



■ ■ ■ Payphone  
■ ■ ■ Communication  
■ ■ ■ Alliance

## BRIEF BACKGROUND

### General

On February 8, 1996, the President signed into law the Telecommunications Act of 1996 ("Act"). Passage of the Act was critical to the future success and growth of the U.S. payphone industry. For decades, government regulation kept the price of a local payphone call artificially low.

Section 276 of the Telecommunications Act of 1996 was designed to level the playing field in the payphone industry to promote competition among all payphone service providers (PSPs), telephone companies and independents, and the widespread deployment of payphone services.<sup>1</sup> It requires that all PSPs be "*fairly compensated for each and every completed... call*" made from their payphones, and it gives the FCC the responsibility of ensuring *that this requirement is met*. This compensation requirement is particularly important since as much as one-half to two-thirds of long distance calls from payphones have shifted to dial around and toll-free calls.<sup>2</sup> Section 276 also directs the FCC to ensure that all payphone subsidies are eliminated.

### **FCC's First Set of Rules**

#### ***Per-Call Compensation Set at 35 Cents***

On September 20, 1996, the FCC adopted its first set of rules implementing Section 276 of the Act. It deregulated local coin rates in all 50 states, effective October 7, 1997, and it directed the local telephone

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<sup>1</sup> There are about 2 million payphones in the United States.

Approximately 80 percent are owned by local telephone companies or their affiliates. Independent payphone companies own the rest.

<sup>2</sup> "Access code," or "dial around" calls give the caller the ability to choose a particular long distance service (these include, for example, 10XXX, such as "10321," as well as 1-800-COLLECT and 1-800-CALLATT). Subscriber-800," or "toll-free," calls permit a caller to reach a toll-free number obtained from a long distance company ("800" or "888").

companies to eliminate payphone subsidies by April 15, 1997. For the first period - November 1996 to October 1997 - the FCC required that long distance companies with more than \$100 million in revenues pay each PSP a flat rate per phone, apportioned among long distance companies by market share. In the second 12-month period (which has already begun), when per-call tracking is widely available, the FCC initially set a compensation rate of 35 cents per call, the prevailing rate for local coin calls in states where the rate for such calls is not regulated. The FCC reasoned that a long distance company should ultimately negotiate with PSPs for a per-call compensation rate.

### **FCC's Second Set of Rules**

#### ***Per-Call Compensation Reduced to 28.4 Cents***

On July 1, 1997, the U.S. Court of Appeals for the DC Circuit remanded the payphone compensation rate to the FCC for further consideration. On October 9, 1997, the FCC adopted a second set of rules, reducing the per-call compensation from 35 cents per call to 28.4 cents, over the objections of the PSPs. The FCC again concluded that "a market-based rate best responds to the competitive marketplace for payphones consistent with the deregulatory scheme...pursuant to Section 276, and will also effectively advance the statutory goals of encouraging competition and promoting the deployment of payphones."

### **Long Distance Companies Raise Rates**

#### ***Using the FCC Rules as an Excuse to Overcharge Customers***

Several long distance companies have asked the FCC to reconsider its October 9 decision. A decision from the FCC is anticipated by the spring of 1998.

These long distance companies are challenging the FCC rules despite the significant reduction in the per-call rate from 35 cents to 28.4 cents (nearly 20 percent). In the meantime, the long distance companies have repeatedly raised their toll-free rates purportedly to cover payphone compensation, added per-call surcharges (to cover the same payphone compensation) and pocketed in excess of \$250 million in savings from the elimination of payphone subsidies.

*AT&T, for example, raised its 800 rates at least three times in 1997 to pay for the new compensation rate.*

- On February 27, AT&T raised rates for all toll-free calls by 3 percent and imposed a charge of 15 cents per call for business credit card calls.
- On May 1, AT&T raised its interstate toll-free rates by 7 percent and business international and interstate outbound services by 2 percent.
- On June 1, AT&T added another 35-cent per-call charge for operator handled calls, including calling card calls "to offset payments to payphone owners." This charge was reduced to 28 cents only after the FCC reduced the per-call charge in October 1997. The new 28 cent per call surcharge was expanded to include toll free calls.

