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MEMORANDUM

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TO: Docket Control

FROM: Ernest G. Johnson
Director
Utilities Division

EA for EGJ

2009 JAN -9 P 1:09

AZ CORP COMMISSION
DOCKET CONTROL

DATE: January 9, 2009

RE: IN THE MATTER OF THE APPLICATION OF STI PREPAID, LLC AND DIALAROUND ENTERPRISES INC. FOR APPROVAL OF A TRANSFER OF ASSETS AND CERTIFICATE OF CONVENIENCE AND NECESSITY FOR TO PROVIDE INTRASTATE TELECOMMUNICATIONS SERVICES AND APPROVAL OF TERMINATION OF SERVICE BY DIALAROUND (DOCKET NOS. T-20517A-07-0135 AND T-04045A-07-0135)

Attached is the Staff Report for the above Application to approve the transfer Dialaround Enterprises, Inc.'s ("DEI's") assets and Certificate of Convenience and Necessity ("CC&N") to provide resold intrastate interexchange telecommunications services to STi Prepaid, LLC ("STi Prepaid") and approve the cancellation of DEI's CC&N.

Staff recommends approval of STi Prepaid's application to provide resold interexchange services in Arizona. Staff also recommends the cancellation of DEI's authority to provide resold interexchange services in Arizona.

EGJ:JFB:red

Originator: John F. Bostwick

Attachment: Original and Fifteen Copies

Arizona Corporation Commission
DOCKETED

JAN - 9 2009

DOCKETED BY 

SERVICE LIST FOR: STI PREPAID, LLC AND DIALAROUND ENTERPRISES INC.
DOCKET NOS. T-20517A-07-0135 AND T-04045A-07-0135

Ms. Cherie Kiser
Cahill Gordon & Reindel LLP
1990 K Street, N.W.
Washington, District of Columbia 20006

Ms. Jenni Partridge
STi Prepaid
30-50 Whitestone Expressway
Flushing, New York 11354

Ms. Janice Alward
Chief Counsel, Legal Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Ms. Lyn Farmer
Chief Administrative Law Judge, Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

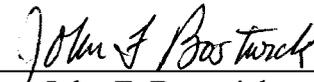
STI PREPAID, LLC
DIALAROUND ENTERPRISES INC.
DOCKET NOS. T-20517A-07-0135 AND
T-04045A-07-0135

IN THE MATTER OF THE APPLICATION OF STI PREPAID, LLC AND
DIALAROUND ENTERPRISES INC. FOR APPROVAL OF A TRANSFER OF
ASSETS AND CERTIFICATE OF CONVENIENCE AND NECESSITY FOR TO
PROVIDE INTRASTATE TELECOMMUNICATIONS SERVICES AND APPROVAL
OF TERMINATION OF SERVICE BY DIALAROUND

JANUARY 9, 2009

STAFF ACKNOWLEDGMENT

The Staff Report for STi Prepaid, LLC and Dialaround Enterprises Inc., Docket Nos. T-20517A-07-0135 and T-04045A-07-0135, was the responsibility of the Staff member listed below. John F. Bostwick was responsible for the review and analysis of the STi Prepaid, LLC's Application to transfer the assets and the Certificate of Convenience and Necessity ("CC&N") to provide resold intrastate interexchange telecommunications services from Dialaround Enterprises, Inc. to STi Prepaid, LLC and approve the cancellation of Dialaround Enterprises Inc.'s CC&N.



John F. Bostwick
Administrative Services Officer II

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Introduction

On March 2, 2007, STi Prepaid, LLC ("STi Prepaid") and Dialaround Enterprises, Inc. ("DEI") (together "Applicants") filed an application to transfer DEI's assets and Certificate of Convenience and Necessity ("CC&N") to provide resold interexchange services to STi Prepaid and approve the cancellation of DEI's CC&N. On March 13, 2007, STi Prepaid filed a copy of its Certificate of Good Standing and Certificate of Registration. Staff deemed STi Prepaid's Application to be insufficient and sent its First Set of Data Requests to STi Prepaid on April 3, 2007. Staff's First Set of Data Requests was returned marked "Insufficient Address". Staff again sent its First Set of Data Requests on April 18, 2007. STi Prepaid responded to Staff's First Set of Data Requests on May 18, 2007.

On December 21, 2007, Staff filed a Motion to Bifurcate Matter. A Procedural Order issued on December 24, 2007, instructed STi Prepaid and DEI to file a response to Staff's Motion to Bifurcate Matter. The Applicants responded that they would support any action that would accelerate the conclusion of this matter so that they could close their pending transaction. On January 23, 2008, Staff withdrew its request to bifurcate the matter.

Staff sent its Second and Third Sets of Data Requests to the Applicants on May 20 and 21, 2008, respectively. The Applicants responded to Staff's Second and Third Sets of Data Requests on June 3, 2008. Staff sent its Fourth Set of Data Requests to the Applicants on May 28, 2008. The Applicants responded to Staff's Fourth Set of Data Requests on June 20, 2008. Staff sent its Fifth, Sixth, and Seventh Sets of Data Requests to the Applicants on June 11, July 9, and August 5, 2008, respectively. The Applicants' Responses were received on June 24, July 21, and September 12, 2008, respectively.

Background

On April 25, 2003, the Commission, in Decision No. 65861, originally granted DEI a CC&N to provide competitive resold interexchange telecommunications services within Arizona. DEI was granted a CC&N to provide resold long distance telecommunications services in Arizona conditioned on it filing conforming tariffs in accordance with the Decision within 365 days from the date of the Order in the matter, or 30 days prior to providing services, whichever occurred first. In addition, DEI was required to procure a \$10,000 performance bond and to file proof of the performance bond within 365 days of the date of the Order granting the CC&N, or 30 days prior to providing service, whichever occurred first.

Staff's Analysis

The Applicants stated in the Application that their individual owners and corporate parents requested approval of the transfer of assets and cancellation of the CC&N in order to execute an Asset Purchase and Contribution Agreement dated January 23, 2007. DEI agreed to the transfer of its assets to STi Prepaid and request the cancellation of its CC&N to provide resold interexchange services in Arizona.

STi Prepaid submitted an Application to provide resold interexchange telecommunications services in Arizona as part of the Application to transfer DEI's assets and CC&N to STi Prepaid. Approval of STi Prepaid's Application for a CC&N is needed before any of DEI's assets can be transferred to STi Prepaid and DEI's CC&N is cancelled.

The following describes STi Prepaid's business operation and activity¹:

"STi prepaid is a facilities-based provider of long distance wireline and wireless telecommunications services. The principal products are prepaid international long distance calling cards and wholesale services.

Prepaid international calling cards are STi Prepaid's largest business line, in 2007 accounting for 88% of revenues. STi Prepaid provides services to over 200 destinations by selling through distributors over 250 different types of calling cards in different dollar amounts. These cards are marketed mostly in immigrant communities through small shops, bodegas and gas stations and enable our customers to keep in touch with those left behind in their home country at an affordable cost. The company has a customer care center in the Dominican Republic with over 100 operators supporting prepaid calling card customers.

