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CyberSafe jumps into `smart card' biz - Issaquah firm to license its technology to banks, credit card companies

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 by [Cydney Gillis](#)
 Journal Business Reporter

ISSAQUAH -- There's nothing like a juicy court case to call attention to a company.

The case is the Department of Justice's new antitrust suit against two credit card groups. The government claims, in part, that MasterCard and Visa have stifled innovation such as the so-called ``smart card," a plastic card with a computer chip that can verify a user's identity.

While the litigants duke it out, Issaquah-based CyberSafe, a maker of Internet security products, is already proving part of the government's case is wrong.

This week, CyberSafe announced that it has developed a smart card technology it plans to begin offering by October.

It's a hot market because smart cards are expected to be the wave of the future. They allow consumers to do everything from making a purchase to ringing up frequent flyer miles, all with the same card. For merchants, they offer a cheap, reliable way to clear transactions and avoid fraud, especially in an increasingly online world.

It's a bold new direction for nine-year-old CyberSafe, which up to now has primarily focused on making sure that computer networks were secure from hacker attacks. The company will not actually make the smart cards, but will license the technology to companies that do, such as banks, credit card issuers, employers and other parties that want secure identification.

Currently in testing with six companies, CyberSafe's smart card technology relies on a ``digital signature," a piece of identifying software that's also been in the news, thanks to a bill that is currently up for a vote in Congress.

If the bill is approved, digital signatures will become legally binding in the United States.

That's what CyberSafe and a number of competitors have been counting on in a market that could top \$5 billion in the next few years, according to the company's chief executive, Jim Cannavino.



As early as next year, explains Rick McNees, vice president of corporate development, consumers may be using CyberSafe-licensed smart cards in desktop computers equipped with scanners.



The more transactions the better because CyberSafe also plans to process the transactions in a unit that already includes 48 new hires, with more to come.



"We see a real opportunity to help accelerate the whole e-business model," Cannavino said. "The part we'll add to that is managed services. We're finding that a lot of customers would like us to take on the responsibility ... to do the authorization and clearing" of transactions.



In a development push that began one year ago, the company has partnered with Certicom Corp., a cryptography firm based in Ontario, Canada, and with First Data Corp., a leading credit card transaction company based in Atlanta.

CyberSafe also raised \$32 million last fall from Oak Investments, Polaris Venture Partners, and Accel Partners to pursue the initiative, which could one day put CyberSafe in direct competition with Microsoft Corp. and Sun Microsystems, two companies that are also developing smart card technology.

Besides allowing consumers to consolidate a variety of tasks on one card, the digital signature will provide absolute proof that the card and its correct owner were present at the time it was used.

Cannavino explained that this reduces the risks of fraud or a consumer denying a charge or purchase. The result is lower transaction processing fees.

Another reason costs are lower is that, unlike a digital certificate -- a type of cyber identification held by firms such as VeriSign -- no third-party service is required or needs to be paid to verify the buyer's identity. The digital signature on a smart card is all it takes to confirm bank account information or employment status.

McNees said it's likely that employers will be the first to use smart cards in order to identify employees as they log onto to a company network.

Private-label cards from individual retailers could be the next roll-out for smart cards, including "affinity" cards such as club membership or airline cards.

"Now you can have one card that can track your airline miles, grant you access to VIP lounge, and check you in for the flight," McNees said. "All of a sudden you're carrying one piece of plastic instead of four."

After 28 years in the computer business, McNees said, "it's the first time I can tell my mother what I do and she gets it."

Cydney Gillis can be reached at cydney.gillis@eastsidejournal.com or 425-453-4226.

COMPUTER SAFETY CRIME PREVENTION IDENTIFICATION

Eastside:
King County Journal
1705 132nd Ave. N.E.
Bellevue, WA 98005

South County:
King County Journal
600 Washington Ave. South
Kent, WA 98032

Phone: 425-455-2222
Fax: 425-635-0602

Phone: 253-872-6600
Fax: 253-854-1006

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