

**Before the
Department of Commerce
National Telecommunications and Information Administration
1401 Constitution Avenue, NW, Room 4713
Washington, D.C. 20230**

In the matter of)
)
Request for Comment and Notice of)
Proposed Rules to Implement and Administer) Docket No. 060512129-6129-01
A Coupon Program for Digital-to-Analog) RIN 0660-AA16
Converter Boxes)
)
)

To: Milton Brown, Office of the Chief Counsel, NTIA

COMMENTS OF STORED VALUE SYSTEMS, INC.

Stored Value Systems, Inc. (SVS) of Comdata Network, Inc., a wholly-owned subsidiary of Ceridian Corporation, a multinational information services company, hereby submits comments in the above-captioned proceeding.¹ As a proven performer in government information systems and a global leader in stored-value card solutions, SVS believes that it is in a unique position to assist the NTIA as it seeks to better understand the different issues, concerns and alternative approaches in defining the regulations to best implement the digital-to-analog converter box coupon program pursuant to the Digital Television and Public Safety Act of 2005 (the Act). In particular, as the NTIA compares the attributes between alternative approaches and solutions offered in the marketplace, we believe the NTIA will clearly come to the conclusion that through a public-private partnership, an item-specific, stored-value card solution will best meet the Coupon Program objectives stipulated, cater to the needs of various stakeholders, and mitigate the potential for waste, fraud, and abuse (WFA) in a cost effective manner.

We would emphasize the card-based solution proposed does NOT involve a bank-type debit card nor does it rely on retail employees to ensure a debit value is being used for a certified eligible box. To avoid the problems that surfaced with the cash oriented, bank-type cards after Katrina, the value stored and systematically enabled by the SVS proposed card is UPC item specific. Similar to the WIC (Women, Infants and Children) item-specific nutritional prescription and new cents-off, promotional card programs, the card and subsequent integrated scanning of the UPC of the purchased item at the point-of-sale provides systematic authorization to acquire only a certified, standard converter box.

¹ “Request for Comment and Notice of Proposed Rules to Implement and Administer a Coupon Program for Digital-to-Analog Converter Boxes,” Department of Commerce, National Telecommunications and Information Administration, Notice of Proposed Rulemaking, 47 CFR Chapter 3, Docket No. 060512129-6129-01, (July 25, 2006).

Unlike the less secure, open cash-value bank card systems, the SVS stored-value card authorization passes over a closed loop communication that is cheaper and more customized similar to gift and promotional cards that still leverage retailer existing investment in magnetic stripe readers and ECR/POS platforms, but submit the authorization request under an ISO standard, item-specific transaction set for centralized, on-line approval and recording. Household recipients will not be able to use the government provided benefits to purchase anything other than prescribed, certified converter boxes. Subsequent to the box purchases, retailers receive funds for redeemed coupons daily through the Federal Reserve ACH deposit system while the NTIA is able to monitor and track all activity real-time, including requested, issued (unused) and used coupon funds. Toward this specific program, the following comments are organized to address the specific proposed rules in each of the requested sections for comment.

A. Eligible U.S. Households

From an end-to-end service provider's perspective, clearly defining "U.S. household eligibility to participate" is critical in order to 1) determine the requirements necessary to verify consumer coupon requests for household eligibility and 2) dimension the peak service demands and period of service for the subsidy coupon program.

First, the Act stipulates that the "Assistant Secretary shall implement and administer a program through which households in the United States may obtain coupons that can be applied toward the purchase of digital-to-analog converter boxes." The Act does not appear to define the term 'household', other than under the Program Specifications it states that "a household may obtain coupons by making a request as required by the regulations,"² and "each requesting household receives, via the United States Postal Service, no more than two coupons."³ Referencing definitions of 'household' and 'housing unit' used by the U.S. Census Bureau, the NTIA proposes, "a 'household' consists of all persons who currently occupy a house, apartment, mobile home, group of rooms, or single room that is occupied as separate living quarters and has a separate U.S. postal address."⁴ The NTIA further proposes, "an eligible household address shall not be a post office box."⁵

The proposed rules would require potential service providers to assure that no more than two coupons be delivered to requesting households via U.S. Mail to a separate living quarters represented by a specific mail able, street address in the United States. The household name, under the proposed rules, could indeed consist of multiple persons that do not necessary share the same name. Service providers would need to diligently screen the mail able, street address line to prevent

²Title III-Digital Television Transition and Public Safety, Section 3005 (a), Digital-to-Analog Converter Box Program, of the Deficit Reduction Act of 2005, Pub. L. No. 109-171, 120 Stat. 4, 21 (Feb. 8, 2006).

³ Id. at Sec. 3005 (c)(1)(A).

⁴ "Notice of Proposed Rulemaking (7/25/2006)," Section II. A., Eligible U.S. Households, at www.ntia.doc.gov/ntiahome/frnotices/2006/couponprogram_nprm_07202006.htm.

⁵ Id.

duplicate requests from being fulfilled to the same living quarters. Under, Section C, the Application Process, the NTIA proposes that applicants be required only to submit: 1) name, 2) address, 3) the number of coupons they require, and 4) a certification that no other member of the household has or will apply for a coupon.⁶ Despite the latter certification, it would appear that service providers would also need to screen requests for names that may involve the same persons, but at separate mail able addresses. With only name and address information submitted, service providers are hampered in their ability to prevent duplicate requests. See further discussion under Section C, Application Process, on the many issues presented and our suggestion on a possible process to overcome these limitations while maintaining a balance between added administrative burden and exposure to waste, fraud and abuse (WFA).

One of the recognized challenges to the proposed household assistance was whether the NTIA should consider economic need in the eligibility requirements for coupons.⁷ In state Electronic Benefits Transfer (EBT) programs like Food Stamps or WIC, local administered clinics will use state software to certify eligibility and determine the proper benefits for applicants. Clinic workers, including workers assigned to visit applicants/recipients at their home or other place of care, will generally meet potential applicants or their authorized representatives face-to-face to properly identify applicants and determine and certify their eligibility for benefits. Included are processes of documenting and certifying eligibility requirements such as household identity, included participant members, income, resource, or other eligibility requirements. Once eligibility and qualifying benefits have been determined and approved for individual households and included participants, state clinic certification software will interface with EBT third-party processors like SVS to set-up household and member participant accounts for issuance of periodic benefits.

Because state systems differ, SVS offers its own Human Interface System (HUI) which is PC-based for state and local workers to set-up and maintain household and participant accounts real-time along with supporting immediate issuance of access cards including recipient PIN selection for additional benefit usage security. However, to support a more seamless flow at the clinics, states will often choose to integrate EBT functions into their clinic certification systems. With fifteen (15) years of experience supporting EBT programs, SVS' EBT solution includes an EBT Application Program Interface (API) that will allow state legacy systems to more easily interface or integrate with SVS' EBT solutions to set-up, communicate, activate, and maintain recipient accounts and benefits.

To the extent NTIA should choose to use the eligibility criteria of existing social service programs like Food Stamps, WIC or similar governmental assistance programs which include income-based eligibility criteria to define eligibility for a DTV subsidy program, current EBT processors like SVS have existing commercial

⁶ "Notice of Proposed Rulemaking (7/25/2006)," Section II. C., Application Process, p. 4.

⁷ Id. at Section II, A., Eligible U.S. Households, at p. 3.

off-the-shelf systems that facilitate either side-by-side, quick-get-ready-to-go solutions or flexible API-driven solutions to assure a more simple, integrated, and efficient process for state and local clinic staff. As noted in the GAO Testimony on May 26, 2005 addressing the challenges in administering a subsidy program for DTV equipment⁸, “it might be advantageous for the administering entity to leverage the expertise of state government agencies to assist with delivering the subsidy to low-income households.” While the testimony noted that “Food and Nutrition Service (FNS) officials said that state agencies that administer food stamps could provide a DTV subsidy to their recipients, an agreement would most likely have to be reached with each state and, in their view, the states should be paid for the costs they incur in doing so⁹.” Upon contact of four state agencies, GAO testimony indicated, “three of the four states told the GAO that such a program would be burdensome on their limited staff resources¹⁰.”