STi Prepaid also has a telecommunications wholesaler carrier service for business-to-business customers. Thanks to high volume generated by the calling cards, STi Prepaid can offer advantageous rates for terminating international calls.

STi Prepaid is ably managed by its founder, Sam Tawfik, and its new President Jim Continenza, who we knew from two previous investments and who are working together to boost revenues and profits. STi Prepaid's calling cards can be bought online at www.stiphonecard.com."

Staff's review of STi Prepaid's Application to provide resold interexchange services addresses the overall fitness of STi Prepaid to receive a CC&N to provide competitive resold interexchange telecommunications services. Staff's review considers STi Prepaid's technical and financial capabilities, and whether STi Prepaid's proposed rates for its competitive services will be just, and reasonable.

Review of Applicant Information

The information necessary to process STi Prepaid's Application has been filed and STi Prepaid has authority to transact business in the State of Arizona. STi Prepaid indicated in its

¹ Description of STi Prepaid is an excerpt from Leucadia National Corporation Scorecard and the "Letter from the Chairman and President to Our Shareholders" in the 2007 Annual Report. Leucadia National Corporation is a 75% owner of STi Prepaid.

Application, that it has made applications to register seven d/b/a or trade names that it will do business as in Arizona. The d/b/a names are: Telco Group, Telco, Dialaround Enterprises, TGI, Dialaround, VOIP Enterprises, VOIP, and DEI. On November 18, 2008, Staff contacted STi Prepaid's Legal Counsel, Cherie R. Kiser, to determine the reason that STi Prepaid registered seven d/b/a names in Arizona. Ms. Kiser explained that STi Prepaid is a new company and is in the process of buying companies that provide prepaid phone calling services in every state. STi Prepaid registers the d/b/a or trade name of each company it acquires under its name. Registering the d/b/a or trade names of each company it purchases enables STi Prepaid to identify and service customers that have purchased prepaid phone calling services from a company that STi Prepaid acquired. All of STi Prepaid d/b/a or trade names have been properly registered in Arizona with the Secretary of State.

On April 11, 2007, STi Prepaid filed a letter stating that it has published legal notice of the Application. A copy of the legal notice published on March 16, 2007, and an Affidavit of Publication from the Arizona Republic were submitted as proof that STi Prepaid complied with the Commission's legal notice requirements.

Review of Technical Information

STi Prepaid has demonstrated sufficient technical capability to provide the proposed services. Currently, STi Prepaid is authorized to provide intrastate interexchange telecommunications services in 49 states (Response to Staff Data Request JFB 7-9). In its Response to Staff Data Request JFB1-8, STi Prepaid stated that it will provide services to consumers through the use of networks owned by facilities-based interexchange carriers that are certificated to provide services in Arizona. Also, STi Prepaid will utilize the facilities and services of local exchange carriers operating in Arizona. In the event STi Prepaid experiences financial difficulties, end users can access other interexchange service providers.

Review of Financial Information

According to STi Prepaid's Response to Staff Data Request JFB 1-3, the following entities and individuals hold an ownership interest in STi Prepaid as of March 8, 2007:

BEI Prepaid, LLC ("BEI Prepaid"), a Delaware limited liability company owns a seventy-five percent (75%) in STi Prepaid. BEI Prepaid's principal business is telecommunications holdings. David Larsen, a United States citizen, holds a ten percent (10%) non-voting membership interest in BEI Prepaid. BEI Prepaid Holdings, LLC, a Delaware limited liability company whose principal business is telecommunications holdings, owns a ninety percent (90%) membership interest and a hundred percent (100%) voting interest in BEI Prepaid. BEI Prepaid Holdings, LLC is a wholly-owned subsidiary of Baldwin Enterprises Inc. ("Baldwin"), a Colorado corporation whose principal business is investment. Baldwin is a wholly-owned subsidiary of Phlcorp, Inc., a Pennsylvania corporation whose principal business is investment holdings. Phlcorp, Inc. is a wholly-owned subsidiary of Leucadia National Corporation ("Leucadia"), a public-traded New York corporation whose principal business is

investment. Ian Cumming and Joseph Steinberg, both of whom are United States citizens, each hold a thirteen percent (13%) interest in Leucadia. The business address for David Larsen is 529 East South Temple, Salt Lake City, Utah 84102. The address for Ian Cumming is 529 East South Temple, Salt Lake City, Utah 84102. The address for Joseph Steinberg, BEI Prepaid, BEI Prepaid Holdings, LLC, Baldwin, Phlcorp, Inc. and Leucadia is 315 Park Avenue South, New York, New York 10010.

ST Finance, a Delaware limited liability company whose principal business is securities holdings, owns a twenty-five (25%) interest in STi Prepaid. Samer Tawfik, a United States citizen, indirectly owns a one hundred percent (100%) membership in ST Finance through seven holding companies, all of which are Delaware entities. The seven holding companies are: Telco Group, Inc., STi Phonocard Inc., DEI, STi Mobile Inc., Phonocard Enterprises Inc., VOIP Enterprises Inc., and STi PCS, LLC. The address for ST Finance, Samer Tawfik, Telco Group, Inc., STi Phonocard Inc., DEI, STi Mobile Inc., Phonocard Enterprises Inc., VOIP Enterprises Inc., and STi PCS, LLC is 23 Shorewood Drive, Port Washington, NY 11050.

According to STi Prepaid's Response to Staff Data Request JFB 1-5, Samer Tawfik owns one hundred percent (100%) of DEI, the entity that is transferring its assets to STi Prepaid. Once the asset transfer is consummated, DEI will no longer provide telecommunications services in Arizona. DEI currently holds authority to offer resold interexchange telecommunications services in Arizona pursuant to Decision No. 65861 dated April 25, 2003.

In Response to Staff Data Request JFB 1-13, STi Prepaid stated that it does not intend to rely solely on the financial resources of its ultimate majority owner, Leucadia. STi Prepaid provided its confidential financial statements for the year ending December 31, 2007. These financial statements list assets of \$87,481,000, negative equity of \$14,793,000 and net income of \$20,031,000. STi Prepaid did not provide notes related to the financial statements.

STi Prepaid stated in its Application that it does not require deposits from its customers and prepaid calling cards are available for use immediately upon purchase. Staff reviewed STi Prepaid's proposed tariff and verified that STi Prepaid does not require deposits and/or advances. However, STi Prepaid does provide prepaid calling card services (Refer to STi Prepaid's A.C.C. Tariff No. Section 3.4 Page 47 for specifics on Prepaid Calling Services). Staff believes that prepayments received from STi Prepaid's customer should be protected by the procurement of a performance bond or an irrevocable sight draft Letter of Credit. Since the STi Prepaid is requesting a CC&N for resold interexchange telecommunications services, the traditional performance bond or an irrevocable sight draft Letter of Credit equal to \$10,000 is appropriate. The performance bond or irrevocable sight draft Letter of Credit coverage needs to increase in increments equal to 50 percent of the total minimum performance bond amount or irrevocable sight draft Letter of Credit when the total amount of prepayments is within 10 percent of the total minimum performance bond amount or irrevocable sight draft Letter of Credit amount.

