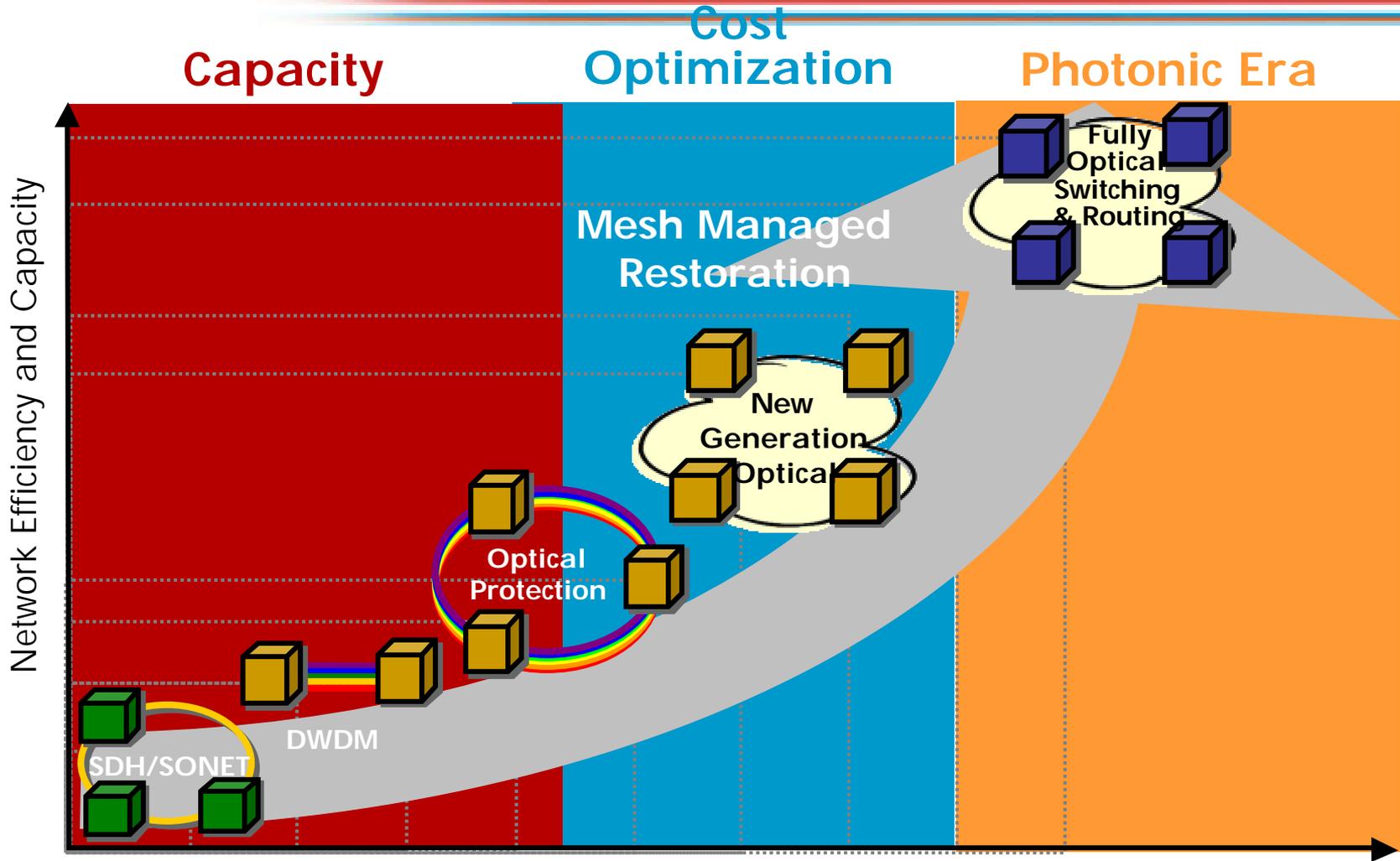
+ 500,000 Enterprises

A decorative orange circle with a white highlight and a grey shadow, positioned to the left of the word "Optics".