*MCI and Sprint have repeatedly raised their rates as well.*

- *MCI raised its 800 rates twice in 1997, each time by more than three percent.*
- *Sprint also raised its 800 rates twice, by two percent in November 1996, and again by about five percent in 1997.*
- *MCI and Sprint also announced last year that they will impose \$0.30 per call surcharge for payphone use.*

Even though AT&T, MCI and Sprint announced per-call rate hikes to cover the 28.4 cents, none have rolled back the substantial across-the-board rate increases they made earlier, specifically to cover payphone compensation.

Finally, since April 15, 1997 the long distance companies have also pocketed in excess of \$250 million as a result of the elimination of payphone subsidies historically included in local telephone company access charges.<sup>3</sup> None of these savings have been passed on to consumers or to 800 service customers.

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<sup>3</sup> Access charges are the charges long distance companies pay to local telephone companies for the origination and termination of long distance calls on the local telephone network.



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Mountain View, California 94043  
Tel 415.961.9000  
Fax 415.961.5042

To: Jim Hawkins, Co-Chair of the Payphone Communications Alliance  
Vince Sandusky, Co-Chair of the Payphone Communications Alliance  
From: Brian Cotton  
Date: February 26, 1998  
Subject: Long-distance company commission savings

Dear Mr. Hawkins and Mr. Sandusky:

Please find attached a spreadsheet model depicting the long-distance companies' savings in commissions to Payphone Service Providers (PSPs) due to the shift from 0+ dialing to dial-around calling from payphones since 1993. This model assumes that the average number of 0+ calls from a payphone would have remained constant had the 1990 law which mandated equal access from payphones, not passed. Our conclusion is that the long-distance companies, industry-wide, have saved a minimum of \$371.5 million in commission payments in 1997 alone from paying less in commissions to PSPs, due to a shift from 0+ to dial-around calls from payphones.

The estimate of the number of payphones installed in the U.S. market (1993-1997) is based on Local Exchange Carrier (LEC) reports to the Federal Communications Commission (1,694,000 in 1997), and an estimate of the number of independent payphones and payphones from LECs not required to be reported to the FCC (529,000 payphones in 1997). Note that our results for the industry-wide commission savings are conservative, since we used a conservative estimate of the number of payphones from independent and non-reporting LECs.

To explain this model in more detail, we first estimated the average number of 0+ calls made from a payphone in a month in a given year (C1), and multiplied it by the average commission paid for each 0+ call (M). We then multiplied this monthly figure by 12 months, and multiplied this result by the estimated number of payphones installed in the U.S. market in a given year (Q) to arrive at the total payphone commission paid by the long-distance companies (TC1).

Next, we assumed that the 1990 law had not been enacted. We conservatively estimated that the average number of 0+ calls from payphones remained constant at 51.02 for the analysis period (C2), and calculated the total payphone commission paid by the long-distance companies had the 1990 law not passed (TC2).

Finally, to calculate the amount of payphone commissions that the long-distance companies saved each year since the 1990 law was enacted (Savings), we subtracted the actual commission payments (TC1) from the baseline commissions (TC2). Thus in 1997 alone, the long-distance companies saved \$371.5 million in payphone commissions.

To extrapolate from these figures, if the number of payphones installed continues to grow past 1997, the long-distance companies' savings should grow significantly.

Please do not hesitate to call me on my direct line (650-237-4315) if you have any questions about this material.

Sincerely,

A handwritten signature in black ink, appearing to read "Brian Cotton", with a long horizontal flourish extending to the right.