Current Commission practice requires that the original performance bond or irrevocable sight draft Letter of Credit be filed with the Commission's Business Office and copies of the

performance bond or irrevocable sight draft Letter of Credit with Docket Control, as a compliance item in this docket, within 30 days of the effective date of a decision in this matter. The original performance bond or irrevocable sight draft Letter of Credit must remain in effect until further order of the Commission. The Commission may draw on the performance bond or irrevocable sight draft Letter of Credit, on behalf of, and for the sole benefit of the Company's customers, if the Commission finds, in its discretion, that STi Prepaid is default of its obligations arising from its Certificate. The Commission may use the performance bond or irrevocable sight draft Letter of Credit funds, as appropriate, to protect STi Prepaid's customers and the public interest and take any and all actions the Commission deems necessary, in its discretion, including, but not limited to returning prepayments or deposits collected from STi Prepaid's customers.

If at some time in the future, STi Prepaid does not collect a prepayment from its resold interexchange customers, Staff recommends that STi Prepaid be allowed to file a request for cancellation of its established performance bond or irrevocable sight draft Letter of Credit. Such request should be filed with the Commission for Staff review. Upon receipt of such filing and after Staff's review, Staff will forward its recommendation to the Commission.

If STi Prepaid desires to discontinue providing resold interexchange telecommunications service, it must file an application with the Commission pursuant to A.A.C. R14-2-1107. Failure to meet this requirement should result in forfeiture of STi Prepaid's performance bond or irrevocable sight draft Letter of Credit.

If STi Prepaid experiences financial difficulty, there should be minimal impact on the ability of the customers of STi Prepaid to make calls because there are many companies that provide interexchange telecommunications service. If the customer wants interexchange service from a different provider immediately, that customer is able to dial a 101XXXX access code (dial-around). In the longer term, the customer may permanently switch to another company.

In Attachment E of its Application, STi Prepaid indicated that none of its officers, directors, and managers have been nor are currently involved in any formal or informal complaint proceeding pending before any state or federal regulatory commission, administrative agency or law enforcement agency. Also, none of its officers, directors, and managers have had judgments entered against them in any civil matter or judgments levied by an administrative or regulatory agency or been convicted of any criminal act within the past ten (10) years, except Mr. Samer Tawfik. According to Attachment A of the Application, Mr. Samer Tawfik is the Chief Executive Officer of STi Prepaid. A judgment was found against Mr. Tawfik in 2002 in the amount of approximately \$41,000. Based on STi Prepaid's Response to Staff's JFB5-2, Staff confirmed that judgment against Mr. Tawfik for a breach of contract was paid in full with interest as indicated in its Application.

Review of Complaint History

Staff contacted fifteen (15) state Public Utility Commissions (“PUCs”) to determine if STi Prepaid is certificated or registered to provide resold interexchange telecommunications services in the states listed by STi Prepaid. Staff also inquired if there were any consumer complaints against STi Prepaid in the last twelve (12) months. Fourteen states indicated that STi Prepaid is registered or certificated to provide resold interexchange services. The State of Utah, the 15th state contacted, does not certificate or authorize companies to provide resold toll services. The State of Florida, the only state that reported complaints, reported six complaints.

The website for Public Service Commission (“PSC”) of Florida shows that between January 1, 2006 and July 8, 2008 there were two billing complaints and four service complaints filed against STi Prepaid. Each of the six complaints filed in Florida involved prepaid phone calling cards. The following lists, by request number, a description and resolution of each complaint:

Request No. 746838T - The customer was seeking adjustments for his long distance billing from AT&T. STi Prepaid indicated that the customer that did not use the correct access number as instructed on the calling card.

Request No. 772446T - A customer states that when he activated the card, \$0.90 was taken off the card before he made the call. STi Prepaid states that a \$5.00 calling card will be sent to the customer as a replacement card for the card that did not work previously. (Note this complaint was filed in March 21, 2008.)

Request No. 757669T - A customer reported that he used all his minutes simply by the phone ringing, wants a refund of his money, and list of the rates and charges on the calling card. STi Prepaid states that the customer is receiving a \$5.00 complementary calling card in addition to replacing the \$10.00 calling card as requested. A letter sent to the customer provides an internet address where to look up requested information concerning rates and charges.

Request No. 757339T - The customer stated that when she attempted to use the card several times, the minutes on her card were used up, and she was not able to connect her calls. She wants the amount she paid for the card refunded. STi Prepaid issued a \$10.00 refund check and an apology to the customer.

Request No. 746235T - A customer purchased a calling card that was supposed to be for six hours. Three hours were used on the card. On the second use of the card, a recording stated that the card had expired. The card shows that there is an expiration date of three months. STi Prepaid sent a letter to the customer and a \$5.00 calling card.

Request No. 733633T - Customer complained that she paid \$5.00 for a calling card but the card only lasted three minutes. STi Mobile reports that they are providing the

customer with a \$5.00 replacement card. PSC of Florida informed the customer that she will receive a \$5.00 calling card that has a \$0.59 semi-monthly fee, \$0.90 surcharge, and the call time is in three minutes increments.

On October 17, 2008, STi Prepaid informed Staff that it issued over 24.2 million prepaid phone cards in 2006 and more than 69.1 million prepaid phone cards in 2007 in Florida. Staff has confirmed that five Florida consumers filed complaints against STi Prepaid during 2006 and 2007. There were more than 93 million (24.2 million plus 69.1 million equals 93.3 million) prepaid phone cards sold in Florida in 2006 and 2007. The number of complaints is insignificant given the number of prepaid phone cards sold during 2006 and 2007. Based on this information, Staff has determined that STi Prepaid has sufficient customer service capabilities to provide resold interexchange telecommunications services.

According to the U.S. Census Bureau, the State of Florida has a population of 18.1 million people of which 20.2 percent are persons of Hispanic or Latino origin.² Arizona has a population of 6.1 million people of which 29.2 percent are persons of Hispanic or Latino origin.³ While Florida has approximately three times more people than Arizona, the percentage of people that may have a potential problem with prepaid calling cards/services is greater in Arizona. This is especially true given the fact that STi Prepaid stated that it markets to immigrants and sells its cards through "bodegas" retail outlets. Bodega is "a Hispanic, Spanish, or Latin mini-mart, kind of like a 7-11, but usually smaller and more like a liquor store atmosphere."⁴

Based on Staff's "Google" search, Staff discovered that STi Prepaid was one of nine companies that agreed to a phone calling card settlement, dated May 29, 2008, with the Attorney General's Office in the State of Florida. Having received more than 200 complaints, the Attorney General's Office of Florida on January 1, 2006, initiated its investigation of business practices relating to distributing, marketing, servicing, and promoting prepaid phone calling cards from January 1, 2006 to February 1, 2008. This investigation, which was not disclosed in STi Prepaid's March 2, 2007 Application to provide resold interexchange telecommunications services in Arizona, resulted in an agreement among each of the respondents. The agreement or Assurance of Voluntary Compliance ("AVC") called for STi Prepaid to cease all deceptive advertising, provide all of the minutes advertised, and agreed to be audited by the Attorney General's Office for three years. STi Prepaid was required to pay \$50,000 upon execution of the AVC. In addition, STi Prepaid was required to pay \$50,000 for future monitoring of compliance with the AVC, on or before the first, second, and third anniversary of the Compliance Date of the AVC. In total, STi Prepaid agreed to pay \$200,000 to the Attorney General's Office in the State of Florida.