Optics



Leading the optical network evolution...



Cost and flexibility are today more important than capacity for our customers



Core: Lowest cost per managed bit

Metro: Lowest cost per managed connection

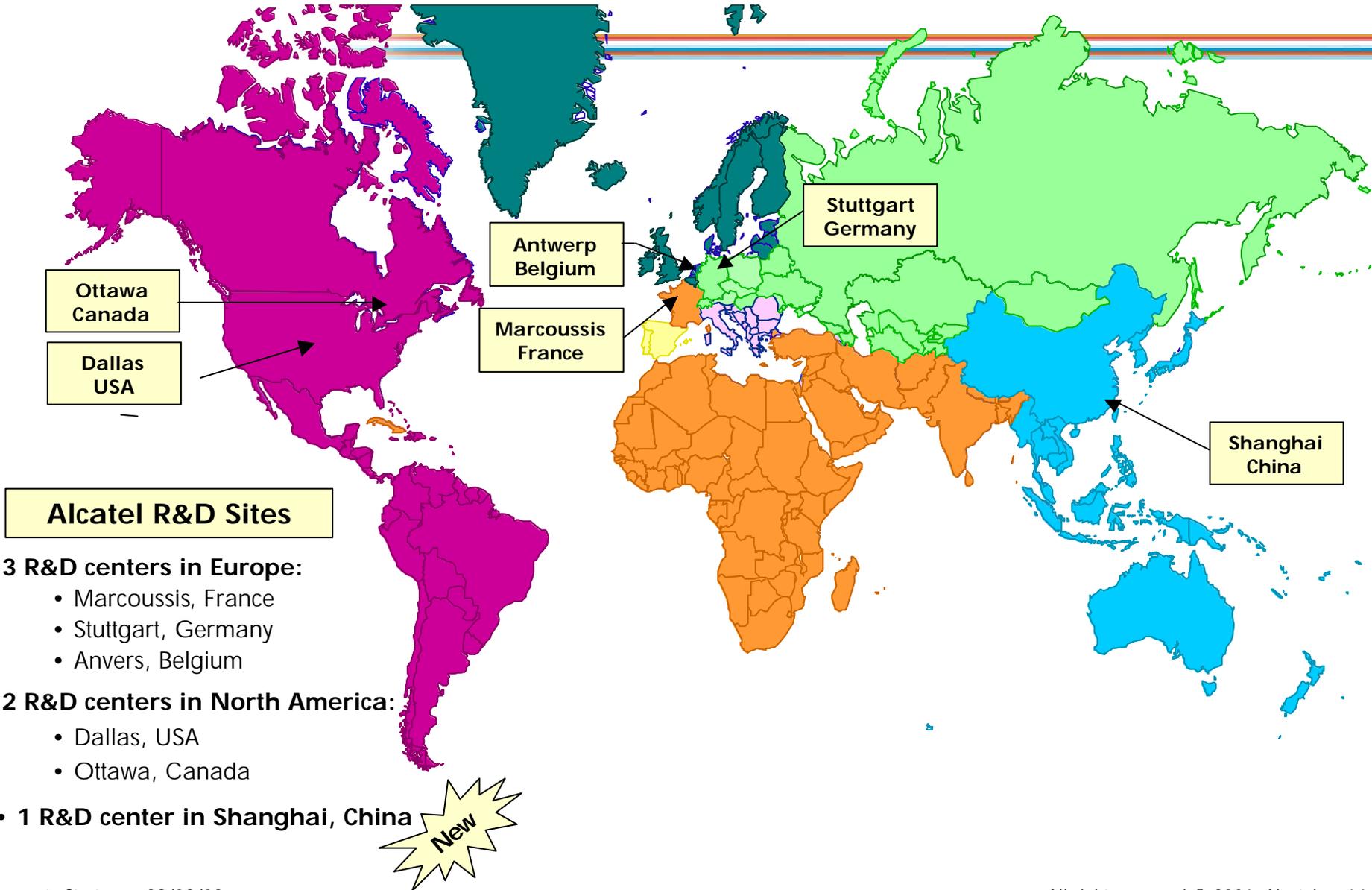
Alcatel's TCO optimization foundations

Distributed or centralized network management

A 3D-style orange sphere with a white highlight and a grey shadow, positioned to the left of the main title.