Brian Cotton

## Long Distance Company Commission Savings (since 1993)

Y	C1	C2	M	Months	Q	TC1	TC2	Savings
1997	16.20	51.02	\$0.40	12	2,223,000	\$172,860,480	\$544,403,808	\$371,543,328
1996	19.13	51.02	\$0.40	12	2,111,000	\$193,840,464	\$516,975,456	\$323,134,992
1995	25.21	51.02	\$0.40	12	2,056,000	\$248,792,448	\$503,506,176	\$254,713,728
1994	38.75	51.02	\$0.40	12	2,091,000	\$388,926,000	\$512,077,536	\$123,151,536
1993	51.02	51.02	\$0.40	12	2,032,000	\$497,628,672	\$497,628,672	\$0
<b>Key</b>								
Y = Year								
C1 = Average number of 0 + Calls made from Payphones each month								
C2 = Estimated average number of 0+ calls, if 1992 law had not passed								
M = Average Commission PIC pays to PSP for each 0 + Call, based on FCC imposed compensation of \$0.40 per call								
Months = # of Months in a Year								
Q = Number of Payphones installed in the U.S. in the given year								
TC1 = Total yearly Commissions PIC pays PSP for 0 + Calls								
TC2 = Total yearly commissions paid if 1992 law had not passed								
Savings = savings in compensation between baseline (TC2) and actual commissions (TC1)								



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To: Jim Hawkins, Co-Chair of the Payphone Communications Alliance  
Vince Sandusky, Co-Chair of the Payphone Communications Alliance  
From: Brian Cotton  
Date: February 26, 1998  
Subject: Impact of AT&T rate increases for payphone compensation

Dear Mr. Hawkins and Mr. Sandusky:

This memo is intended to present our analyses of the quantitative impact on AT&T of their rate increases to cover payphone compensation for dial-around and toll free calls. Our conclusion is that the rate increases allowed AT&T to gain approximately \$641.6 million in 1997. As you will see from this document, the rate increases were in effect for only part of the year in 1997, and whereas they were relatively significant, the figures for 1998 are likely to be even higher.

The methods by which we performed these analyses involved taking the public statements made by AT&T on January 21, 1998 about their rate increases, estimating AT&T's share of that market, and multiplying them to arrive at AT&T's annual expected revenue from that market prior to any of the announced rate increases. Next, we multiplied the rate increase by the revenue to arrive at an estimate of the annual added revenues from the rate increases. We then divided this annualized figure by 12 months to arrive at an average monthly figure for these added revenues, and then multiplied this monthly figure by the number of months in 1997 which were subject to the rate increases. We then added this figure to the expected revenue figure prior to the rate increases to arrive at the total 1997 revenue. The final calculation involved subtracting the pre-rate increase revenue from the total post-rate increase revenue to give us the quantitative impact of the rate increases on each service.

I will explain the impact of each rate increase, as generated by our analyses, below.

The first analysis, entitled "Total Toll Free Market," quantifies the gain AT&T would realize in 1997 from a 3 percent increase in toll free rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Total Toll Free section, shows that AT&T would gain \$160.6 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for toll free including both pre- and post-increase revenues.

The second analysis, entitled "Business Calling Cards," quantifies the gain AT&T would realize in 1997 from a \$0.15 per call increase in business calling card rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Business Card section, shows that AT&T would gain \$46.7 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business calling card calls including both pre- and post-increase revenues.

The third analysis, entitled "Business International," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in business international rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Business International section, shows that AT&T would gain \$57.0 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for business international including both pre- and post-increase revenues.

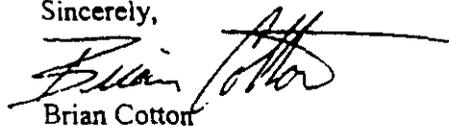
The fourth analysis, entitled "Inbound Interstate Toll Free," quantifies the gain AT&T would realize in 1997 from a 7 percent increase in interstate toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Inbound Interstate Toll Free section, shows that AT&T would gain \$239.8 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for inbound interstate toll free including both pre- and post-increase revenues.