²Population figures and percentages are based on Florida Quick Facts from the U. S. Census Bureau. These facts are based on 2006 estimates by the U. S. Census Bureau.

³Population figures and percentages are based on Arizona Quick Facts from the U. S. Census Bureau. These facts are based on 2006 estimates by the U. S. Census Bureau.

⁴ Definition is derived from "Urban Dictionary: bodega" summary captured through Google.

In addition to the monetary terms of the agreement, the AVC contains several conditions that address general compliance provisions, injunctive terms, advertisement and disclosure compliance, voice prompt compliance, network access numbers, customer service compliance, consumer indemnification provision, and miscellaneous provision. Moreover, the AVC instructs STi Prepaid to comply with the Florida Deceptive and Unfair Trade Practices Act in Florida Statutes, Chapter 501, Part II (2007), Florida Statute §817.06, False Advertising, and Florida Statute §817.041(2007) Misleading Advertising relating to any future distributing, marketing, servicing, and promoting of prepaid calling service or prepaid calling cards in Florida.

When Staff asked STi Prepaid about the litigation matters Staff discovered in its "Google" search, STi Prepaid provided information on other lawsuits. Staff Counsel and Staff reviewed the legal material furnished by STi and determined that three class action lawsuits are still pending. The three pending lawsuits are: Orlando S. Ramirez & Alberto Torres Hernandez v. STi Prepaid, L.L.C. *et al* filed in New Jersey; Michael Adighibe & Others vs. STi Prepaid, LLC filed in New York; and Ricardo Soto v. STi Prepaid LLC filed in California. The Orlando S. Ramirez & Alberto Torres Hernandez v. STi Prepaid, L.L.C. *et al* case was filed July 25, 2008 after the date the Attorney General in Florida finished its investigation. The other two class action lawsuits were filed during the time the Attorney General in Florida conducted its investigation. All of these cases involve alleged deceptive practices and advertising of phone calling cards.

STi Prepaid did not initially disclose information regarding the investigation of phone calling card providers by State of Florida's Attorney General's Office as required in Question (A-11) and Question (A-12) of the Application. Also, STi Prepaid did not acknowledge that it was one of nine companies that agreed to the phone calling card settlement in Florida. As noted earlier in this report, STi Prepaid stated that its business model is the marketing of phone calling cards to "... mostly immigrant communities through small shops, bodegas and gas stations and enable our customers to keep in touch with those left behind in their home country at an affordable cost".

In the course of its investigation of lawsuits involving prepaid calling service providers in the United States, Staff discovered through its "Google" search that the Federal Trade Commission ("FTC") is currently urging Congress to adopt pending legislation and bolster the agency's power to further protect consumers from unscrupulous prepaid phone cards marketers.⁵ In its *Prepared Statement of the Federal Trade Commission on Prepaid on Prepaid Calling Cards*, Before the Committee on Commerce, Science and Transportation, United States Senate Washington, D.C. September 10, 2008, the FTC reported that it conducted tests on prepaid calling cards before it filed two recent lawsuits.⁶ In the first lawsuit, *FTC v. Clifton Telecard Alliance One LLC d/b/a Clifton Telecard Alliance and CTA, Inc. and Mustafa Qattous* the FTC

⁵ See the article "FTC wants to clamp down on prepaid phone card deception" dated September 17, 2008 in Networkworld.

⁶ "Prepared Statement of the Federal Trade Commission on Prepaid on Prepaid Calling Cards Before the Committee on Commerce, Science and Transportation United States Senate Washington, D.C. September 10, 2008"

stated on Page 6 of the prepared statement, that prepaid calling cards delivered on the average only 43 percent of the advertised calling minutes. In the second lawsuit, *FTC v. Alternatel*, the FTC indicated on Page 7 of the prepared statement, that prepaid calling cards delivered on the average only 50.4 percent of the minutes advertised on posters at the point of sale. On Page 4 of FTC's prepared statement, the FTC reported that it established a joint federal-state task force to examine deceptive marketing practices in the prepaid calling card industry. The task force was made up of representatives from the offices of more than 35 State Attorneys General, other state and local agencies, and the Federal Communications Commission. The Office of the Attorney General of the State of Arizona was identified as a member of the task force.

On behalf of Staff, Legal Counsel contacted a representative of the Attorney General Office of Arizona and inquired into any complaints, current or past, that may have been filed against STi Prepaid and its affiliates. Legal Counsel also requested information regarding any ongoing investigation which the Attorney General's Office might be conducting. The Attorney General's Office indicated that the existence of any complaints, current or past, or the existence of any ongoing investigation would be confidential information. The Attorney General's Office would not be able to provide any comment on those issues. The Attorney General's Office was able to state that they had not taken any enforcement action against STi Prepaid or its affiliates in Arizona.

STi Prepaid does have a history of consumer complaints regarding phone calling cards in Florida. Since Arizona has a large population of Spanish speaking immigrants residing in a number communities, Staff believes Arizona consumers should be protected beyond the tradition standard amount of \$10,000.

To that end, Staff recommends that STi Prepaid obtain and file a second \$10,000 performance bond or an irrevocable sight draft Letter of Credit to protect its Arizona customers from any deceptive business practices relating to distributing, marketing, servicing, and promoting of prepaid phone calling cards that occurred in Florida. The minimum bond or draft amount of \$10,000 should be increased if at any time it would be insufficient to cover prepayments collected from STi Prepaid customers. The bond or draft amount should be increased in increments of \$5,000. This increase should occur when the total amount of the advances, deposits, and prepayments is within \$1,000 of the bond or draft amount.

Staff also believes that STi Prepaid should be allowed to request cancellation of the second \$10,000 performance bond or irrevocable sight draft Letter of Credit after three years if, during that period STi Prepaid does not engage in any deceptive practices relating to the manufacturing, advertising, promoting, selling, distributing or providing telecommunications services for prepaid phone calling cards in Arizona. In addition, STi Prepaid needs to operate in the public interest by complying with all the regulatory requirements of the Commission.

Fair Value Determination

The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from STi Prepaid and has determined that its fair value rate base is zero. Accordingly, STi Prepaid's fair value rate base is too small to be useful in a fair value analysis. Therefore, while Staff considered the fair value rate base information submitted by STi Prepaid, the fair value rate base information provided should not be given substantial weight in its analysis.

