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A Future in Pay Phones? One Firm Answers the Call

By GREG BENSINGER

The pay-phone business has gotten so bad that public phones are disappearing at a rate of about 10% a year.

Thanks to the rise of the cellphone, there are only about 425,000 pay phones left nationwide, down from a peak of 2.2 million in 2000, according to the American Public Communications Council, a trade group representing many of the country's roughly 800 independent pay-phone operators.

That hasn't deterred Pacific Telemanagement Services. The little-known California company agreed earlier this month to buy nearly all of Verizon Communications Inc.'s remaining 50,000 pay phones, mostly in the Northeast. The companies declined to disclose terms of the agreement, which wasn't publicly announced.

While Verizon, the only offspring of Ma Bell still operating pay phones, is hanging up on the business as its returns dwindle, "We see a chance to profit off this," said PTS Chief Executive Thomas Keane. "There's a tremendous opportunity there."

PTS has built a business by snatching up unwanted pay phones at airports, Wal-Marts and 7-Eleven convenience stores. The Walnut Creek, Calif., company, which has 200 employees, operates roughly 44,000 pay phones in more than 40 states and processes 100 million calls annually. It also dabbles in gas-station air and vacuum machines.

"People tend to forget about pay phones, until their cellphone doesn't get a signal, until there's a natural disaster," Mr. Keane said. "We want to make sure there's a future with pay phones where Americans need them."

Mr. Keane said PTS hopes to keep most of Verizon's pay phones operating, though it will eliminate some of them, including some of Verizon's most-frequented phones on New York's underground subway platforms, where wireless signals mostly still don't reach.



The pay-phone business has gotten so bad that public phones are disappearing at a rate of about 10% a year. Now Verizon, the lone Baby Bell to still support payphones, is calling it quits. Greg Bensinger has details on Lunch Break.

The company plans to outfit other phones with touchscreens, credit-card readers or other applications. PTS views the pay phones as valuable real estate for selling temporary Internet access, advertising or for kiosks designed to market services to travelers.

Airports, truck stops, train stations and lower-income neighborhoods remain relative strongholds for pay phones.

"Basically anywhere you can ring up an average of about 100 calls per month, you can be profitable," said Willard Nichols, president of the pay-phone trade group. Verizon estimates it takes 150 monthly uses for a phone to turn a profit.

After the PTS sale, expected to close next month, New York-based Verizon will be down to just 4,000 pay phones, on New York City streets and at the Dallas-Fort Worth airport, down from a peak of more than 500,000, said Verizon spokesman Bill Kula.

The sale continues Verizon's strategy of enhancing and strengthening "those parts of the business that are growing while reducing or eliminating those parts of the business that are shrinking," said Mr. Kula.

The company doesn't break out results from its pay-phone business, which is part of its wireline unit. But that unit reported a 1.2% drop in revenue to \$20.4 billion for the first six months of this year. By contrast Verizon Wireless, the cellphone-service provider Verizon co-owns with [Vodafone Group PLC](#), logged a 10% increase in revenue to \$34.2 billion for the period.

Pay-phone use has been declining for years as Americans have eschewed the once-ubiquitous phones in favor of Web-enabled smartphones and other wireless devices. The number of wireless connections in the U.S. surpassed the number of people this year and that figure is only expected to rise.



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In the not-too-distant past, however, cellphones were playthings of the rich and famous—think Gordon Gekko's brick-sized Motorola DynaTac in the 1987 film "Wall Street"—and most other Americans had to either carry a quarter to call home or go begging for one. Clint Eastwood's mad dash through San Francisco from pay phone to pay phone in the 1971 movie "Dirty Harry" seems a quaint piece of nostalgia.

The Bells once commanded 75% of the nation's pay phones but sold or removed most of them. [Sprint Nextel Corp.](#) got out of the business in 2006 with its spinoff of Embarq and [AT&T Inc.](#) scrapped its pay-phone operations at the end of 2008.

Among other perils that lie ahead for pay phones, the New York City Metropolitan Transportation Authority has already rigged six subway stations with wireless service and plans to retrofit all 277 stations by 2016. This year Washington's Metro system said it would remove nearly all of the pay phones in its system—about 1,000—after failing to reach terms on a new contract with Verizon.