The final analysis, entitled "U.S. Business Interstate Outbound Long Distance Service," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the U.S. Business Interstate Outbound Long Distance Service section, shows that AT&T would gain \$137.5 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business interstate outbound long distance including both pre- and post-increase revenues.

Please note that we found AT&T's statements to be unclear for the final analysis, in that one could read the statement "...prices for business international and interstate outbound services by 2 percent (point #5 of the release)," in two ways. The increases could be construed to apply to all interstate outbound services (business plus residential), or it could be read to apply to only business outbound interstate services. We chose a conservative approach by focusing the analysis on only the business outbound interstate interpretation. Including the residential segment with this analysis would increase AT&T's gains significantly.

Please do not hesitate to call me on my direct line (650-237-4315) if you have any questions about this material.

Sincerely,



Brian Cotton

## Impact of ATT rate increases for payphone compensation (1997)

Total Toll Free Market (1)		AT&T Share	AT&T revenue	Rate Increase	added revenues	Ave. monthly revenues	Total AT&T	1997 Gains
Year	Market Size	(est)		(%)		(post increase)	toll free revenues	
1997	\$ 12,350,000,000	0.52	\$ 6,422,000,000	0.03	\$ 192,660,000	\$ 18,055,000	\$ 6,582,550,000	\$ 160,550,000
Business Calling Cards (2)		AT&T Share	AT&T business	Rate Increase	ave. monthly revenues	total revenue increase	Total market revenues	AT&T business card
Year	Market Size (calls)	(est)	calling card calls	(per call)	(due to increase)	(after rate increase)		revenues (post-
1997	868,500,000	0.43	373,455,000	\$ 0.15	\$ 4,668,188	\$ 46,681,875	\$ 5,060,000,000	increase)
								1997 Gains
							\$ 2,222,481,875	\$ 46,681,875
Business International (3)		AT&T Share	AT&T revenue	Rate increase	added revenues	Ave. monthly revenue	Total AT&T business	1997 Gains
Year	Market Size	(est)		(%)		increase	international revenues	
1997	\$ 8,730,000,000.00	0.49	\$ 4,277,700,000	0.02	\$ 85,554,000	\$ 7,129,500	\$ 4,334,736,000	\$ 57,036,000
Inbound Interstate toll-free (4)		AT&T Share	AT&T revenue	Rate increase	revenue increase	Ave monthly increase	Total AT&T inbound	1997 Gains
Year	Market Size	(est)		(%)			interstate	
1997	\$ 9,880,000,000	0.52	\$ 5,137,600,000	0.07	\$ 359,632,000	\$ 29,969,333	\$ 5,377,354,667	\$ 239,754,667
U.S. Business Interstate Outbound Long Distance Services (5)		AT&T Share	AT&T revenue	Rate increase	AT&T rev increase	Ave monthly increase	Total business interstate	1997 Gains
Year	Market Size	(est)		(%)			outbound revenues	
1997	\$ 23,178,720,000	0.445	\$ 10,314,530,400	0.02	\$ 206,290,608	\$ 17,190,884	\$ 10,452,057,472	\$ 137,527,072
Notes							<b>Total AT&amp;T Gains in 1997</b>	
(1) The AT&T rate increase was announced on 27 Feb 97. 10 months are assumed to be affected.							<b>\$ 641,549,614</b>	
(2) The AT&T rate increase was announced on 27 Feb 97 Market sizing. A business card call is equivalent to one 5 minute call								
(3) Business international rates increases effective 1 May 97								
(4) Inbound interstate toll free revenues are assumed to be 80 percent of the total toll free market revenues in 1997 increases effective 1 May 97								
(5) Rate increases effective 1 May 97 Business interstate outbound long distance services account for approximately 43% of total market AT&T's market share for business long distance services is less than residential share								