Competitive Services' Rates and Charges

STi Prepaid is a reseller of services it purchases from other telecommunications companies. It is not a monopoly provider of service nor does it control a significant portion of the telecommunications market. Staff has reviewed the rates to be charged by STi Prepaid and believes they are just and reasonable as they are comparable to several long distance carriers operating in Arizona and comparable to the rates STi Prepaid charges in other jurisdictions. STi Prepaid cannot adversely affect the intrastate interexchange market by restricting output or raising market prices.

In addition, the entities from which STi Prepaid buys bulk services are technically and financially capable of providing alternative services at comparable rates, terms, and conditions. Staff has concluded that STi Prepaid has no market power and that the reasonableness of its rates will be evaluated in a market with numerous competitors. In light of the competitive market in which STi Prepaid will be providing its services, Staff believes that STi Prepaid's proposed tariffs for its competitive services will be just and reasonable.

The Commission provides pricing flexibility by allowing competitive telecommunication service companies to price their services at or below the maximum rates contained in their tariffs as long as the pricing of those services complies with Arizona Administrative Code ("A.A.C.") R14-2-1109. The Commission's rules require STi Prepaid to file a tariff for each competitive service that states the maximum rate as well as the effective (actual) price that will be charged for the service.

Transfer of DEI's Assets and Cancellation of DEI's CC&N

The Applicants' have requested approval of the transfer of DEI's assets to STi Prepaid. Also, the Applicants requested the cancellation of DEI's CC&N authority to provide resold interexchange services in Arizona. Staff addressed the requests based on the applicability of Arizona Revised Statutes ("A.R.S.") § 40-285 (A) to this matter by DEI and STi Prepaid, DEI's compliance with A.C.C. R14-2-1107, DEI's tariff, and the public interest of the Applicants' Application.

Pursuant to A.R.S. § 40-285(A), the sale of DEI's assets to STi Prepaid requires Commission approval. Because neither DEI nor STi Prepaid is a Class A Utility, the Public

Utility Holding Companies and Affiliated Interests rules, A.A.C. R14-2-801 to R14-2-806 et seq. do not apply.

DEI is not able to provide on a monthly basis the average number of customers DEI serves in Arizona. In its Response to Staff Data Request JFB3-2, DEI stated that it provides dial-around (10-10) services in Arizona. If a consumer wishes to bypass its presubscribed interexchange carrier, it may use a dial-around code to access a different long distance provider for a particular telephone. A caller seeking to use DEI's long distance service would dial 101-6400 before dialing the telephone number to be called. DEI's dial-around service can be used by any person at any time from any location by dialing the specified access code prior to making a telephone. DEI has no knowledge of the identity of the persons that use its dial-around services. If 50 dial-around calls were made, there could be 50 customers each making one call or one customer making 50 calls. DEI is not able to identify and quantify the number of customers it serves in Arizona. According to the Application, DEI uses a third-party billing and collection vendor to interact with the customer after the dial-around service is used. As a result, DEI is not able to provide customer notification of its Application as required in A.A.C. R14-2-1107 (A) (2).

Because none of DEI's customers are presubscribed, legal notice of DEI's Application needs to be published to inform the general public. DEI did not provide legal notice of the Application in all counties as required in A.A.C. R14-2-1107(B). DEI should comply with A.A.C. R14-2-1107(B) by filing an affidavit that it published legal notice that it is transferring its assets to STi Prepaid and cancelling its CC&N authority to provide resold interexchange services in Arizona.

DEI reported receiving intrastate income in its 2006 Annual Report to the Utilities Division of the Arizona Corporation Commission. DEI's reply to Staff Data Request JFB7-7, states that DEI has not provide prepaid calling card services in 2006. The income reported by DEI was the result of providing dial-around services in Arizona.

In Decision No. 65861 dated April 25, 2003, DEI was ordered to procure a \$10,000 performance bond because DEI indicated that it would offer prepaid calling card services. Staff was unable to locate a performance bond that should have been filed by DEI. Consequently, DEI did not comply with Decision No. 65681.

The Applicants stated that DEI holds no deposits (Refer to Application dated March 2, 2007, Cover Letter Page 2, Heading No. 3, Item C.). However, if the proposed transfer of DEI's assets to STi Prepaid is approved by the Commission, all outstanding and unused prepaid calling cards issued by DEI should be honored by STi Prepaid.

In its Response to Staff Data Request JFB3-1, DEI stated that it did not publish legal notice with respect to its request for cancellation of its CC&N. The Applicants should publish legal notice of DEI's application to discontinue the provisioning of resold interexchange telecommunications services in all counties in Arizona affected by the application. Compliance

with A.A.C. R14-2-1107 (B) will help to ensure DEI's CC&N will be cancelled and DEI's assets will be transferred to STi Prepaid. The Applicant should provide an Affidavit of Publication and a copy of the legal notice published as proof that the Applicants' complied with the Commission's legal notice requirement as indicated in A.A.C. R14-2-1107 (B).

In its Response to Staff Data Request JFB2-2, the Applicants indicated that STI Prepaid will honor the tariff rates currently used by DEI. Staff has compared STi Prepaid's proposed tariff to DEI's tariff filed in its application for a CC&N in Docket No. T-0445A-01-0698 and confirmed that the rules and regulations, description of services, maximum rates and charges, and price list in STi Prepaid's proposed tariff matched the rules and regulations, description of services, maximum rates and charges, and price list contained in DEI's proposed tariff. There is no material difference between STi Prepaid's proposed tariff and DEI's proposed tariff. Staff was not able to locate any DEI tariff filed after the Decision date of April 25, 2003.

The Applicants' provided, in their Response to Staff Data Request JFB3-6, copies of the Federal Communications Commission's ("FCC") documents approving the acquisition of DEI's assets by STi Prepaid. The Wireline Competition Bureau has determined that grant of the STi Prepaid application to acquire the DEI's assets serves the public interest. According to the Applicants' application, the proposed transfer of DEI's assets to STi Prepaid and the cancellation of DEI's CC&N are in the public interest. The Applicants further stated that the proposed transfer of assets transaction will help to ensure that consumers continue to have a wide range of telecommunications services in the interexchange market. STi Prepaid, as an affiliate of Leucadia, will have access to public capital markets that will provide support for an expansion of services currently offered by DEI. STi Prepaid will have access to the telecommunications expertise of Leucadia which manages numerous other providers of telecommunications services through various subsidiaries. According to the Applicants, combining the existing experience of DEI with the financial backing of Leucadia will enhance STi Prepaid's ability to efficiently provide and expand STi Prepaid's services. The proposed transaction is not anticompetitive because, STi Prepaid will continue to provide the same services offered by DEI and there is no change in the number of service providers in the market. There are numerous other carriers in Arizona that offer similar services as DEI. Staff believes that approval of the transfer of DEI's assets to STi Prepaid and the cancellation of DEI's CC&N is in the public interest.

