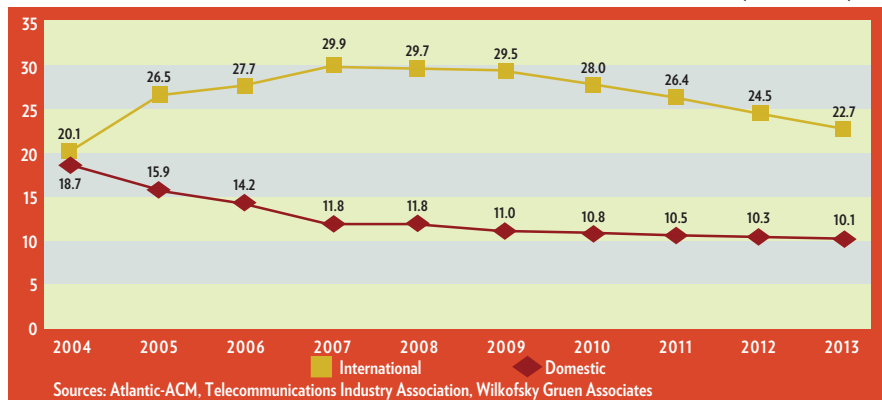


FIGURE 2-5.1

PREPAID CALLING CARD MINUTES OF USE IN THE UNITED STATES (BILLIONS)



The number of domestic minutes started to decline in the beginning of the last decade and in 2004 was surpassed by the number of international prepaid calling minutes for the first time. We expect that pattern to continue, with the prepaid cards being used primarily for international calls where they exhibit greater cost savings compared to alternative calling methods.

Outlook for Prepaid Calling Cards

The prepaid calling card market has been in a constant decline since 2004 as a result of growing competition from alternative technologies including wireless and VoIP. On the domestic side, the rise in the number of wireless subscribers with large buckets of minutes and the increase in the number of landline plans that include unlimited long-distance calling have reduced the need for prepaid calling cards. Spending on domestic prepaid calling fell by more than half from \$1.3 billion in 2004 to \$621 million in 2009. The decline will be less severe through 2013, as wireless substitution will be less of an issue as the wireless market reaches saturation. The continuing increase in the penetration of unlimited long-distance plans will continue to have an effect. Domestic prepaid calling card spending is expected to decline to \$551 million in 2013, a 2.9 percent compound annual decrease from 2009.

International prepaid calling card spending peaked in 2006 at \$2.2 billion. Since then, some migration to Skype and other VoIP services with lower costs has cut into the calling card market. There was a modest decrease in the number of international minutes from 2007 to 2009. We expect the decrease to become more significant starting in 2010. International card spending follows a pattern similar to domestic, with revenues declining modestly from their peak of \$2.2 billion in 2006 through 2009, and a sharper decline through 2013. We expect international calling card spending to decrease from \$2.1 billion in 2009 to \$1.6 billion in 2013, a 6.3 percent compound annual decrease.

Overall, the number of prepaid calling minutes will decline from 40.5 billion in 2009 to 32.8 billion in 2013 as competing technologies continue to gain market share. Spending for the prepaid calling card market will continue to decrease, declining from \$2.7 billion in 2009 to \$2.1 billion in 2013 as the ongoing decline in average prices combines with the decrease in the number of minutes (see **Tables 2-5.1,**

TABLE 2-5.1
PREPAID CALLING CARD SPENDING
IN THE UNITED STATES (\$ MILLIONS)

Year	Domestic	International	Total
2004	1,310	2,015	3,325
2005	1,036	2,123	3,159
2006	852	2,158	3,010
2007	705	2,094	2,799
2008	685	2,081	2,766
2009	621	2,067	2,689
2010	596	1,962	2,558
2011	577	1,846	2,423
2012	566	1,718	2,284
2013	551	1,590	2,135

TABLE 2-5.2
CHANGE IN PREPAID CALLING CARD
SPENDING IN THE UNITED STATES
(PERCENT)

Year	Domestic	International	Total
2005	-20.9	5.4	-5.0
2006	-17.8	1.6	-4.7
2007	-17.3	-3.0	-7.0
2008	-2.8	-0.6	-1.2
2009	-9.3	-0.7	-2.8
2010	-4.0	-5.1	-4.9
2011	-3.2	-5.9	-5.3
2012	-1.9	-6.9	-5.7
2013	-2.7	-7.5	-6.5
2010-2013 CAGR	-2.9	-6.3	-5.6

Sources: Atlantic-ACM, Telecommunications Industry Association, Wilkofsky Gruen Associates

2-5.2, 2-5.3 and 2-5.4, left, and Figure 2-5.2, page 2-77).

Domestic calling card spending declined from 39 percent of the market as recently as 2004 to a low of 23 percent of the market in 2009 and 2010. We project the domestic share of the market to increase somewhat to 26 percent of the market in 2013 as the market for the domestic cards declines less than that for the international cards (see **Table 2-5.5**, page 2-77)

Marketing Practices and Government Regulation

There has been very little regulation of the phone card industry. Only 11 states, including California, Florida and Illinois, have laws dealing specifically with the calling card industry, with the other states relying on general consumer protection regulations. Additionally, there has been very little enforcement of existing rules. The barriers to entry to the industry are very low, as card distributors do not need to own the networks over which calls are made. It is possible to enter the market with as little as \$20,000 to buy minutes, print cards and set up a computer system to keep track of the minutes.