Tapping EBT processor commercial, off-the-shelf interface software to integrate and provide a DTV subsidy along with other governmental assistance would greatly ease the burden on clinic staff resources. As recently noted in feedback from staff in a Washington State Project¹¹, “As part of its ‘ready to go’ EBT solution, SVS offered screens for entering household and participant information. All of this information was already available in CIMS’ database. With Benefit Issuance integrated into CMS, CIMS/EBT added that data to the benefit issuance data and forwarded to the EBT Host as part of the Benefit Issuance event – a much simpler and efficient process for clinic staff.” Feedback in that project was gathered through an online survey and through an informal on-site interview with Washington clinic staff. Two of the key points identified from the clinic feedback included¹², “The demonstration was a positive experience for most clinic staff and they felt most clients liked WIC EBT.” Second, “Some staff felt that WIC EBT improved the clinic flow.”

Leveraging EBT processor commercial, off-the-shelf software to integrate and provide a DTV subsidy along with other governmental assistance will shorten required developmental time, lower developmental costs, and greatly reduces the deliverable risk for implementation of a DTV subsidy program ready to receive application requests by January 1, 2008. State social services certification systems, nevertheless, are quite complex and differ from state to state. Inexperienced service providers attempting to learn and develop interfaces or integrated solutions with state certification systems would be quite a daunting task and present NTIA considerable delivery risk and cost. Even for an experienced EBT service provider,

⁸ “*Digital Broadcast Television Transition, Several Challenges Could Arise in Administering a Subsidy Program for DTV Equipment*”, GAO-05-623T, released May 26, 2005, a testimony before the Subcommittee on Telecommunications and the Internet, Committee on Energy and Commerce, House of Representatives, p. 8.

⁹ Id. at p. 8.

¹⁰ Id. at p. 9

¹¹ “*Washington State Project Key Outcomes & Feedback Report*”, March 16, 2006, USDA, Food and Nutrition Service Online WIC EBT Demonstration, p. 142.

¹² Id. at p. 117.

performing interfaces with 50 states would prove challenging. A side-by-side system would be needed as a fall-back solution.

As noted in the GAO testimony¹³, “by using the receipt of an existing program benefit that is means tested, a new program could be effectively implemented without developing a means test specifically for that program.” However, as noted in that testimony, there are potentially several limitations or drawbacks to using existing programs. First, targeting households for a DTV subsidy based only to those already receiving other assistance might exclude intended households because “not all who are eligible for any particular program actually choose to apply for and receive benefits.”¹⁴ Second, while as suggested “combining the participants of several programs to establish eligibility might target a higher percentage of needy households, privacy concerns could prove to be a limitation of using existing social welfare programs to develop eligibility for a DTV subsidy due to agency prohibition from providing the list of recipients to any outside entity.”¹⁵ Third, a DTV subsidy would have to “take into account the high level of volatility of recipient rolls as people enter and leave such programs during the course of time to qualify for a DTV subsidy.”¹⁶

As agents of states, EBT processor rules and agreements have been established for state agencies to provide and for processors to protect the privacy of information on recipients receiving assistance. Policies and procedures have also been established and authorized regarding EBT processor retention of account records, account active status, purging of inactive accounts, and maintenance of account history. Such rules, policies, procedures, and guidelines could facilitate a DTV subsidy rulemaking process and offset some of the limitations noted above. Note should be made that EBT processor agreements are generally made on a state-by-state or sometimes regional basis and guidelines could and do differ, although Federal oversight and guidelines are also administered by Health & Human Services (HHS) and Food & Nutrition Services (FNS) that might serve as a bridge.

Another challenge related to eligibility noted in the afore GAO testimony¹⁷ was that “some stakeholders indicated that a DTV subsidy should be focused or limited to only those households that rely exclusively on over-the-air television.” Furthermore, while “over-the-air households are more likely to have lower income than those subscribing to cable or satellite,”¹⁸ “family income is not necessarily a good predictor of over-the-air reliance¹⁹.” As noted in various related studies,

¹³ Id. “Several Challenges Could Arise in Administering a Subsidy Program for DTV Equipment,” p. 10-11.

¹⁴ Id. at p. 10.

¹⁵ Id. at p. 11.

¹⁶ Id.

¹⁷ Id.

¹⁸ “*Digital Broadcast Television Transition, Estimated Cost of Supporting Set-Top Boxes to Help Advance the DTV Transition*,” p. 7.

¹⁹ Robert Kieschnick and B.D. McCullough, “*Why Do People Not Subscribe to Cable Television? A Review of the Evidence*,” (1998), available at: www.tprc.org/abstracts98/kieschnick.pdf, p. 4.

determining who the over-the-air television households are and limiting a DTV subsidy to only those in reliance poses a challenging task. Reference is made to the difficulty of “obtaining and merging information on nearly 90 million subscribers from over 1,100 cable and satellite companies operating throughout the country.”²⁰ As cited, subscriber churn, privacy, legal disclosure, customer sensitivity, and technical logistics pose major hurdles and a significant undertaking to construct a list of households evidenced as ‘not relying exclusively on over-the-air television at some agreed point of time’. Even if information could be released and obtained from the myriad of commercial cable and satellite providers, informational formatting poses yet another problem if indeed maintained and kept current in an automated state. See Section C, Application Process, comments regarding the challenges imposed by lack of address line standards.

With regard to our second concern, from released testimony, estimates on the number of U.S. households who may rely exclusively on over-the-air transmissions vary with legislative history indicating 14.86% of U.S. households and GAO testimony estimating 19% of U.S. households.²¹ Because identification of such households is difficult, the creation of a list may prove infeasible. Changing circumstances in the marketplace could also reduce this number substantially. As a potential administrator or service provider, accurately sizing and determining the parameters of the targeted coupon subsidy program are critical to planning an effective and efficient program for delivery of such subsidies.

The GAO estimates that 19% or 20.8 million households having an average of 2.1 televisions²² seeking up to a maximum of two coupons per household may exclusively rely on over-the-air transmission and become eligible for coupon subsidy. In contrast, reported estimates by the Federal Communications Commission (FCC) are that the number will drop to 7% (or 7.7 million households) by 2009.²³ In response to the RFI Question on “How many households is NTIA anticipating supporting,” NTIA’s Answer stated “legislation authorizes DoC to issue up to 22 million coupons, and possibly 37 million coupons with additional approval from Congress.”²⁴ Although family income was NOT necessarily found as a good predictor of over-the-air reliance,²⁵ these numbers could be substantially affected by issuance in the final rules of an income- or economic needs- based

²⁰“Several Challenges Could Arise in Administering a Subsidy Program for DTV Equipment,” p. 12.

²¹ Id. at “Notice of Proposed Rulemaking ((7/25/2006),” Section II. G., Consumer Education, at p. 8.

²² “Digital Broadcast Television Transition, Estimated Cost of Supporting Set-Top Boxes to Help Advance the DTV Transition,” GAO-05-258T, Testimony Before the Subcommittee on Telecommunications and the Internet, Committee on Energy and Commerce, House of Representatives, Released on February 17, 2005, p. 7 & 8.

²³ “Digital TV switch set for early 2009,” Anne Broache, May 24, 2006, as displayed on http://news.com.com/2102-1028_3-6004429.html.

²⁴Request For Information: Market Research For Implementation Of The Digital To Analog Converter Box Coupon Program, Questions and Answers, August 11, 2006, p. 6.

²⁵ “A Roadmap For Early Return of Public Television’s Analog Spectrum” by Andrew D. Cotlar, Association of Public Television Stations, Digital-Only Broadcasting, March, 2004, p. 13.

eligibility requirement. Conversely, the additional 34.5 million television sets²⁶ not connected to either cable or satellite, but possessed by households that subscribe to a multichannel television service, could prove both administratively and politically problematic when analog service is ceased. To the extent that household eligibility can even be legally restricted since there does not appear to be any reference in the limitations section of the statute to restrict eligibility of U.S. households²⁷, it is clear that service will nevertheless be disrupted for the latter households. Large numbers of households that do not indeed meet the self-certifications may still self-justify their eligibility and attempt to request coupons.