Consumer Services Section of the Utilities Division reports that there have been no complaints, inquiries, or opinions filed against STi Prepaid or DEI from January 1, 2005 through May 19, 2008. Also, Consumer Services states that the Corporations Division reported that STi Prepaid and DEI are in good standing.

According to the Compliance and Enforcement Section of the Utilities Division, DEI was ordered to procure a \$10,000 performance bond and file a conforming tariff in Decision No. 65861 dated April 25, 2003. No performance bond and no tariff were filed by DEI after April 25, 2003, the date of Decision No. 65861. As a result, DEI has not complied with the conditions contained in Decision No. 65861. Should the Commission approve the transfer of DEI's assets

and cancellation of DEI's CC&N, there is no need for DEI to procure a performance bond or file conforming tariffs.

Staff Recommendations

Staff has reviewed STi Prepaid's Application for a Certificate of Convenience and Necessity to offer interexchange services as a reseller and STi Prepaid's petition to classify its interexchange services as competitive. As a result of the investigation by Attorney General of the State of Florida, STi Prepaid was one of nine participants that agreed to the settlement offered by the Attorney General's Office. Staff is aware that there are three pending lawsuits against STi Prepaid that involve alleged deceptive practices and advertising of phone calling cards. According to the PUCs contacted by Staff, the State of Florida was the only state where customers filed phone cards complaints against STi Prepaid. In 2006 and 2007, five phone card complaints were filed against STi Prepaid. During 2006 and 2007, STi Prepaid sold over 93 million prepaid phone cards in Florida. Consequently, the number of customer complaints compared to the number of cards sold to consumers is insignificant. Staff believes that STi Prepaid has the customer service capability and financial resources to provide the proposed services. In addition, STi Prepaid should agree to comply with the general terms and the advertisement and disclosure compliance, voice prompt compliance, network access numbers, and customer service compliance items listed in attached EXHIBIT A, which are similar to the conditions STi Prepaid agreed to comply with in its AVC Agreement with the State of Florida. As a result, Staff recommends approval of the Application.

In addition, Staff further recommends that:

1. STi Prepaid should be ordered to comply with all Commission rules, orders, and other requirements relevant to the provision of intrastate telecommunications service;
2. STi Prepaid should be ordered to cooperate with Commission investigations including, but not limited to customer complaints;
3. STi Prepaid should be ordered to participate in and contribute to the Arizona Universal Service Fund, as required by the Commission;
4. STi Prepaid should be ordered to notify the Commission immediately upon changes to STi Prepaid's name, address, and/or telephone number;
5. STi Prepaid's intrastate interexchange service offerings should be classified as competitive pursuant to A.A.C. R14-2-1108;
6. The maximum rates for these services should be the maximum rates proposed by STi Prepaid in its proposed tariffs. The minimum rates for STi Prepaid's

competitive services should not be less than STi Prepaid's total service long run incremental costs of providing those services as set forth in A.A.C. R14-2-1109;

7. The rates proposed by this filing are for competitive services. In general, rates for competitive services are not set according to rate of return regulation. Staff obtained information from STi Prepaid and has determined that its fair value rate base is zero. Accordingly, STi Prepaid's fair value rate base is too small to be useful in a fair value analysis. Staff has reviewed the rates to be charged by STi Prepaid and believes they are just and reasonable as they are comparable to several distance carriers operating in Arizona and comparable to the rates STi Prepaid charges in other jurisdictions. Therefore, while Staff considered the fair value rate base information submitted by STi Prepaid, the fair value rate base information provided should not be given substantial weight in this analysis;
8. In the event STi Prepaid requests to discontinue and/or abandon its service area it must provide notice to both the Commission and its customers. Such notice(s) shall be in accordance with A.A.C. R14-2-1107; and

Staff recommends that STi Prepaid be ordered to comply with the following. If it does not do so, STi Prepaid's CC&N shall be null and void after due process.

1. The STi Prepaid shall file conforming tariffs with Docket Control, as a compliance item in this matter, within 365 days from the date of an Order in this matter or 30 days prior to providing service, which ever comes first, and in accordance with the Decision.
2. In order to protect STi Prepaid's customers, STi Prepaid shall:
 - a. Procure performance bond or irrevocable sight draft Letter of Credit equal to \$10,000. The minimum bond or draft amount of \$10,000 should be increased if at any time it would be insufficient to cover advances, deposits, and/or prepayments collected from STi Prepaid customers. The bond amount or draft amount should be increased in increments of \$5,000. This increase should occur when the total amount of the advances, deposits, and prepayments is within \$1,000 of each bond or draft amount; and
 - b. File the original performance bond or irrevocable sight draft Letter of Credit with the Commission's Business Office and copies of the performance bond or irrevocable sight draft Letter of Credit with Docket Control, as a compliance item in this docket, within 30 days of the effective date of a decision in this matter. The original performance bond or irrevocable sight draft Letter of Credit must remain in effect until further order of the Commission. The Commission may draw on the

performance bond or irrevocable sight draft Letter of Credit, on behalf of, and for the sole benefit of STi Prepaid's customers, if the Commission finds, in its discretion, that STi Prepaid is default of its obligations arising from its Certificate. The Commission may use the performance bond or irrevocable sight draft Letter of Credit funds, as appropriate, to protect STi Prepaid's customers and the public interest and take any and all actions the Commission deems necessary, in its discretion, including, but not limited to returning prepayments or deposits collected from STi Prepaid's customers; and

- c. If at some time in the future, STi Prepaid does not collect from its customers an advance, deposit, and/or prepayment, Staff recommends that STi Prepaid be allowed to file a request for cancellation of its established performance bond or irrevocable sight draft Letter of Credit regarding its resold interexchange service. Such request should be filed with the Commission in this docket for Staff's review. Upon receipt of such filing and after Staff's review, Staff shall prepare an order, with a recommendation for the Commission's consideration at an open meeting; and
3. In order to protect STi Prepaid's customers from any potential deceptive practices relating to the manufacturing, advertising, promoting, selling, distributing or providing telecommunications services for prepaid phone calling cards in Arizona, STi Prepaid shall:
 - a. Procure a second performance bond or irrevocable sight draft Letter of Credit equal to \$10,000. The minimum bond or draft amount of \$10,000 should be increased if at any time it would be insufficient to cover advances, deposits, and/or prepayments collected from STi Prepaid customers. The bond amount or draft amount should be increased in increments of \$5,000. This increase should occur when the total amount of the advances, deposits, and prepayments is within \$1,000 of each bond or draft amount; and
 - b. File the original performance bond or irrevocable sight draft Letter of Credit with the Commission's Business Office and copies of the performance bond or irrevocable sight draft Letter of Credit with Docket Control, as a compliance item in this docket, within 30 days of the effective date of a decision in this matter. The original performance bond or irrevocable sight draft Letter of Credit must remain in effect until further order of the Commission. Three years after the effective date of the Decision in this matter, Staff recommends that STi Prepaid be allowed to request for cancellation of its second \$10,000 performance bond or irrevocable sight draft Letter of Credit. Any request for cancellation shall

be filed in this docket and reviewed by Staff. Staff shall determine, in light of STi Prepaid's performance during the three years, whether cancellation of the performance bond or irrevocable sight draft Letter of Credit is in the public interest and shall prepare an order, with a recommendation as to that issue, for the Commission's consideration at an open meeting.

