TRACFONE® wireless, inc.

Presentation to

Commissioner Deborah Taylor Tate

October 23, 2006

About TracFone Wireless

- TracFone is the nation's largest provider of prepaid wireless services, with over 7 million customers.
- TracFone does not own or operate telecom facilities but operates a "virtual network" using services of over 25 wireless carriers nationwide.
- This enables TracFone to serve customers in every state in the U.S., in virtually every location where wireless telecommunications is operational.
- TracFone is a subsidiary of American Movil SA, based in Mexico, which has over 110 million cellular customers throughout the Americas.
- Since 2002, TracFone has been active in Universal Service matters before the Commission and has advocated reforms which the Commission has implemented to enhance the stability of the Universal Service Fund (e.g., increasing the wireless safe harbor, encouraging expansion of the USF to include VoIP services).

About TracFone Wireless and the Prepaid Wireless Industry

- The prepaid wireless industry currently serves over 30 million Americans.
- Based on the number of customers served, today's prepaid industry is equal in size to the entire cellular industry in 1995.
- TracFone's prepaid wireless offerings appeal to low-volume and low-income consumers who cannot afford or qualify for conventional local telephone or wireless service plans
- Prepaid customers purchase airtime from retailers on a "pay-as-you-go" basis – there are no bills, contracts, term or volume commitments, and no termination penalties for prepaid.
- TracFone practices "truth-in-billing" – the advertised price is the actual price – no hidden taxes, "regulatory fees", deposits or penalties.

Communications Policy Issues
UNIVERSAL SERVICE REFORM

- Distribution of USF funds, especially high cost funds, needs to be reformed. Funds are being distributed in a wasteful, inefficient manner, and growth in the size of the USF (now at $7 billion per year) must be limited.
- A reverse auction approach has the potential to make universal service support more efficient by ensuring that USF funding goes to the providers who can provide service in high cost areas with the least amount of USF support.
- Universal Service support should be focused on need, not high cost. Where high cost support is necessary, it should be distributed in the most efficient manner.
- The Commission should address the distribution side of USF reform before considering changes to the contribution methodology

Communications Policy Issues
UNIVERSAL SERVICE REFORM

- A numbers-based contribution methodology would cause substantial cost increases for low volume, low income users and for the providers who serve them.
  - A numbers-based system would increase TracFone's monthly per customer contributions from about $0.10 to $1.00 or more. Even with the so-called "discount" proposed by CTIA, TracFone's USF costs would be increased to $0.50 per customer – more than 500%.
  - Other groups would be adversely affected, including colleges and universities, hospitals, small businesses, local governments.
  - Recent reductions in the contribution factor (from 10.5% to 9.1%) and the anticipated increases in USF support from the changes ordered by the Commission in June counsel against near-term change to the contribution methodology
  - Several major telecom companies, including Verizon and AT&T, have noted that prepaid wireless has unique circumstances which must be addressed in any change to USF funding rules.

Communications Policy Issues
Lifeline Support

- Lifeline – The Lifeline program remains underutilized with only about one-third of eligible low income consumers participating in Lifeline.
- The recently-concluded Katrina Lifeline program demonstrated how important such programs can be to persons in need. TracFone signed up about 25,000 customers under that program.
- TracFone calls on the Commission to approve TracFone's applications for ETC Lifeline designation in 8 states and to reverse the declining rate of households with local or wireless phone service.