To increase their revenues, card companies have introduced a variety of fees and special charges. Some charge maintenance fees, which are automatically deducted

from the account on a periodic basis — weekly, biweekly, or monthly. Some card providers advertise a very low per-minute charge but then add a connection fee, which can make a short call cost significantly more per minute than the posted rate. Connection fees are often charged even when the call is not completed. Some cards increase the cost of calling minutes after the first use. Some cards expire a certain amount of time after the initial use, penalizing cardholders who have not used all their minutes in the allotted time period. Some cards round calls in five-minute increments, meaning that a six-minute call would be charged as a 10-minute call. Quite often, the only way to reach the advertised number of

TABLE 2-5.3
PREPAID CALLING CARD MINUTES
OF USE IN THE UNITED STATES
(BILLIONS)

Year	Domestic	International	Total
2004	18.7	20.1	38.8
2005	15.9	26.5	42.4
2006	14.2	27.7	41.9
2007	11.8	29.9	41.7
2008	11.8	29.7	41.5
2009	11.0	29.5	40.5
2010	10.8	28.0	38.8
2011	10.5	26.4	36.9
2012	10.3	24.5	34.8
2013	10.1	22.7	32.8

TABLE 2-5.4
CHANGE IN PREPAID CALLING CARD
MINUTES OF USE IN THE
UNITED STATES (PERCENT)

Year	Domestic	International	Total
2005	-15.0	31.8	9.3
2006	-10.7	4.5	-1.2
2007	-16.9	7.9	-0.5
2008	0.0	-0.7	-0.5
2009	-6.8	-0.7	-2.4
2010	-1.8	-5.1	-4.2
2011	-2.8	-5.7	-4.9
2012	-1.9	-7.2	-5.7
2013	-1.9	-7.3	-5.7
2010-2013 CAGR	-2.1	-6.3	-5.1

Sources: Atlantic-ACM, Telecommunications Industry Association, Wilkofsky Gruen Associates

minutes is to use the card for a single call before the various fees kick in. The prepaid calling card industry is open to so much fraud that it was featured in an episode of HBO's series *The Sopranos* as an easy way for the mob to make money. The Hispanic Institute, a nonprofit advocacy group, has done studies and found that the average card delivers only 60 percent of the promised minutes, cheating consumers by as much as \$1 million per day.

Many consumers have complained that they were unaware of these fees, which made the cards worth far less than the advertised price. Many times the companies fail to disclose all of the fees. Companies often advertise the cards in Spanish to reach the immigrant community but provide disclosure of fees in English, a foreign language to many customers. Sometimes, they get around disclosure requirements by disclosing the terms on the outside wrapper of the cards, which is usually discarded after purchase. Some disclose all the fees but in such a small font to make the disclosure practically unreadable. Even if they disclose the fees properly, some of the card providers are charging an incredible variety of fees. Due to numerous complaints, there has been a flurry of legal activity directed at the prepaid card industry.

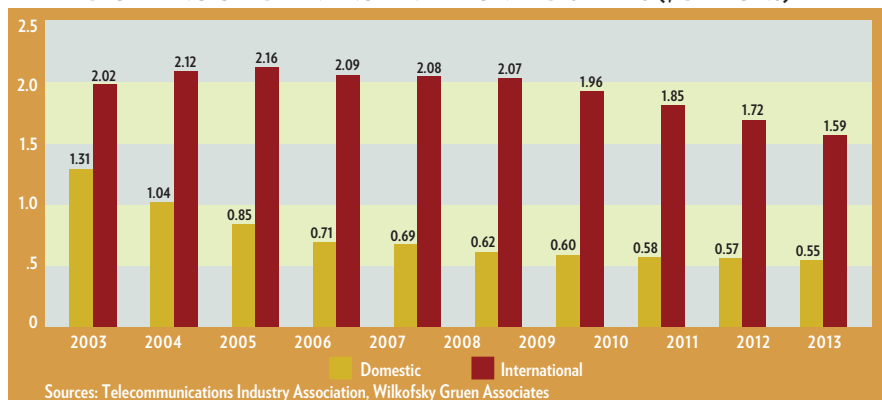
A number of states are starting to investigate the industry. In July 2007, after receiving more than 200 complaints about industry practices, Florida State Attorney General Bill McCollum sent subpoenas to 10 prepaid calling card companies doing business in Florida to answer complaints about questionable marketing practices whereby customers were not getting the number of minutes that were advertised due to miscellaneous fees. In June 2008, Attorney General McCollum announced his office had reached agreements with the companies, thereby initiating industry-wide reforms. The companies agreed to cease all deceptive advertising, provide 100 percent of the minutes advertised, disclose all fees in the same language as used in advertising the cards, bill calls in one-minute increments and submit to three years of auditing by the Office of the Attorney General to ensure they are meeting

TABLE 2-5.5
SHARE OF PREPAID CALLING CARD
MINUTES OF USE IN THE
UNITED STATES (PERCENT)

Year	Domestic	International
2004	39	61
2005	33	67
2006	28	72
2007	25	75
2008	25	75
2009	23	77
2010	23	77
2011	24	76
2012	25	75
2013	26	74

Sources: Atlantic-ACM, Telecommunications Industry Association, Wilkofsky Gruen Associates

FIGURE 2-5.2
PREPAID CALLING CARD REVENUE IN THE UNITED STATES (\$ BILLIONS)



Annual spending on access equipment rose steadily through 2008, reflecting growth in the broadband subscriber base and upgrades for faster speeds. In 2009, however, spending fell 23.7 percent to \$6.7 billion from \$8.8 billion in 2008.