4. That STi Prepaid honor all outstanding and unused prepaid calling cards issued by DEI.
5. That DEI publish legal notice of its Application to cancel its authority to provide resold interexchange services and transfer its assets to STi Prepaid. A copy of the legal notice and an Affidavit of Publication should be filed with the Compliance and Enforcement Section as proof that STi Prepaid complied with the Commission's legal notice requirements within 30 days from the date of a Decision in this matter. Upon cancellation of its CC&N, DEI will no longer be authorized to provide resold interexchange telecommunications services in Arizona and therefore, will not be subject to the requirements of Decision No. 65861.
6. As a condition in granting authority for STi Prepaid to provide resold intrastate long distance services that STi Prepaid comply with the general terms and the advertisement and disclosure compliance, voice prompt compliance, network access numbers, and customer service compliance items listed in attached EXHIBIT A.

Staff has reviewed DEI's application to transfer its assets to STi Prepaid and to cancel its CC&N authority to provide interexchange services as a reseller. Staff recommends approval of DEI's application to transfer its assets to STi Prepaid and to cancel its CC&N authority to provide intrastate interexchange services as a reseller in Arizona. Upon cancellation of DEI's CC&N, DEI will not be authorized to provide resold interexchange telecommunications services in Arizona and therefore, will not be subject to the requirements of Decision No. 65861.

EXHIBIT A

As a condition of granting STi Prepaid a Certificate of Convenience and Necessity or authority to provide resold intrastate long distance, STi Prepaid shall comply with the following:

GENERAL TERMS

1. STi Prepaid and its parents, subsidiaries, affiliated entities, partners, successors, assigns, and any person or entity through which they do business and each of its respective officers, directors, agents, servants, employees, distributors, and attorneys, and those other persons or entities in active concert or participation with them who receive actual notice of this Agreement by personal service or otherwise, are hereby permanently restrained and enjoined from:

- (a) Manufacturing, advertising, promoting, selling, distributing, or providing telecommunications services for Prepaid Calling Cards for which a voice prompt announces and informs a consumer of the number of minutes of telecommunications services available for a call UNLESS at the time of the voice prompt the consumer of the Prepaid Calling Card can actually receive for that call one hundred percent (100%) of the minutes of telecommunications services that have been announced on the voice prompt. Any number of minutes of telecommunications services announced by a voice prompt, as described in this subparagraph, must include within its calculation all relevant Per Call Fees and Periodic Fees that would apply for that call, if the consumer depleted the entire balance available for the Prepaid Calling Card on that call. For example a voice prompt that states "You have 200 minutes of call time available for this call, subject to fees and surcharges," would be a violation of this subparagraph; while a voice prompt that states, "After all applicable fees and surcharges, you have 200 minutes of call time available for this call," would be acceptable so long as the consumer could actually receive one hundred percent (100%) of the 200 minutes advertised by the voice prompt for a single call;
- (b) Advertising the number of minutes of telecommunications services and/or the Per Call Rate available to a consumer for a call with a Prepaid Calling Card to a destination referred to in any such Advertisement *unless* the consumer of the Prepaid Calling Card can actually receive one hundred percent (100%) of the minutes advertised on a single call to that destination, and any limitation on the dates for which the minutes and/or Per Call Rates advertised or promoted in the Advertisement are available to the consumer is clearly and conspicuously displayed in the Advertisement. Any advertised number of minutes of telecommunications services, as described in this subparagraph, must include within its calculation all relevant Per Call Fees and Periodic Fees, with the exception of Pay Phone Fees, fees for calls originating outside the continental United States, and/or fees assessed for calls utilizing STi Prepaid' access numbers, that would apply for a single call to the advertised destination. If STi

Prepaid assesses any Pay Phone Fees, fees for calls originating outside the continental United States, and/or fees for calls utilizing STi Prepaid's access numbers, then STi Prepaid shall disclose said fees pursuant to the terms and conditions in subparagraph 1(c).

- (c) Advertising in print advertisements the number of minutes of telecommunications services and/or the Per Call Rate(s) available to a consumer to a destination referred to in any such print Advertisement *unless* any price limitations are adjacent to the Per Call Rate advertised, in a legible font size, and clearly and conspicuously disclosed ; and
- (d) Advertising the number of minutes of telecommunications services and/or the Per Call Rate available to a consumer to a destination referred to in any such Advertisement *unless* the expiration date, if any, is clearly and conspicuously disclosed in the advertisement.

ADVERTISEMENT & DISCLOSURE COMPLIANCE

2. In connection with the advertising, selling, distributing, marketing, servicing, and promoting of any Prepaid Calling Cards or Prepaid Calling Service, STi Prepaid acknowledge and agree that they will observe the following policies and procedures regarding the purchase, development, production, review, and approval of advertising materials related to their Prepaid Calling Cards and Prepaid Calling Service:

- (a) STi Prepaid shall ensure that all products, marketing materials and advertisements clearly and conspicuously display all brand identification information;
- (b) STi Prepaid shall distribute, market, service, advertise, and/or promote Prepaid Calling cards with a stated value in U.S. Dollars or U.S. calling time;
- (c) STi Prepaid shall not advertise a Per Call Rate or a number of minutes available to call any location without also clearly and conspicuously disclosing the date of expiration, if any, for the Per Call Rate or available minutes;
- (d) STi Prepaid shall not advertise a Per Call Rate or a number of minutes available to call any location without also clearly and conspicuously disclosing any and all additional charges or costs incurred to the consumer and making such disclosures in accordance with Paragraphs 5 and 6;
- (e) STi Prepaid shall not charge percentage based fees, any derivative of a percentage based fee, or any surcharge resembling a tax in connection with any Prepaid Calling Card or Prepaid Calling Card Service;
- (f) STi Prepaid shall not charge for time-based services by the consumer/caller by more than one minute rounding increments;

- (g) STi Prepaid shall not advertise a Per Call Rate or number of minutes available to call any location without also clearly and conspicuously disclosing any and all limitations on that advertised Per Call rate;
- (h) If STi Prepaid advertise a Per Call Rate to a particular destination, any limitations on the applicability of that rate must be clearly and conspicuously disclosed, including but not limited to different rates and/or additional charges applicable using different access numbers, cell phones, pay phones, and any "1-800", "1-888" or "toll free" telephone numbers;
- (i) STi Prepaid shall not advertise "unlimited" Long Distance Call minutes or any derivative thereof in a manner that would induce a reasonable consumer into the belief that the Prepaid Calling Card will provide unlimited Long Distance Call minutes for each Long Distance Call made using the Prepaid Calling Card, unless no rate per minute or Per Call Fee is charged for use of the call, and any Periodic Fee or card expiration is clearly and conspicuously disclosed;
- (j) STi Prepaid shall not advertise "no connection fee" or any derivative thereof in a manner that would induce a reasonable consumer into the belief that no Per Call Fees will be assessed for placing a Long Distance Call, unless no Per Call Fees are assessed for placing a Long Distance Call; and
- (k) STi Prepaid shall not advertise "toll-free access" or any derivative thereof in a manner that would induce a reasonable consumer into the belief that toll-free access is at no additional charge, fees or higher rates in comparison to non-toll free access.