**B**

**EXHIBIT 3 TO  
EXCERPTS FROM COLORADO  
PAYPHONE ASSOCIATION  
PETITION FOR RECONSIDERATION**

## DICKSTEIN SHAPIRO MORIN &amp; OSHINSKY LLP

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RECEIVED

MAR 17 1998

March 16, 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARYVIA COURIER

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

EX PARTE  
PRESENTATIONRe: CC Docket No. 96-128

Dear Ms. Salas:

On March 13, 1998, the undersigned counsel and co-counsel of this law firm, on behalf of the American Public Communications Council, Inc. ("APCC"), met with Commissioner Gloria Tristani, Paul Gallant, Legal Advisor to Commissioner Tristani, and Greg Lipscomb and Jennifer Myers of the of the Common Carrier Bureau's Enforcement Division.

During the meeting, we presented an historical overview of payphone regulation to date. Our discussions were limited to matters related to payphone regulation from an historical perspective, and the information contained in the presentation materials enclosed herewith.

If you desire any further information, please contact the undersigned.

Sincerely yours,



Albert H. Kramer

AHK/rw

Enclosure

cc: Gloria Tristani  
Paul Gallant  
Greg Lipscomb  
Jennifer Myers

# **A History of Payphone Compensation**

**Presented by  
the American Public  
Communications Council**

**Annual Cost of Payphone Compensation for Dial-Around Calls**

- o Using the Commission's conservative, somewhat out-of-date average of 131 dial-around calls per payphone per month multiplied by 28.4¢ per call, yields \$37.20 per payphone per month
- o \$37.20 multiplied by the 12 months of the year is \$446.45
- o For the approximately 2.223 million payphones nationwide, annual compensation is approximately \$992 million ( $\$446.45 \times 2,223,000$  payphones)
- o Using 152 dial-around calls per payphone per month, as proposed by APCC, the total cost of annual compensation would be approximately \$1.15 billion

*Corresponds with Slides 36 - 37*

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM?  
(continued)

**Recovery Method #1:**      **Raise Rates**

- o The IXCs, most notably AT&T, MCI, and Sprint have raised their rates for subscriber 800 and some interstate and international services
- o These rate increases were, as acknowledged by the carriers themselves, a specific response to the Payphone Orders
- o Calculations performed by Frost & Sullivan, based on AT&T public statements, valued these rate increases, for AT&T alone, at \$642 million in just 1997 (annualized to about \$900 million)

**Recovery Method #2:**      **Pay Less in Access Charges**

- o The Commission's rules terminated all subsidies for payphone operations, which has amounted to a payphone-specific reduction in access charges paid by IXCs to LECs of over \$250 million
  - This reduction is distinct from reductions associated with CC Docket No. 96-262
- o Additional subsidies were terminated at the state level
- o The IXCs have not passed on any portion of these significant intrastate and interstate access charge cost reductions on to their customers, which is contrary to the pledge they made in the Commission's access charge reform proceeding

*Corresponds with Slides 38 - 39*

**Recovery Method #3:**      **Savings in Commissions Due to**  
**Migrating 0+ Traffic to Access Code Calls**

- o Pursuant to individual contracts, IXC's pay commissions to PSPs for 0+ calls
  - The Commission estimated in 1992 that AT&T's average commission payment on a 0+ call was about 40¢
- o IXC's have trained their customers to dial an access number to reach the carrier (such as 1-800-CALL-ATT), even when the payphone is already presubscribed to the same carrier
  - Dialing-around by callers allows the carrier to bypass 0+ commission payments, which reduces its overall costs for payphone-originated calls
- o In 1993, according to APCC data, the average IPP *originated 51 commissionable 0+ calls*
- o By 1997, the same data show that this IPP average had *fallen to 16 commissionable 0+ calls!*
  - This *69 % reduction in commissionable 0+ calls* has dramatically lowered an IXC's costs -- directly out of the pockets of the PSPs
  - The monthly 35 call shortfall at each payphone translates into *annual 0+ commission savings for the IXC's of approximately \$372 million!*
- o Once again, the IXC's have not passed on these savings to their customers

