

Card Distributors Agree to Pay \$2.25 Million as Part of FTC Crackdown on Fraud in the Prepaid Calling Card Industry

February 10, 2009

Major prepaid calling card distributors have agreed to pay [\\$2.25 million as part of a settlement to resolve Federal Trade Commission charges](#) that they made false claims to consumers about the number of minutes of talk time their prepaid calling cards would provide. The companies targeted their advertising at recent immigrants, who the FTC said depend on the cards to stay in touch with friends and family in other countries. The defendants' cards, which retail for \$2 to \$10, are sold through small retailers such as grocery and convenience stores, gas stations, and newsstands in Florida, Massachusetts, New Jersey, New Hampshire, and Rhode Island.

The settlement resolves [charges brought by the FTC last May](#) against Alternatel, Inc., Voice Prepaid, Inc., G.F.G. Enterprises, LLC, also d/b/a Mystic Prepaid, Voice Distributors, Inc., Telecom Express, Inc., and their individual principals, Nickolas Gulakos, Moses Greenfield, Lucas Friedlander, and Frank Wendorff. The Commission vote to approve the settlement was 4-0. The proposed settlement was filed in the U.S. District Court for the Southern District of Florida in Miami.

In its lawsuit, the FTC charged that the companies misled consumers about the number of minutes of talk time their prepaid calling cards provided. The FTC said its testing showed that consumers received only about half the advertised minutes. In addition, the FTC alleged that the defendants' cards carried hidden fees. For example, while the defendants' ads for their cards often prominently claimed "no connection fees;" they then failed to clearly disclose a host of fees, such as "hang-up" and "maintenance" fees and "destination surcharges" that could wipe out the value of the cards. Such fees were said to be disclosed in a font size that was too small and stated in confusing language. At the request of the FTC, shortly after the case was filed, the court issued a temporary injunction against the companies.

In addition to the payment of \$2.25 million, as part of the settlement announced today the defendants have agreed to a Consent Decree barring them from misrepresenting the number of minutes of talk time consumers will receive from prepaid calling cards, and requiring them to disclose any applicable material limitations, such as any fees or charges.

The settlement is part of an ongoing FTC crackdown on disclosures in the prepaid calling card industry. The [FTC has brought similar charges against Clifton Telecard Alliance](#), another major prepaid calling card distributor. The FTC has also established a joint federal-state task force concerning deceptive marketing practices in the prepaid calling card industry and has other active prepaid calling card investigations. So far, the FTC has limited its actions to card distributors and has not sought to challenge prepaid carriers themselves; carriers are exempt from FTC authority as they are regulated as common carriers by the FCC. In recent times, however, the FTC has expressed

frustration over the limitation on its powers and Congress has considered legislation to remove the common carrier exemption from FTC enforcement authority.