3. STi Prepaid shall clearly and conspicuously disclose the following information on all Prepaid Calling Cards:

- (a) The name of the prepaid calling service provider;
- (b) STi Prepaid's toll-free customer service telephone number(s) and the hours during which live operator service is available;
- (c) An access telephone number if required to access the Prepaid Service;
- (d) The authorization code of PIN if required to access the Prepaid Service;
- (e) The original balance of the card stated in U.S. currency of U.S. calling time;
- (f) Instructions informing consumers how to place Long Distance Calls utilizing the Prepaid Calling Card or Prepaid Calling Service; and
- (g) The expiration date or policy of the Prepaid Calling Card and Prepaid Calling Service.

4. STi Prepaid shall clearly and conspicuously disclose all material terms and conditions for use of a Prepaid Calling Card and their corresponding Prepaid Calling Service either on the Prepaid Calling Card or its Card Packaging, including without limitation the following items:

- (a) A list of any and all Per Call Fees, individually identified and enumerated in the same format, either U.S. dollars or U.S. calling time, for calls originating from the United States;
- (b) If the Prepaid Calling Card can be used for calls originating outside of the United States, notice that additional or different per minute rates, charges, fees, taxes or surcharges may apply to use of the Prepaid Calling Card or Prepaid Calling Service for calls originating outside the United States;
- (c) The procedure by which the consumer may obtain a refund if STi Prepaid's telecommunications network fails to operate in a manner that is commercially reasonable;
- (d) The procedure by which the consumer may add additional money to the balance of the Prepaid Calling Card or Prepaid Calling Service, if that service is available;
- (e) Notice if Per Call Rates are higher for calls made via toll-free access numbers than local access numbers, such notice to be in close proximity to the toll-free access numbers;
- (f) Any minimum charge per Long Distance Call;
- (g) Notice that Per Call Rates for calls made to international cellular destinations may be different than rates for calls to landline destinations; and
- (h) Any applicable policies relating to expiration, minute rounding and billing decrement.

5. STi Prepaid shall clearly and conspicuously disclose the information required by Paragraphs 3 and 4 on all posters and other point-of-sale Advertisements regarding a Prepaid Service.

6. STi Prepaid shall clearly and conspicuously disclose the information required by subparagraphs 3(a), (b) and (g) on all Advertisements for a Prepaid Card or Prepaid Service (other than point-of-sale materials which are covered by Paragraph 5).

7. If a Prepaid Calling Card or any point-of-sale Advertisement for a Prepaid Calling Card or Prepaid Calling Service is predominantly written in a language other than English, then the disclosures required by Paragraphs 3, 4 and 6, as applicable, shall be disclosed in that other language on the applicable Prepaid Calling Card (or the Card Packaging as

applicable) or point-of-sale Advertisement.

8. The amount of any Per Call Fee or Periodic Fee that is imposed, assessed, or deducted from a Prepaid Calling Card's value or balance shall be expressed and disclosed in the same format, either U.S. dollars or U.S. calling time, as the denomination of the Prepaid Calling Card.

9. STi Prepaid shall not debit from the balance of a Prepaid Calling Card any amount or value for a Long Distance Call if the Long Distance Call is not Answered or if the consumer receives a busy signal, a digital recording indicating that the call cannot be completed for any reason, or live telephone operator response indicating that the call cannot be completed for any reason.

VOICE PROMPT COMPLIANCE

10. STi Prepaid shall clearly and conspicuously disclose the current balance remaining on a Prepaid Calling Card, expressed in U.S. currency or U.S. calling time, via a voice prompt given to a consumer when the consumer accesses the Prepaid Calling Service before making a Long Distance Call.

11. STi Prepaid shall clearly and conspicuously disclose the accurately calculated amount of Long Distance Call time that is available for the current Long Distance Call from its inception until the call is disconnected due to insufficient balance remaining on the Prepaid Calling Card or Prepaid Calling Service via a voice prompt given to a consumer after the consumer dials the destination number. In order for the amount of Long Distance Call time announced by a voice prompt to be considered "accurately calculated," for the purposes of this paragraph, the calculated amount of Long Distance Call time announced by the voice prompt *must* include all applicable Per Call Fees and Periodic Fees that would apply for that call, if the consumer depleted the entire balance available for the Prepaid Calling Card on that call.

NETWORK ACCESS NUMBERS

12. STi Prepaid shall maintain network access numbers with sufficient capacity to accommodate a reasonable anticipated number of calls.

CUSTOMER SERVICE COMPLIANCE

13. STi Prepaid shall maintain a toll-free customer service number with sufficient capacity to accommodate a reasonable anticipated number of calls.

14. STi Prepaid shall provide customer service that is available twenty-four hours a day, seven days a week, through the toll-free customer service number.

15. STi Prepaid shall provide live operator customer service from at least 9 a.m. to at least 9 p.m. Mountain Standard time, through the toll free customer service number.

16. STi Prepaid may utilize a combination of live operators and interactive voice response, or digital voice recording of consumer inquiries or complaints, however, STi Prepaid shall provide live operator service as required in Paragraph 15.

17. If STi Prepaid choose to utilize interactive voice response or digital voice recording to accept consumer inquiries and/or complaints, then STi Prepaid shall make every reasonable effort to respond, to the extent necessary, to consumer inquiries and/or complaints within two business days from the time the consumer inquiry and/or complaint was received.

18. Live operators as provided for in Paragraph 15, shall be knowledgeable and able to advise consumers on how to place Long Distance Calls using STi Prepaid' Prepaid Calling Service and Cards, what current Per Call Rates apply, the amount and mechanics for all fees and surcharges that may apply to the consumer's requested call, and address consumer's concerns and complaints.

19. STi Prepaid shall issue refunds to consumers if the telecommunications network services associated with a Prepaid Calling Card or Prepaid Calling Service fails to operate in a commercially reasonable manner. Live operators, as provided for in Paragraph 15, shall receive and assist consumers with filing requests for refunds. Refunds, pursuant to this paragraph, shall be in an amount not less than the value lost on the Prepaid Calling Card due to the service's failure and shall be issued in the form of a replacement card, by crediting the lost amount to the Prepaid Calling Card's current balance, or a check in the amount equal to amount lost by the Prepaid Calling Card's failure to operate in a commercially reasonable manner. All refunds shall be provided to the consumer within seven to ten business (7-10) days from the date the operator received the consumer's initial complaint concerning the failure of the network service to operate in a commercially reasonable manner.

20. STi Prepaid shall offer consumers the ability to place calls to STi Prepaid's customer service number without being assessed any fee or other charge.