*Corresponds with Slides 40 - 41*

<sup>1</sup> 35 calls per month x 40¢ per call x 12 months of the year x 2.223 million payphones = approximately \$372 million

**WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM.  
(continued)**

**Recovery Method #4:      Impose Per-Call Surcharges on Callers and Subscribers**

- o Almost all of the IXCs place a surcharge on callers who originate calls from payphones and on 800 subscribers who receive such calls
- o The amount of these surcharges often exceeds the 28.4¢ per call default rate established by the Commission
  - At present, IXCs can track all dial-around calls (with "27" ANI coding digits) from 60% of payphones
  - IXCs can also track all access code calls (which are roughly one third of all dial-around calls) from the remaining 40% of the payphones
  - Thus, IXCs can currently track about 70% of all dial-around calls and are passing on the per-call compensation costs for these calls directly to the end users in the form of a surcharge
  - Once the ANI coding digit waivers expire, IXCs should be able to track all, or virtually all, dial-around calls and will impose a surcharge for them

*Corresponds with Slides 42 - 43*

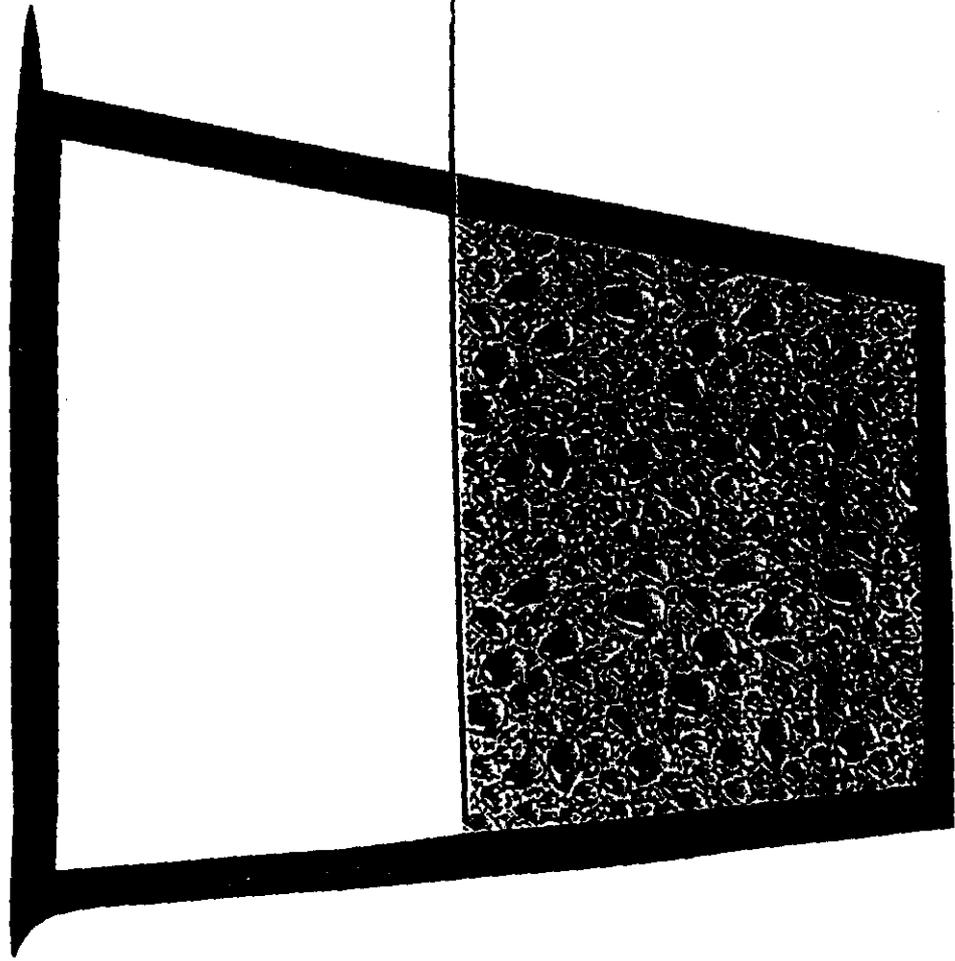
**WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM?**  
**(continued)**