Recognizing that the number of requests for coupons may exceed the dollar amount provided by the Act even after the NTIA is authorized for additional funding, the NTIA proposed “valid coupon requests be fulfilled on a first-come, first-served basis until funds devoted to the program have been spent.”²⁸ Thus, not only are the parameters surrounding the number of households and coupons that must be serviced by the program difficult to dimension, but the period of service initially defined as eighteen months could be substantially cut short when funds are exhausted due to the ‘first-come, first-served basis’ proposal. Resultantly, critical “peak service demand levels” and “period of service performance” requirements lack necessary definiteness for the potential service provider to properly scope system performance demands.

Unless rules of household eligibility, funding limitations, and the period for eligible households to be assured that valid requests for coupon subsidy be fulfilled are resolved, it would appear that the Program’s stated objective, “that financial assistance for the purchase of a DTA converter box will be available to households relying on analog over-the-air broadcasting who will lose service after the digital transition,”²⁹ can not be assured. Furthermore, interested service providers will have to carefully assess potential large fixed and variable costs across indefinite levels of service demand. Finally, assuring financial assistance for available purchase of DTA eligible converter boxes requires manufacturers and retailers to see a ‘market’ for voluntary participation. Presumably, both manufacturers and retailers will volunteer to participate if household demand and subsidies meet profit margin requirements. The number of participating retailers and individual retail locations serviced will prove to be another critical system parameter. To assure that financial assistance will be available to households under the proposed financial constraints appropriated for the program, program parameters must be sufficiently certain for manufacturers, retailers and service providers to reasonably gauge what will be required. SVS believes the program is feasible; it just needs clear definition of the criteria for household eligibility and retailer certification determination.

²⁶ Id at p. 14, further referencing in footnote 62, *In the Matter of Annual Assessment of the Status of Competition in the Market for the Delivery of Video Programming*,” Comment of the National Association of Broadcasters, CS Docket 01-129 (Aug, 3, 2001).

²⁷ See Section 3005 (a)(1) and (c)(1) of the Act.

²⁸ “*Notice of Proposed Rulemaking (7/25/2006)*,” Section A, Eligible Households, p. 3.

²⁹ “*Request For Information: Market Research For Implementation Of The Digital to Analog Converter Box Coupon Program*,” NTIA, July 31, 2006 at p. 2.

B. Coupon Value and Use Restrictions

Under the proposed rules, NTIA invites comment on whether the NTIA should consider using an electronic coupon card instead of a paper coupon.³⁰ Based on the proposal, it appears that the NTIA is familiar with the common free-standing insert (FSI) paper coupon, but may be less informed about the growing popularity of alternative forms of coupons. First, the lines between what may be initially identified as paper and plastic coupons have become blurred. Second, how the information presented on a coupon is read, captured and validated upon presentment at retail point of sale may be less reflective on whether the coupon is paper or plastic, but more reflective on what kind of technology is used to perform the reading, capture and validation. Third, card-based programs are NOT constrained to bank debit card platforms, but now involve more secure, integrated retailer applications at the point-of-sale. Fourth, both paper and plastic based coupons may involve electronic clearing.

For current purposes, SVS comments will focus on contrasting traditional cents-off, paper coupons with standard coupon bar codes against stored-value, promotional, card coupons with magnetic-stripe coded technologies. First, today's magnetic-stripe type cards and carriers can take a variety of creative forms quite apart from the common viewed bank credit or debit card depending upon the targeted purpose. For example, magnetic-stripe cards are being creatively packaged for special occasions, holidays, gifts, rewards, promotions, or incentives ranging from the appearance of a common, yet personalized, greeting card to entitling the holder to a free new product sample. Graphics can include a photo and personalized message of the giver such as a recorded message or video, and may take the image and form of a micro-CD. Conversely, magnetic-stripe cards and carriers can be informative or look more like a glossy advertisement or miniature billboard. Promotional cards, for example, are targeted to increase recipient awareness of the attributes of a new product, guiding where the recipient can exchange the item-specific card for the promoted product, and motivating the recipient to quickly go out and obtain the product. Designs may feature the card as a 'snap-out' or 'pop-out' of the carrier or portable billboard for placement in the wallet with the original carrier pre-printed for direct U.S. postal mailing without requiring separate card and carrier assembling or envelope stuffing.

When presented at retail point-of-sale, instead of authorizing a specific amount for purchase by the cardholder, the magnetic-stripe card would seek authorization for an item-specific (UPC) or model/sub-model purchase by the cardholder consistent with the item presented by the consumer and scanned at the point-of-purchase retail check-out, whether scanned by a retail cashier or self-scanned by the consumer at a supervised, 'U-scan' counter. Thus, recipients of converter box, magnetic-stripe coupons would be able to present and obtain authorization for \$40 off the purchase

³⁰ "Notice of Proposed Rulemaking (7/25/2006)," Section B, Coupon Value and Use Restrictions, p. 4.

on only specific, standard boxes certified as eligible for DTA coupon subsidy. Furthermore, the issued magnetic-stripe cards would only permit up to two maximum coupons to be used per eligible household during the coupon subsidy program period. The issued coupons could be utilized only at certified, authorized retailers and coupon holders would be restricted from using two coupons in combination for the purchase of a single converter box.

Systematic procedures and controls could also be implemented to prohibit coupon holders from returning a coupon purchased box for cash refund or credit towards the purchase of another item. However, since the eligible determined household may still fall within his or her three-month coupon expiration period, coupon benefits could be loaded back onto his or her card to still allow the recipient to purchase a certified standard box. Similarly, coupon recipients who lose or have their coupon cards stolen could have the previous issued coupon deactivated and replaced without adding value (additional coupon issuance cost) to the overall system. Third, households approved for two \$40 coupons could elect to make one eligible box purchase at one retail location and a second eligible box purchase at another retail store a week later, as long as within the provided expiration period and qualified eligibility.

These added attributes provided by a stored value card approach were major positive consumer benefits when paper food stamps and WIC coupons were transitioned to electronic stored value cards. Under the previous paper coupons, recipients who lost or had their coupons stolen were often out of luck. Similarly, if the individual packaged quantity (ounces, etc.) of an item or number of items available on the retailer shelf of a WIC prescription at a retailer was less than what was issued and printed on the paper coupon to the recipient, the recipient lost access to the remaining unused benefits when submitting the paper coupon. In the electronic, stored value card world, the recipient retained the unused quantities in their WIC balances. Thus, under the social service programs, recipients were able to fully benefit from the intended assistance under a stored value card. They were no longer shorted nor prey to the limitations associated with paper coupons.

The technologies supporting card-based, item-specific coupon authorization at retail have rapidly evolved over the past decade, and more specifically over the past five years at the same time paper coupon acceptance have rapidly eroded. In the early nineties, as bank credit and debit card usage began to be accepted in the grocery industry, the USDA experimented with card-based technologies for replacement of paper coupons in the delivery of food stamp benefits. While such coupons could only be used to purchased eligible food stamp items, the benefits allotment were defined in terms of dollar value and relied on the cashier or retailer to determine whether the items be purchased were indeed consistent with the Programs intentions. First, despite initial fears that the benefit population might be apprehensive to utilizing card technology, research quickly confirmed that all stakeholders substantially preferred use of cards to previous paper coupons. With the preference, cost savings, enhanced audit trails, and reduce WFA, the electronic

delivery of food stamps has now rolled out across all fifty states. Despite the many advantages obtained, the latter systems do have some shortcomings. Since the banking industry or bank-oriented service companies drove the systems design and delivery to utilize their own bank debit or credit card association systems, they chose to not cater to some of the unique needs of the government-based programs that were not consistent with their own internal bank systems.

Early EBT programs were supported under two different card program approaches, magnetic-stripe and chip cards. SVS was actually the pioneer in the use of chip or smart cards for electronic delivery of food stamps that were first demonstrated and implemented in the state of Ohio. SVS was also the pioneer in the use of chip cards for the delivery of item-specific nutritional benefits under the Women, Children and Infants program commonly known as WIC for the more rural based states of Wyoming and Nevada. Unlike food stamps, which were dollar based, WIC prescriptions were UPC specific-based value in order to assure that approved item purchases met the prescribed nutritional requirements.

