

The Mystery of the iPhones That Won't Unlock

Used-Phone Resellers Caught Off Guard and Wonder What AT&T Changed

By THOMAS GRUYTA (WSJ)

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Louis Ashner ran a brisk business buying used phones from Americans and reselling them in China. But one day in early October, it just stopped.

Mr. Ashner, who owns Side Street Technology Inc. in Baton Rouge, La., said he was suddenly unable to "unlock" AT&T Inc. versions of the [iPhone](#) in bulk so they could work on other networks.

He doesn't know the cause, but he knows the effect. No one in China wants an iPhone that only works on AT&T. His business collapsed and is in the process of closing its office and liquidating inventory at a loss.

Enlarge Image

Phones like AT&T's that run on GSM have traded at a premium. *Bloomberg News*

"The market is gone," Mr. Ashner said, who said he was on track for \$1 million in revenue this year. "We are closing up."

Business owners throughout the U.S. used-smartphone market are reporting the same problem, and like Mr. Ashner none of them knows exactly what went wrong.

Business owners throughout the American used-smartphone market are reporting a peculiar problem: an inability to "unlock" AT&T versions of the iPhone in bulk so they could work on other networks. Brian Fitzgerald reports. Photo: Getty.

Whatever changed, AT&T appears to be at the center of it. The carrier accounts for 48% of the iPhones now operating in the U.S., according to comScore, and the technology it uses is compatible with most of the world's networks. That gives its phones the widest resale market.

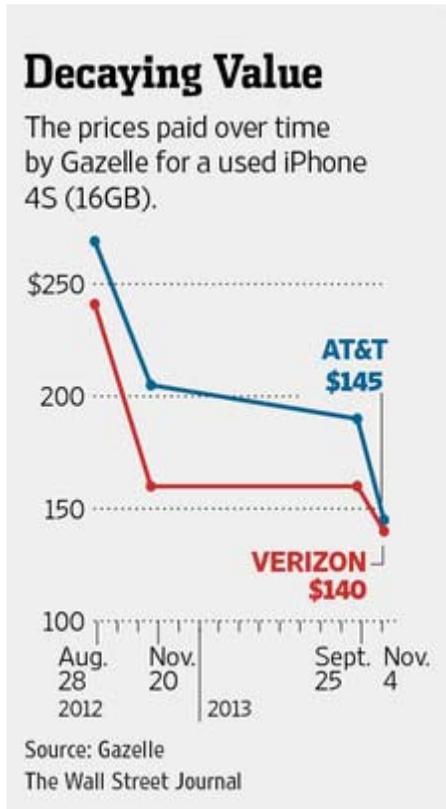
Wholesalers had long been able to get AT&T's iPhones unlocked on a mass scale by specialized services, many working out of Asia, for relatively little cost. That changed about a month ago, when people in the industry say AT&T suddenly made it harder to unlock phones on its network.

"AT&T was very lax for a long time in regards to mobile phone unlocking. If they said no, a third-party unlocker would be happy to unlock any AT&T iPhone or other device for a very decent price," said Will Strafach, who runs a Connecticut-based unlocking company called ChronicUnlocks. "AT&T is really taking action and coming down hard."

An AT&T spokeswoman said the company hasn't changed its policies for unlocking phones for individual customers, but wouldn't discuss the subject of bulk unlocking by third parties or whether it had made any changes there. An [Apple](#) Inc. spokeswoman declined to comment.

In mid-October, AT&T did stop accepting unlocking requests over the phone and now requires that they be made online, a person familiar with the matter said. The process is only open to current and former customers, who must enter their email addresses and last four digits of their social security numbers, among other information, according to AT&T's website.

The mystery underscores how shadowy the used-phone market remains even as it enjoys explosive growth. Apple Inc., AT&T and others have leapt into the business this year as a way to help their customers trade up to newer models more quickly.



Those companies can unlock phones one at a time as their customers turn them in. But much of the business is still done by wholesalers, many of them small, for whom unlocking is a bigger hurdle.

Some simply sell the locked phones to buyers in Asia, where a separate industry of bulk unlockers has blossomed. Many people in the used phone business don't know exactly how it works. One wholesaler based in Hong Kong said her company would email a list of hundreds of phone identification numbers to a contact in China, and the phones would be quickly unlocked.

With the scarcity of mass unlocking, the price to unlock an AT&T iPhone has gone from \$1 or \$2 per device to as high as \$100 in just a month, according to people in the industry and companies that still offer the service.

Online device trade-in company EleGreen now advertises it will pay customers an extra \$40 if they bring in their phone already unlocked.

Buying and selling used smartphones is a straightforward process in much of the world, where devices can be used interchangeably on any number of networks. But in the U.S., smartphones often come "locked" to the selling carrier's network.

Hackers can unlock phones, but their work can often be reversed by carriers. The gold standard is the so-called factory unlock, where carriers or Apple make the change through their systems.

The locking is an outgrowth of the subsidy model for phone sales in the U.S. Carriers cover the bulk of the cost of devices like the iPhone then recover their outlay over two years via monthly service fees. Locking makes sure customers stick with the service until their obligation is cleared.

Carriers like AT&T and [Sprint Corp.](#) [S +0.57%](#) have long agreed to unlock phones once their customers complete their service agreements. [Verizon](#) [VZ +0.46%](#) Wireless phones generally come already unlocked.

The inability to unlock AT&T iPhones has turned the relative values of used iPhones upside down. For years, phones like AT&T's that run on GSM network technologies have traded at a premium, because they work on more networks around the world than phones used by Verizon Wireless and Sprint.

Last November, used-phone company Gazelle Inc. was offering \$205 for a iPhone 4s with 16 gigabytes of storage a year after its launch, compared with the \$160 it was offering for Verizon's version of the same phone. Now, for a similar, year-old iPhone 5, Gazelle offers \$230 for the AT&T model and \$250 for the Verizon model.

"When a carrier makes unlocking more difficult or more costly, it takes money out of the consumer's pocket and makes reselling phones more of a hassle for the consumer," Gazelle CEO Israel Ganot said.

—Daisuke Wakabayashi contributed to this article.