**Quadruple Dipping?**

- o *These four strategies to recover the costs of payphone compensation have been applied by the IXCs simultaneously*
- o "Quadruple dipping" by the IXCs has netted far more than the "costs" of payphone compensation payments to the PSPs
- o Despite their claims of financial injury, the IXCs have converted the payphone compensation mechanism as an opportunity to *increase* their revenues

*Corresponds with Slide 44*

# **BREAKING EVEN**



**By recovering \$992 million dollars per year, the IXCs break even on payphone costs.**

# THE IXCS' CUP RUNNETH OVER

IXCs impose per-call surcharges on access code callers and 800 number subscribers for calls originated by payphones. Once ANI II digits are fixed, this alone is full recovery of the cost of dial-around. Currently, recovery is at \$694 million

\$1.26 billion

\$592 million  
(break-even point)

In response to FCC's payphone orders, IXCs imposed selected across-the-board rate increases explicitly to compensate payphone providers. AT&T alone recovered \$642 million in 1997 from rate increases on toll-free, business long distance and credit card calls.

\$622 million

The elimination of intrastate & interstate subsidies for LEC payphone services results in a payphone-specific reduction in access charges paid by the IXCs, for a total savings of over \$250 million per year.

\$372 million

By shifting 0+ traffic to access code calls, the IXCs save \$372 million per year in commissions paid to PSPs.

**The IXCs are recovering far more than the \$992 million cost of payphone compensation.**



**ATTACHMENT 3 TO  
APCC EX PARTE LETTER OF  
APRIL 15, 2002  
RE STANDARDS FOR GRANTING  
RETROACTIVE TRUE-UPS:**

## GOING, GOING...GONE

Wireless options crowding out pay phones, leaving some people without a dial tone to depend on

By JAMES A. FUSSELL - *The Kansas City Star*

Date: 09/19/01 22:15

In the first Superman movie in 1978, Christopher Reeve signaled a major change in American life when he tried to locate a phone booth in which to change, only to find an open-air pay phone with no booth in sight.

Gee, where'd all the phone booths go?

More than 20 years later, another change is looming on the communications horizon. Today it's the pay phone itself that's in danger of disappearing.

That's not to say pay phones aren't still around. In fact, after the attack on the World Trade Center, people with malfunctioning cell phones had no choice but to use a pay phone to call home or file news reports. But the downward trends aren't very encouraging. Major providers have raised the price of a pay phone call to 50 cents. There are still 2.2 million pay phones in the United States, but that's down more than 15 percent from 2.6 million in 1998.

"That's a real hemorrhaging," said Robert Thompson, professor of media and popular culture at Syracuse University. "And with the penetration of cell phones you figure that it's just going to (keep going) exponentially."

Earlier this year Bell South decided it didn't like the financial ring of the pay phone business. It put its 143,000 pay phones on the block, abandoning a wobbling business that once symbolized a strong America on the move. Now the only thing that's moving is Americans' fickle allegiances -- from pay phone to cell phone. In other words, ask not for whom the bell tolls, pay phones of America. It tolls for thee.

"We're only beginning to realize what a profound change this is," Thompson said.

"It really marks an absolute sea change in the way human existence and communications operate. The cell phone has finally made each human being a personal transmitter and receiver to anywhere on planet Earth. The implications of this go right down to how we tell a story. In *Lassie*, when somebody got stuck under a log, they needed a faithful canine companion to go get help. But with cell phone technology, you know, who needs *Lassie*? Who needs the cavalry? Who needs any of it anymore?"