Like the proposed DTA coupon subsidy program, recipient eligible households were permitted to use the prescribed program benefits for only certified eligible items up to the maximum prescribed quantity. Eligible items were authorized as presented at the point-of-purchase during scanning of each item's UPC during check-out. Eligible WIC items were approved if there was sufficient item-specific coupon balance remaining, whereas, non-eligible WIC items were denied even though the item might have been similar in nature. For example, the eligible household might be permitted to purchase a gallon of skim milk, but denied the purchase of a gallon of 2% milk. Similarly, the household may be permitted the purchase of one brand of peanut butter, but denied the purchase of another brand because of the certified nutritional content. Therefore, under the DTA subsidy program, an eligible household would be permitted to use a \$40 coupon on one specific certified converter box, but denied use of the coupon on another converter box even though the same manufacturer made it because its features did not match the 'standard' certification criteria of NTIA.

Under the WIC program, retailers are not allowed to charge WIC recipients more for an item than other customers shopping at the store. However, WIC authorities establish maximum prices for each WIC item for which they will pay a participating retailer. These maximum prices paid will differ among retailers, and often are pegged based on the retailer type, i.e., an urban neighborhood corner market versus a suburban superstore or warehouse. Retailers are not permitted to charge WIC recipients for the difference; thus, retailers may receive a lower price after WIC reimbursement from WIC recipient purchases than the shelf-price received from non-WIC shoppers. SVS currently handles this in its code through use of maximum price tables. Additionally, in both instances, the price charged must be reduced by in-store promotions or by the presentation of manufacturer cents-off coupons. In the gift or promotional card world, SVS will often support in its terminal code what is known as a split tender transaction. In the latter situation, the balance remaining

or the promotional dollar off amount will be lower than the price of the item presented for purchase. After the gift or promotional card is presented, the terminal will then be programmed to prompt how the shortfall will be covered, which will often involve processing the remaining amount for payment via credit or debit card tender, as well as by cash or check payment.

For the DTA coupon subsidy, the Act³¹ states that the value of each coupon shall be \$40. The proposed rule acknowledges that the cost of the converter box may be greater than \$40³², but does not appear to address the situation if the cost should fall below \$40. Should the retailer receive \$40 for redemption of the coupon regardless of what it charges the consumer, or is the coupon good for 'up to \$40'? If the coupon is valued strictly at \$40, would the recipient be entitled to cash back if the standard converter box carried a shelf-price of \$35? What if a manufacturer chose to promote a converter box near the end-of-the-program that qualified under the program as an eligible standard box through issuance of \$10-off coupons, could a recipient of the \$40 coupon combine both for the purchase of a box with a listed shelf-price of \$45? Would the recipient be entitled to \$5 cash back or would the retailer be entitled to redeem both for a combined \$50? Will the \$40 coupon be restricted in terms of its use or value associated with other available promotions and how will these restrictions apply to the consumer recipient and the redeeming retailer? Some of our discussion with retailers suggested that boxes may well fall to the \$50 range at the beginning of the program. Faced with excess inventory at the end of the program, we believe retailers and manufacturers could well entertain lower pricing particularly if the number of coupon requests unexpectedly fell well below the NTIA published forecasts. We would therefore request that the final adopted rules specify on how to handle each of the indicated situations.

Until last fall, item-specific authorizations under the WIC program were performed strictly utilizing off-line technology using smart cards. Banks have always been hesitant to address the WIC system because of the information and item specific intensive discretion needed to properly perform the WIC prescribed nutritional benefits authorization. Rather than follow bank debit and credit card processes that involved authorization strictly of a total amount after all items have been entered at check-out, WIC required individual, item-specific authorization on an item-by-item basis determination within the total mixed basket purchase, and required editing individual item purchase shelf prices against individual item maximum prices payable by the government. Without these added edits at the item level, WIC benefit recipients would be able to circumvent the specific nutritional and maximum price limitations intended by the program. While governmental authorities were willing to rely on cashiers to assure that beer was not being purchased with food stamps, they were not willing to open up the far more restrictive WIC nutritional requirements to cashier non-systematic discretion. Furthermore, WIC prescribed benefits were specific to quantities on an item-by-item basis. Thus, unlike food stamps, which involved a total dollar value of

³¹ Id. at Section 3005(c)(4).

³² "Notice of Proposed Rulemaking," Section B, Coupon Value and Use Restrictions, p. 3-4.

exchangeable eligible food item purchases, WIC benefits did not authorize recipients to substitute the purchase of steak, or even milk, for prescribed baby formula purchase. With grocer card-based ECR/POS investments still in their infancy and to handle the additional transactional demands quickly at the customer check-out, customized chip card solutions offered the enhanced informational data and logic requirements. However, in the US, the entrenched bankcard networks held a foothold and cost advantage, and chip card platforms never evolved in the other payment arenas like they did overseas. US retailers invested in magnetic-stripe card based infrastructures and chip cards have never been able to obtain the same economies despite the enhanced security, data storage, and multiple program support capabilities. Magnetic stripe cards proved far more cost effective for most payment systems, while providing adequate levels of protection from waste, fraud and abuse.

Recognizing these cost advantages, in the fall of 2005, SVS successfully demonstrated the use of magnetic-stripe technologies in an on-line environment for the delivery of item-specific WIC items for the state of Washington. SVS will soon demonstrate an integrated retail solution for on-line delivery of WIC utilizing magnetic-stripe cards for the state of Kentucky, as another service vendor has been approved to roll-out on-line delivery of WIC in the state of Michigan. The significance of these developments parallels the growing acceptance at grocery stores of preference toward debit and credit card payment media. It was only in 2003 that Kroger disclosed that customer preference for use of debit and credit for payment of groceries exceeded 50% of customer transactions.³³ Grocers have since announced that debit and credit card usage is now accounting for 60-70% of their customer payment transactions.³⁴ Debit and credit cards in the United States are primarily magnetic-stripe card based.

Only a decade ago, SVS was also a pioneer in introducing magnetic-stripe cards as a replacement for paper gift certificates. Today, SVS is the industry leader in gift cards and will produce over 500 million magnetic-stripe gift cards in 2006 and record a billion transactions. This same technology has expanded over to loyalty-based card programs, to various programs for replacement of cash disbursement, and now into various promotional programs. While not all of the various paper coupon programs erosion are due strictly to magnetic stripe card technology, the driving factors tend to be the same: 1) lower cost, 2) reduced waste and fraud, 3) more timely and accurate audit trails, 4) improved program marketing and analytical information, and 5) increased satisfaction across various stakeholders.

As noted above, what makes magnetic stripe card technology so acceptable and preferable over competing technologies is that it allows retailers to leverage existing infrastructure investment in electronic cash registers (ECR), point-of-sale scanning, display and card readers, and communications networks. Furthermore, with the

³³ *"More Retailers Team Up Against Credit Card Fees,"* Convenience Store News, July 18, 2005, as reported at www.progressivegrocer.com.

³⁴ *Id.*

explosion of gift cards, retailers are able to tap the closed loop settlement vehicles of gift cards and avoid transaction authorization and settlement over high fee-based bankcard networks. Retailers often own their equipment and are not willing to pay the added heavy tolls associated with bankcard networks when they are unnecessarily restrictive and do not meet their needs. For mass merchandisers and major discounters that invested in magnetic stripe infrastructures nearly two decades ago with their private label card programs, these investments across multiple lanes located throughout their stores are substantial. In many cases, stores ECR/POS equipment have been updated in recent years to facilitate expanded service and inventory management needs. Nevertheless, standard bankcard transaction sets do NOT meet the informational, security and item-specific transactional needs of the DTA subsidy coupon program, anymore than previously described for WIC or now being targeted for loyalty, cents-off, or other promotional, item-specific programs.