Alcatel R&D Centers

Research & Development centers



Alcatel R&D Sites

- **3 R&D centers in Europe:**
 - Marcoussis, France
 - Stuttgart, Germany
 - Anvers, Belgium
- **2 R&D centers in North America:**
 - Dallas, USA
 - Ottawa, Canada
- **1 R&D center in Shanghai, China**





ARCHITECTS OF AN INTERNET WORLD

▼ Four core values:

- ▶ customer commitment: the first priority for all of us
- ▶ innovation: goes beyond technology
- ▶ teamwork: behaving as a member of a single corporation
- ▶ accountability: we all share the destiny of Alcatel

▼ Through Alcatel values, we promote:

- ▶ best business practices
- ▶ corporate citizenship
- ▶ environmental concern

... for a **sustainable** development

- ▼ Patents
- ▼ 6000 Patent Families
- ▼ 22,000 Individual Patents World Wide
- ▼ Fiber Optics
- ▼ Switching
- ▼ Software
- ▼ ADSL

- ▼ Trade Secrets

- ▼ Trademarks

- ▼ Copyrights

Intellectual Property is a Key to Alcatel's success - This is particularly true in the information age as opposed to the industrial age

- ▼ The Constitution of the United States provides
 - ▼ Article 1, 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."
- ▼ Purpose of the hearing is to discuss in broad terms the meeting of Intellectual Property protection and the protection of free competition
- ▼ Draw the line at fair competition, not free competition

Constitutionally Fair, not Free Competition!

Why Patents Are Important to Alcatel

- Alcatel innovates to bring value to its shareholders
- Alcatel invests \$3B each year of its shareholders money in research and development of new ideas and technologies that will benefit mankind.
- Alcatel's reward should be its enjoyment of a limited period of time where it can profit from its true innovation without competition. This is the promise of the constitution.
- There is nothing bad about a limited period free from competition for an innovative solution to a perplexing problem that will be contributed to the public domain at expiration.

It is unlikely that a company can long continue to make this kind of investment in research and development if its ability to deliver a payback to its shareholders is not protected for a limited period of time.

- Have proliferated over the past few years
- Founding Fathers thought to encourage innovation
- Uncertainty with regard to Patents will chill competition
- Trade Secrets are more important in a time of uncertainty
- Patents are impractical for protecting early stage R&D
- Value of IP staggering but so is cost of innovation
- Courts no longer providing certainty
- Patent Litigation is very expensive due to lack of certainty

What is causing the increase in Patents

- ▼ We are in the Information Age
- ▼ With this increase in information, we can more easily identify, understand and solve problems
- ▼ We live in the Age of the Greatest Innovative Processes
- ▼ During the last 150 years we witnessed exponential growth in innovation during the industrial age
- ▼ It will accelerate during the information age
- ▼ The focus the FTC and the Department of Justice is placing on the innovative process is warranted to ensure
 - ▼ Current solutions are effective in promoting fair competition
 - ▼ Public disclosure of innovative solutions

Why the Founding Fathers encouraged Innovation and Public disclosure

- ▼ The founding fathers knew that great strides would be made in society if innovation and disclosure was encouraged.
- ▼ Innovation had been protected by non-disclosure (common law of trade secrets).
- ▼ In order to coax companies to disclose their secrets, a time limited monopoly was granted to those companies who would disclose their inventions and innovations in such a manner that would allow others to practice their innovations at the expiration of the period.
- ▼ This was such a divinely inspired priority that it was made a part of the Constitution of the United States, the highest law of the land.