Today you can even call from your computer.

Bart Bartolozzi, director of strategic development for Net2Phone Inc., the world's largest PC-to-phone company, said Net2Phone allows laptop users with a headset and microphone to make cheap calls from their computers to any phone in the country. The service works by compressing voice to data, then restoring that data to a voice. The first five minutes of such calls are free.

Vince Sandusky, president of the American Public Communications Council, the national trade association representing independent pay phone service providers, has seen a significant drop in pay phone business.

"In 1996 our members were seeing about 700 calls per phone per month," he said.

"Today that number is right around the 400 level."

But we can't let the industry die, he said.

"There are 51/2 million households that don't have phone service," he said. "Cell phones are wonderful. But two-thirds of the people, and only half of the households, have them. They rely and depend on pay phones exclusively. So that's

the big public policy question that is being asked today. Where do they go? And what do they do?"

Chandra Davis of Kansas City, Kan., who has used pay phones for decades to check on her kids, said she didn't know what she would do if she couldn't find a pay phone.

She can't afford a cell phone, she said.

"My friends can't either. It's not fair. If you're rich you don't worry about it. But I'm not rich. You know? So what am I going to do?"

Dave Baxter of Olathe carries a cell phone but doesn't want to see pay phones disappear either.

"I think pay phones serve a purpose," he said. "I used one the other day when I reached for my cell phone and the battery was dead. We can't just take them all out."

Dave Lindgren, president of Kansas City-based Coyote Call Payphones, agreed that "telephone companies are pulling pay phones like weeds."

But that doesn't mean they'll disappear.

"We expect them to continue to be used by low-income earners and at convenience stores and facilities where cell phones are banned," he said.

Lindgren hopes regulators will make changes that will help save the pay phone industry, such as requiring telephone companies to provide dial tones to independent pay phone operators at no cost as required in the Telecommunications Act of 1996.

"It hurts to have to say no to apartment complexes, charitable organizations, manufacturing plants and smaller stores that plead for pay phone service but have no hope of generating enough calls to make it work."

There is a difference of opinion over what the Telecommunications Act requires. The Federal Communications Commission is expected to issue a ruling on it this fall. In the next few years pay phones will become increasingly harder to find as wireless options become better and cheaper, said Imran Khan, a senior consumer analyst at the Yankee Group, a technology consulting company in Boston.

"They're really becoming cheap," Khan said. "You can go in and buy a pre-paid wireless phone now at some 7-Elevens."

And on the horizon? More competition for the beleaguered pay phone. Cheap disposable cell phones pre-loaded with 60 minutes of talk time that you'll soon be able to get at grocery stores and vending machines. When you're out of minutes you can either recharge the phones or throw them away. Most experts, however, say we're still several years away from seeing that technology widely available. Ironically, the same technology that imperils pay phones may ultimately help save them. Recently AT&T began installing Internet-enabled pay phones, devices that allow the public to access the Web through high-speed connections, send or check e-mail or hook up a laptop to a dataport as well as make traditional calls.

Internet-enabled pay phones have been installed in larger airports and some major buildings. One of the first places they were installed was in the former World Trade Center.

The beginning of the end for traditional pay phones? What does it all mean? Thompson, the pop culture professor, reflected.

"Pay phones had this really dramatic quality," he said. "You would be somewhere in the middle of the night, pouring rain, flat tire, and off in the distance you'd see a

pay phone. It was your haven, your oasis....Today if you're talking on a pay phone it almost marks you as lower class or technologically out of step." Experts say we are in a transition period, like the early 1900s, when some were driving cars while others rode horses. It won't take long for that to change. "Cell phones are the new pay phones," he said. "In the very near future a cell phone is going to be like a flashlight. If you're caught without one, it's your fault."