While the standards for the new item-specific authorization transaction sets have or are just being agreed upon by the standard setting bodies, the cost to program another transaction set utilizing essentially the same API tools, communications connections, and audit tracking is small compared to the hardware and overall ECR/POS platform investment, particularly when spread out across hundreds or thousands of store locations. Furthermore, retailers will be able to utilize these same new transaction sets for other evolving commercial programs. Other government agencies may also find the new transaction sets attractive to disburse emergency program specific benefits to avoid the abuse and bad publicity following Katrina.³⁵ For example, instead of disbursing debit cards with cash value easily transferred to the purchase of non-intended items or services, (i.e., bad publicity associated with use of Katrina assistance to acquire New Orleans Saints tickets, lottery tickets, or even prostitution, etc.), agencies could disburse cards permitting specific item purchases ranging from ice to electric generators or flashlights and batteries.

Due to the average ticket size of consumer electronics purchases, the majority of consumer electronics purchases already occur utilizing magnetic stripe bankcards. Even small consumer electronics dealers and mom & pops retailers are bankcard equipped and trained, with communications lines, whether dial-up or Internet-based, wired at their check-out counters. With low-cost plug-and-play terminals, some retailers may even choose to implement a provided stand-beside solution that SVS has commercially available off-the-shelf, rather than add the item-specific authorization transaction set on the ECR/POS during the short-term DTA coupon subsidy period for smaller numbers of stores or TV department only channeled coupon acceptance. SVS is discovering that more and more small retailers are demanding sophisticated gift card programs, which can now be delivered to the mass market cost effectively. Most of the consumer electronics retail communities

³⁵ *“Hurricane Katrina and Rita Disaster Relief: Improper and Potentially Fraudulent Individual Assistance Payments Estimated Between \$600 Million and \$1.4 Billion,”* GAO Report to the Subcomm. On Investigations, Comm. on Homeland Security, House of Representatives, p. 14-24 (June 14, 2006).

are therefore already wired with the major merchant service providers. Additionally, card based programs facilitate secure Internet and mail order based, retailer participation.

Although paper coupons, particularly free-standing inserts (FSIs) commonly placed in Sunday newspapers, remain an important vehicle for consumer packaged goods marketers, overall manufacturer coupon redemption trends continue to decrease. Despite significant increases in distribution, actual consumer usage and redemption have steadily declined each year over the past five years from 4.5 billion in 2000 down to 3.0 billion in 2005.³⁶ Changing demographics and consumer preferences are rapidly eroding coupon's overall attractiveness for promoters. New coupon distribution methods are also having a major impact on traditional coupon redemption. While traditional proponents of paper coupons would argue that paper coupons still work, major shortcomings surrounding the costs, inefficiencies, informational limitations, accountability, timeliness, audibility, and overall subject to growing waste, fraud and abuse have left many of the industry's key players looking for alternatives. Burning issues among retailers include:³⁷

- Coding limitations, particularly centered around the required use of family codes which are incomplete and difficult to maintain;
- Chargebacks, Too many, inaccurate, and too many requests for POP (proof of purchase);
- Current system takes too much time to process for payment;
- Handling fees no longer cover higher processing costs;
- Hard for retailers to detect counterfeits;
- Growing number of coding errors from incorrect value codes and complex offers;
- Handling paper needs to move toward electronic clearing.

Manufacturers also have burning issues with current paper coupons:³⁸

- Current system encourages higher cost, making couponing less attractive ... Fees, Fines and Postage;
- Misredemption concern.... Too many deductions for misredeemed items, coupons are redeemed for items not carried at the store, coupons are redeemed outside the area;
- Inadequate audit and verification trails....Manufacturer issuers want to know what was purchased;
- Redemptions occur way past the expiration date;
- Retailer lack of compliance with using as presented;
- Retailers reproducing the coupon without consent of the manufacturer;

³⁶ Recognized authority sources and volume reports are publicly provided at the websites of CMS, Inc., Promotion Marketing Association, the Association of Coupon Professionals, and NCH Marketing Services. CMS, Inc. provided 2005 data at the 2006 Annual Industry Coupon Conference which can also be referenced at www.couponinfonow.com/Couponing/2006trendsoverview.cfm.

³⁷ "2002 Coupon Industry Survey", Summary, July 31, 2002, Coupon Re-Engineering Workgroup, Document # 2002-001.

³⁸ "2002 Coupon Industry Survey," Summary, July 31, 2002, Coupon Re-Engineering Workgroup, Document # 2002-001.

- Current process takes way too long to clear;
- Accuracy and timing in reporting.... Want to improve their ability to forecast;
- Low % of retailers who can scan and validate paper coupons to the family code level;
- Code complexity with multiple MFG ID's;
- Bar code structure is too large and limiting;
- Need more secure ways to deliver coupons over the internet... bar code is too easily created at home; and
- Family codes do not match to specific products.

As manufacturers expanded paper coupon usage for delivery over the Internet and to support rebate type programs, misredemption concerns skyrocketed. When manufacturers pushed back on retailers, major grocers and retail chains implemented policies to stop taking Internet coupons. The coupon industry responded by forming a special task group to recommend and introduce more secure and verifiable processes for Internet coupons. For the most part, retailers have begun accepting them again, but with careful scrutiny.

While it is hard to pin down a number, according to the Coupon Information Corporation (CIC), losses due to coupon fraud exceed \$500 million annually³⁹, which on about \$3.5 billion of coupons redeemed this past year represents approximately 15%. Arguably, potential losses on a DTA \$40 coupon might be significantly higher than the 15% against coupons at an average of a \$1.16⁴⁰, unless significant loss prevention practices were put in place. Rebate fraud reportedly contributes another half billion dollars of fraud annually.⁴¹ The ACP reports that rebate fraud is primarily committed via submission of counterfeit proofs and cash register receipts. Submission of non-receipt claims (e.g., consumers claiming they never received their rebate generating another rebate) is also reportedly high on the list of fraud.

Recognizing the many shortcomings of coupons, the coupon industry has several task forces organized to address different concerns including one to re-engineer coupons. Essentially, the industry has set-up various committees through the Joint Industry Coupon Council (JICC) and the Uniform Code Council (UCC) to explore what needs to be 'fixed' about coupons.⁴² What was known as the UCC has become GS1 US, which as part of GS1 is a unified, more global approach to standards development.⁴³ With a global roadmap and vision, the intent of this initiative is "to bring manufacturers and retailers together on a worldwide parity

³⁹ CIC Updates, (the CIC is an industry organization that encourages and supports federal, state, and local law enforcement efforts to identify, investigate, and prosecute coupon misredemption).

⁴⁰ *Presentation Highlights from the 2006 Industry Coupon Conference*, "E-zine Newsletter, August 2006, p. 2, @ www.couponpros.org.

⁴¹ Rebate Data Center, at www.bmitf.org and Association of Coupon Professionals at www.couponpros.org.

⁴² JICC & CouponInfoNow websites.

⁴³ Global Standards Update & UCC Update, NACStech 2005.

basis to simplify and enhance global commerce and improve consumer value in the overall retail supply chain.”⁴⁴

As the coupon industry embarks in these activities, the industry sees these change initiatives as an opportunity to address other needed improvements to reduce costs, standardize global supply chain management, expand promotional capabilities, and integrate electronic and paper technologies. More immediately, everything that has a bar code, including coupons, will be changing. While exciting and rapid changes are occurring, key manufacturers and especially retailers want practical and implementable solutions today. High among the demands is that: **“coupon issuers want to be able to offer higher-value promotions with more certainty that those who redeem and benefit from such value were those intended to receive the offer and indeed actually purchased the specific promoted product.”**

SVS does not believe current paper coupon, Internet delivered coupon, manufacturer-type rebate, nor bank debit card programs meet this demand. Neither does SVS believe that current paper coupon, Internet delivered coupon, manufacturer-type rebate, or bank debit card programs will meet the needs of NTIA in pursuing its charter for the DTA subsidy coupon program. SVS believes a stored value card approach offers a better solution when coupled with an automated UPC-item authorization against only eligible product at the retail point-of-sale for the reasons enumerated in our response. SVS has commercial, off-the-shelf system components to deliver such a solution within the defined time schedules.