Patent Uncertainty will Chill Competition

- Patent Process is too slow
- Far too many patents fail due to lack of validity
- Obtaining and maintaining patents is expensive and time consuming
 - \$200,000 over the lifetime of a patent
 - Not including enforcement actions
- Major patent litigation costs around \$2M per month *that could be going into innovation, development and further research*

There is a lack of certainty chilling innovation

Patent Uncertainty will Chill Competition

- New Companies emerging with short sighted patent philosophy
- These companies look to exploit the innovation of smaller companies through marketing schemes and ignore IP rights as “old world”
- It is short-sighted because, if innovation is not protected and encouraged, the day will come when they run out of companies with technology to exploit

There is a lack of certainty chilling innovation

	Alcatel	"New World"
Innovation	Own R&D	Acquires R&D
IP View	<p>R&D is Critical</p> <p>IP Investment</p> <p>Invests in IP</p> <p>Reinvests in R&D</p>	<p>No in-house R&D</p> <p>No IP Investment</p> <p>Reaps from IP</p> <p>Does not reinvest in R&D</p>

- ▼ Particularly in a time when Patents cannot be counted on to be enforceable.
 - ▼ Companies hold on to their innovations as trade secrets
- ▼ Common Law trade secrets have been enforced throughout the history of courts.
- ▼ Trade Secrets are an important and basic property right.
- ▼ The very adoption of the patent law to encourage disclosure indicates that the founding fathers assumed as assured that every person would have the right to its trade secrets
- ▼ Initially, all innovation takes place in the trade secret environment

**It is in the secret of the laboratory where
Innovation first takes place**

Today, even Trade Secret Law is Uncertain

- ▼ There is a wide disparity between the states on trade secret protection
- ▼ This is a basic property right and should be uniform throughout all states to maximize the encouragement of innovation
- ▼ Today Patent Law cannot be relied on to protect the theft of trade secrets from the laboratory
 - ▼ The only remedy for a company who invests in R&D to protect its innovation is the law of trade secrets
 - ▼ inevitable disclosure injunctions should be available in all jurisdictions through the implementation of a uniform federal trade secret law
- ▼ A trade secret is the precursor of a patent
- ▼ Without trade secrets there would be nothing to disclose as a patent

Patents are inadequate to Protect Laboratory Research and Innovation



- ▼ Patents do not become effective until issued
- ▼ The Patent issuance process takes up to 3 years (20 years in some cases)
- ▼ If a group of employees working on a highly secret and innovative lab project are induced to leave as a group
- ▼ And they are hired by a competitor to develop substantially the same product as they were working on in the prior employers lab
 - ▼ No sale has been made
 - ▼ No patent has been issued or applied for
 - ▼ The only property right that exists is the trade secret
- ▼ We need a federal trade secret law as a part of our Patent Program

- ▼ It is hard to imagine the value of innovation
 - ▼ in terms of the benefit to society
 - ▼ Car
 - ▼ Phone
 - ▼ Refrigerator
 - ▼ Computer
 - ▼ in terms of dollar value
 - ▼ Billions and the Trillions
- ▼ Companies can only realize the full value in the free market with the full protection of trade secret law and patent law combined
 - ▼ We never get full value in court
 - ▼ juries and judges cannot comprehend the immense value that would be realized absent the infringement

- ▼ When a party has to go to court to enforce its patent rights
 - ▼ There can be millions of pages of documents
 - ▼ Cost can be staggering for the handling and review of these documents
- ▼ The basic issue always revolves around the belief that the party against whom the patents are asserted has a reasonably good chance of winning on the validity issue.
- ▼ If the patent is found to be valid, there is a pretty good shot on the infringement issue.
- ▼ Patent litigation tends to settle on the courthouse steps only after the bulk of the expense has been made.
- ▼ Greater certainty would greatly reduce the costs of litigation.

- ▼ Alcatel is a company founded on the core principle of innovation
- ▼ Provide more and more for less and less
- ▼ Alcatel invests Billions in research and development
- ▼ Alcatel must protect its investment using the intellectual property laws and the fair competition laws
- ▼ If Alcatel did not protect the value of its innovations, shareholders would soon cease to invest in a company that lets its inventions walk out the door
- ▼ There is uncertainty in both the trade secret field and the patent field
- ▼ Uncertainty increases costs and wastes valuable resources