C. Application Process

Under, Section C, Application Process, the NTIA proposes that applicants be required only to submit: 1) name, 2) address, 3) the number of coupons they require, and 4) a certification that no other member of the household has or will apply for a coupons. With only name and address information submitted, service providers are hampered in their ability to prevent duplicate requests. First, although the postal service issues guidelines for households to use for printing their addresses, considerable variation exists. Service providers can attempt to scrub address lines submitted on applications to conform to specific standards during entry; however, without requesting some form of more uniform identification, such as a social security or drivers license number, it is systematically challenging to rely only on address line information. Even through the use of forms, whether applications are taken by paper, phone or web page; it is extremely difficult to impose definite standards. Conversely, for the unscrupulous, there are many opportunities to obtain multiple coupons through the mails unless additional controls are put in place.

For example, during the early years of automating banking services, financial institutions undertook the task to scrub all of their individual bank services to create

⁴⁴ Id. at NACStech 2005.

a centralized customer information file incorporating all of the relationships of a common household. Because social security numbers were initially only captured for interest bearing services for tax reporting reasons such as savings or loan type accounts, banks were required to scrutinize the name and address lines for the other bank services. Postal boxes provided an ability to match the number to a similar postal box listing, but provided little guidance against other accounts with a street listing. For new accounts, imposed standards attempted to enter the street number first, followed by the standardized directional abbreviations (i.e., NW), specific street name, and then ending with specified abbreviations for common address terms such as street, boulevard, parkway, road, etc. Separate fields were provided to identify apartment number listings, order of the listing, and specified abbreviations such as 'Apt'.

All kinds of special rules had to be formulated for various exceptions such as military personnel, agency relationships, in 'care of' designations, independent persons residing at the same mailing address, or dealing with individuals or households that maintain multiple mailing addresses for various distinct purposes, some of which were to specifically maintain confidentiality or keep secrecy from a spouse. Adding names to addresses for matching added yet another layer of inconsistencies and problems. Language posed yet another variable, and as noted in GAO testimony, "non-white and Hispanic households are more likely to rely on over-the-air transmission." Thus, for many U.S. households, English will not be their primary language. Furthermore, increasingly communities are reflecting the diversity and growing internalization of its citizens including the names and abbreviations that may be contained on address lines.

Today, service providers allow for multiple addresses to be listed separating ownership from mailing address, or personal from business listing, along with various other designations. Similarly, additional separate fields allow multiple phone and e-mail listings. Primary account or even billing address listings may branch out to numerous secondary accounts involving persons that may or may not be blood-related, share the same last name, or necessarily reside at the same location. Conversely, persons may reside at the same locations but maintain different mailing addresses. As faced with implementing identification and documentation requirements associated with the Patriot Act, definition and specification of acceptable identification becomes critical in order to attain higher levels of information and integrity. For face-to-face account openings, banks will demand and copy presentment of specific forms of identification. However, this raises privacy concerns and proves difficult in non-face-to-face solicitations.

In the card world, businesses increasingly solicit their household requests through specific outbound targeting from carefully prepared lists. Nevertheless, to grow their portfolios, businesses will accept and process inbound applications without documentation of identity. Generally, applicants will be required to list more specific identifiable information such as their social security number and telephone number. For applications delivered via phone or the Internet, businesses will

capture through caller ID or e-mail address the source of the request and use this data to match or reverse the identification of the household for potential duplicate or fraud identification. Businesses will then perform various investigative routines, including the attempt to determine whether the applicant matches certain negative listings or raises certain 'red flags' before fulfilling the requests. Even after such care, due to increased identify-theft, it is nevertheless common practice for the retailing community to ask cardholders to present further identification (i.e., a drivers license, for example) at the point-of-purchase for acceptance of their credit card.

Many households mistrust these processes and as noted in the GAO testimony fail to apply for significant available governmental benefits even though eligible.⁴⁵ Thus, to meet the desired program objectives to minimize the administrative burden upon consumers, protect privacy, while also minimizing the exposure to waste, fraud and abuse, perhaps a compromise position could be taken on the above processes and routines. Key procedural elements would be to use some form of government identification to: 1) define a standard format for listing the street address, 2) tie the submitted request to a specific government identification address (but avoid making or retaining an image due to privacy and identity theft concerns), 3) fulfill the request only to the provided mail able address, and 4) use the retailer interface commonly used for other card presentment to verify that the mail able address indeed matches to a government issued identification, (in exchange for gaining electronic authorization, automated reporting, next day settlement, and the avoidance of counterfeits or fraudulent coupons).

More specifically, the suggested process steps might entail:

1. Households would be instructed to list a name and address on their application requests for DTA subsidized coupons that corresponds exactly to a name and address as printed on a government issued identification (i.e., drivers license, passport, social security, etc.) and to check a box that corresponds to the government identification used. They would NOT be required to submit a copy of such identification, but would be told that the corresponding (same) address submitted would be: used for mailing out the coupons, printed on the face of the coupons, and verified at the point-of-purchase by the retailer redeeming the coupon presented.
2. The service provider would capture the mail able address exactly as provided, perform a check against the specific address to prevent duplicate coupon issuances, conduct various suspect checks to identify and prevent certain patterns of activity from issuing additional duplicative coupons, and print on the face of the coupon the specific mail able address and code that the retailer can use to identify the required government id that must be presented that corresponds to the coupon printed address. Note, a separate line on the application would be allowed and printed on the card for the retailer to validate if the government identification utilizes a postal or agent

⁴⁵ Id. at "Digital Broadcast Television Transition, Several Challenges Could Arise in Administering a Subsidy Program for DTV Equipment," p. 10.

address, (non-mail able or involving a power-of-attorney or agency address). See suspect checks detailed further below.

3. The service provider will mail the coupons to the provided mail able address if no duplicates were previously found.
4. At the point of purchase, the retailer will request the government identification corresponding to the printed code to determine whether the address matches to the address printed on the coupon before accepting the coupon for \$40 payment.
5. Retailers will be subject to chargeback if later investigation determines that fraudulent coupon misredemption was allowed without making the separate verification at the point of sale.
6. A scratch-off, carrier-provided, PIN could also be used in a stored-value card solution to allow deactivation of coupon cards and issuance of new coupon cards for replacement of lost or stolen coupons or to facilitate identification and box purchases at Internet or mail-order retailers.
7. Accountability would be maintained on both a perceived and actual basis during both the application and transition period plus one-year required record retention to facilitate further investigation, chargeback or collection.

The service provider would temporarily hold coupon request fulfillment until a suspect duplicate or fraudulent coupon request is investigated. Similar to the gift card and other related bankcard request routines, the service provider could maintain scrubbed address line files, captured e-mail addresses and caller ID listings, utilize IVR traps to flag unusual activity, third-party lists of known fraudulent names and addresses utilized to request other financial cards, and other routines noted in the retailer community to detect duplicate requests or related fraudulent activity. Bumping the requests against the U.S. Postal Information files could also provide an alert to suspicious activity.

While providing increased integrity to the household definition and required assurances of Section 3005 of the Act, the latter would not ensure that only households that rely exclusively on over-the-air television receive the coupon subsidy. The process would however establish a standard and verified household identity along with a specific referenced address that could then be consistently used to avoid duplicate coupon issuance and potentially used to query against a developed database listing of cable or satellite subscribers (if deemed necessary and administratively cost effective) or sample audited to determine if more stringent compliance monitoring and collection follow-up might be warranted. Establishing a path of identity and accountability will provide both the perception by households as a deterrent to avoid and a path by potential collectors to track and hold accountable unauthorized coupon usage. Furthermore, increased integrity in the household requested mailing address will more likely facilitate matching to a subscriber billing address that has its own built-in disciplines since interruptions in receipt and subsequent payment will in time result in cancellation of service, (although increased use of preauthorized bank debit is cutting into the monthly

dependence upon mail-based remittance by periodic utility-type vendors such as cable and satellite providers).

To ensure that only households that rely exclusively on over-the-air television receive the coupon subsidy, NTIA proposes in the rules for comment to require households in the application to make three certifications: “a certification that they only receive over-the-air television signals using an analog-only (NTSC) television receiver; a certification that no other member of the household has or will apply for a coupon; and, a certification if they are requesting a second coupon that they have more than one analog-only (NTSC) television receiver.”⁴⁶ Again, perceived ability to identify and hold recipients accountable provide deterrence against potential program abuses, non-intended use, or fraudulent claims. Such certifications could be required to be made under penalty of law not only in the application process, but be also printed on the card coupon, (or carrier if space becomes an issue). Thus, included language might be: “By using this card, the household recipients certify that: they only receive over-the-air television signals using an analog-only (NTSC) television receiver; no other member of the household has or will use a coupon; and, they are using a second coupon because they have more than one analog-only (NTSC) television receiver.”

Conversely, inclusion of such language or attestation could unnecessarily deter eligible households from requesting intended subsidies, add confusion, or complicate the process. Timing differences could also arise between meeting the requirements of only receiving over-the-air television signals using an analog-only television receiver at time of coupon application and coupon usage (purchase). Nevertheless, such screening and attestation may be less invasive and reach more intended households than requiring certification through a social services assistance agency. A balance must be achieved between administrative burden to assure program compliance and avoidance of program abuse, fraud, and non-intended use and waste. We believe combining the dual administrator and retailer household identification process with the self-certifications provide enhanced compliance without raising privacy concerns and requiring the administrative burden of a social service’s type, face-to-face certification process. Various address line scrubbing and fraud identification routines also will reduce duplicate requests from being fulfilled.

The NTIA notes in its proposed rules that it intends to make application forms widely available and allow potential applicants to make requests through the mail, via telephone, and over the Internet. It expresses an expectation that electronic media and networks will be used to make aspects of the program more efficient. Comments are sought on how this might be performed, particularly concerning the use of the Internet, while preventing waste, fraud and abuse.⁴⁷

⁴⁶ “*Notice of Proposed Rulemaking (7/25/2006)*” Section C, Application Process, p. 4.

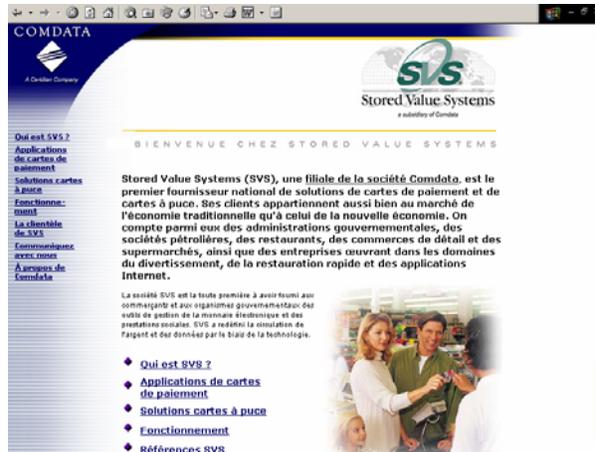
⁴⁷ Id.

The Internet has rapidly become a key tool for anyone searching for information on a topic. Keywords need to be identified and coordinated with major search engines to link inquiries to a designated site promoting the program and available governmental assistance. Converter box icons highlighted with “For more information,” “if you need assistance,” “help with the cost,” or “apply now” linked directly to specially designed web pages in multiple languages and appealing to different cultural groups can be made available for placement virtually on any stake holder’s website having an interest in the program.

One of SVS’ commercial, off-the-shelf capabilities to receive coupon order requests currently involves the ability to allow NTIA, related agencies or industry groups, individual retailer chains or small business stores, consumer groups, affinity groups, community, educational or promotional websites the ability to create a Converter Box icon on their websites so that household members can click on the icon (“apply now”) and hyperlink over to SVS’ order request form while still thinking they were on the original website. SVS would then process all orders submitted in this request process. Public information campaigns would not have to focus and educate citizens toward specific websites to apply, but households would find themselves easily able to find and order from a multitude of intuitive or related locations.

Recognizing different levels of citizen access and comfort with using differing technologies and processes, SVS does and would support a variety of order request entry points. Essentially, we would want to be everywhere or wherever various diverse households might expect to make their request. From a technology assisted standpoint, in addition to website icon hyperlinks, SVS currently offers to its other customers automated voice response (IVR) and Live Agent customer service centers supporting 24/7 services nationally in English, Spanish and French (Canadian). Visitors to the SVS website (www.storedvalue.com) will note that it can be viewed in different languages.





SVS operates internationally in 37 countries and is acutely aware of the need to be responsive and sensitive to different cultures, languages, special needs, and purchasing habits. Translation services would need to be secured where appropriate.

Each of the above referenced technologies could conversely be used to simply obtain initial information or a printed form for later automated entry or physical submittal. Care needs to be taken to not incorporate a double mail-out process, since the latter would prove inefficient and costly. In addition to web and phone order request entry, SVS offers specific integrated screen order entry with our institutional clients operating in-house systems such as Federal, State, and Local governmental assistance clinics. Alternatively, we support various image transmission technologies, including simple fax transmission. To the extent eligibility is aligned with social services, SVS will enable all those who assist those seeking services to easily make such requests whether they are employed, volunteer, or simply extend a helping hand to lessen confusion and ease the transition.

For many groups or households, order requests may be simply submitted in paper form. These could be sought through personal contact from neighborhood groups, friends, or family. For compliance purposes, we would want to direct the completion of such requests through easily understood, designed forms. These would need to be made readily available in different formats, languages and contexts recognizing the diversity of American households. Wide availability and easy public access to such forms will prove critical and need to be closely linked to the public awareness campaign. Community partnerships could provide a vital link to reaching many households before television service is disrupted.

The ordering and distribution of such paper-based forms could be achieved through a variety of distribution channels. Currently, SVS is an innovative leader in the marketing and distribution of the growing popularity of gift, loyalty, and promotional cards. SVS and its partners provide secure technologies that allows

cards to be distributed and activated on-demand through a variety of channels such as: retailer cashier and customer service counters, strategically placed kiosks, coin wrapping and deposit to card machines, gift card malls marketing and merchandising popular cards through venues such as grocery, drug and convenience stores, and the wide distribution of prepaid cards commonly associated with phone, wireless, music, ring tones, and debit cards. For example, Walgreen's uses SVS to provide prepaid card activation services for AT&T prepaid Internet and other related products. Thus, in today's world emphasizing service speed and convenience, requesting, fulfilling, and activating card-based services can respond to consumer impulses in ways, places and times previously unimagined. The key to the public awareness campaign is to convert awareness into action before analog service is turned off.

The proposed rules state "NTIA will place the highest priority on designing an application system that prevents waste, fraud and abuse."⁴⁸ Thus, while allowing potential applicants the ability to request forms through a variety of methods, the application system must prevent duplicate issuance (actually, the rules indicate "prevent duplicate requests for coupons"⁴⁹) of coupons and other potential abuses of the program by households. Applications received through the various provided channels from mail to Internet, would therefore all involve entry, verification, and updated maintenance against some form of electronic application processing and fraud identification system and database. We concur. An administrative process would need to be developed to review initial denials and resolve some form of appeal process. For clarification, we presume that a household would not be eligible to receive a coupon if it had previously been issued a coupon that was left to expire.

Under the DTA subsidy program, fulfillment, in turn, appears to be statutory mandated per Section 3005 (c) (1) (A) via the United States Postal Service⁵⁰. Typically, SVS will contract to process business-to-customer requests and provide card fulfillment on a next business day or in most cases on a three business days or less basis. SVS has a number of contracts where it provides same business day card fulfillment on order requests against preprinted stock received by 2:00 PM EST. When a card requires individual personalization, i.e., the customized printing of a specific household name and additional information such as an address if required on the face of the card, card fulfillment can be provided as early as on a next business day basis on orders received by 7 PM EST. SVS can conduct such fulfillment out of a number of alternative service locations depending upon specific customized requirements.

Processing and fulfilling such requests 'in a timely manner' will often depend upon an administrator's capacity, processes, systems, maintained card inventory, and

⁴⁸ Id., Application Process, at p. 5.

⁴⁹ Id.

⁵⁰ *Deficit Reduction Act/Digital Television Transition and Public Safety Act of 2005*, Attachment A to this RFI and referenced at www.ntia.doc.gov/otiahome/dtv/S1932_titleIII.pdf.

back-up/off-loading arrangements. SVS will produce over 500 million cards in 2006 and process a billion retail transactions. The 20.8 million American households found by GAO to rely exclusively on over-the-air transmissions for their television viewing⁵¹ (recognizing that others have estimated a lower number of households relying on over-the-air television), would represent only a 4% increase in annual SVS card production. SVS is the leading cash and gift card provider in the industry today operating not only in the U.S., but also in 37 other countries. SVS offers its customers turnkey solutions from card production management, transaction processing, database management, analytical reporting, and sales channel development to multiple fulfillment options.

On a quarterly basis, SVS reviews each of its accounts for the forecasted number of cards and transactions (including history) on a twelve (12) month rolling basis. This drives our requirements for card production capacity, processing and communications capacity, and support personnel. With regard to host processing capacity, we currently configure to not exceed significantly beyond 50% capacity of our busiest day of the year, which usually occurs during Christmas holiday week. In 2005 we processed over 9 million transactions at our peak and over 300 transactions per second reaching 52% capacity.

SVS has redundancy built into all its systems from duplicate processing sites, three individual network providers, and multiple card inventory management warehouses. SVS maintains 4 primary plastic printing vendors, 5 primary personalization vendors, 2 primary affixing vendors, and a set of Tier 2 vendors for each function for small jobs, special jobs, and backup. SVS manages all aspects of the card production process with our vendor groups. SVS sends its engineers to Q/A the cards onsite at the plastic and personalization vendors. As a substantial portion of our vendor's total revenue, SVS will contract with these vendors well in advance with specific capacity terms and conditions, and expects and commands high levels of performance.

D. Coupon Expiration

According to CouponInfoNow⁵², consumers prefer coupons with longer expiration periods. CMS, Inc. reports that the average expiration period, or the length of time a consumer has to use a manufacturer's coupon, has remained fairly flat in recent years at 2.9 to 3.0 months⁵³. The Act and NPRM both note that all DTA subsidy

⁵¹ "Digital Broadcast Television Transition, Estimated Cost of Supporting Set-Top Boxes to Help Advance the DTV Transition," GAO-05-258T, released February 17, 2005, a testimony before the Subcommittee on Telecommunications and the Internet, Committee on Energy and Commerce, House of Representatives, p. 7.

⁵² See www.couponinfonow.com.

⁵³ "Marketers offer additional \$37 Billion in Coupon Savings in 2005," Coupon Use Trends, at www.couponinfonow.com.

coupons are to expire three (3) months after issuance⁵⁴. This will correspond closely to commercial manufacturer coupons, however, growing popularity of in-store and Internet distributed coupons have much shorter expiration dates.

The proposed rules seek to solicit comments on how the date of coupon issuance should be determined, i.e., date the coupon is placed in the mail, date the consumer receives a coupon, or a calculated date of two-to-three days after the coupon is placed in the U.S. Mail to address the average delivery of a first class letter. What we believe is most important is that the expiration date be clearly made certain. Since commercial mail distribution operations will most likely affix a presorted first-class mail permit stamping and the U.S. postal handling may or may not always stamp a clear postal mark, consumers will want or rely on the expiration date printed on the coupon. We believe the better practice is to err on the side of caution and implement a practice that targets placing an expiration date that corresponds to three days after a performance of 99.5% expected date of delivery to a U.S. Postal Office on a day of Regular business operation. We concur that the expiration date needs to be prominently printed on the coupon and in our proposed use of a stored value card be maintained at the SVS host for validation in a separate data field.

SVS would suggest that the attributes of a stored value card solution afford superior monitoring and compliance capabilities over a paper coupon process. First, manufacturers might be viewed as being fairly lenient in requiring compliance with printed expiration dates on distributed coupons. Due to the number of intermediary parties and labor intensiveness of handling paper coupons, published rules for retailer redemption will include a significant grace period, perhaps six (6) months⁵⁵. Because manufacturers use coupons to promote product purchase and increase brand loyalty, they might not clamp down on known situations where retailers might be possibly taking and include in their submittal for redemption coupons after an expiration date.

For example, it has been widely published that military commissaries have high incidences of 'expired' coupons, the latter in part due to programs that have even encouraged expired coupons to be sent to benefit military families.⁵⁶ We mention this because sometimes electronic automated solutions provide requested capabilities to enforce compliance that could never be achieved, although part of the regulations, under previous paper vehicles. Suddenly new tools of enforcement cause recipients and supporting advocacy groups to register complaints. An electronic solution such as a stored value card system will allow NTIA to instill discipline and enforcement consistent across all points of purchase including retail stores, mail-order houses, Internet sales and military commissaries.

⁵⁴ Id. at *Notice of Proposed Rulemaking (7/25/2006)*,” Section D, Coupon Expiration, p 5.

⁵⁵ See www.couponinfonow.com.

⁵⁶ CMS Advantage Update Q3, 2003, a publication of Inmar.Inc.

Despite some extent of leniency and significant grace periods, a significant percentage of coupon redemption payments are withheld by manufacturers due to expiration. In 2002 data published by CMS⁵⁷, the % of Total Misredemption Volume by Class of Trade for 'expired' indicated wide percentage differences ranging from 4% at convenience stores, 12% at supermarkets, to 38% at mass merchandisers. CouponInfoNow publishes on its website a lot of good data on speed of redemption for coupons, including different cumulative percentages across different distribution methods⁵⁸. They indicate that on average, 3-4 weeks elapse from the time of distribution until arrival at the manufacturer's agent's processor. Thus, while 3.0 months may be the average expiration date, average cumulative redemption by week 10 is just about half or 54% for a FSI (free standing insert). Week 26 (six months) cumulative redemption percentages (adjusting for the 3-4 week elapsed delivery time) are 98% for the popular FSI's while 45% for in-pack coupons, 59% for military shelf pad coupons and 60% for on-pack coupons. Week 26 (again adjusting for the 3-4 week elapsed delivery time) cumulative redemption percentages shown are 73% for instant redeemable coupons, 74% for handout coupons, 80% for internet coupons, and 89% for direct mail coupons.⁵⁹

NTIA's proposed expiration date of 3 months plus required retailer submission of coupons for redemption within 30 days after the coupons have been used to purchase a converter box essentially targets 100% cumulative redemption by the end of week 17 or four months. A stored value card solution can meet this demand. Paper coupon distribution methods would appear to be challenged by such requirements. With less intermediaries (i.e., retailers, retailer agents, manufacturer clearinghouses), mail-in rebate redemption centers could perhaps instill more discipline, but this would not mean that intended coupon recipients would receive their targeted subsidies. As was eluded in previous testimony given by the GAO,⁶⁰ less than half of most rebates are ever redeemed.

Even if rebate coupons are placed inside or affixed to the outside of the box, documentation will be needed to validate the purchase, such as the purchase receipt which may not adequately provide sufficient description to certify that an eligible converter box was purchased. The GAO study already addressed the many shortcomings of applying eligibility requirements. Many segments of the population are not responsive to rebates, are frustrated by the requirements, and then either never receive their rebate or once received have to pay a fee to convert the rebate to usable cash. Even with a meaningful \$40 rebate amount, we believe there would be substantial legitimate consumer fall-out from a rebate approach, not to mention that the same \$40 rebate amount would conversely prove very attractive to counterfeiters.

⁵⁷ "The Case Studies," CMS, at www.cms.inmar.com.

⁵⁸ See www.couponinfonow.com/processing/speedofredeem.asp.

⁵⁹ CouponInfoNow.com, Fall 2005.

⁶⁰ Digital Broadcast Television Transition, Several Challenges Could Arise in Administering a Subsidy Program for DTV Equipment, p. 20.

NTIA would also have to provide a whole additional administrative process to respond and validate that the rebates were actually received and cashed by the eligible households. Giving purchasing households thirty (30) days to send in their rebates, another 2-3 months for rebate centers to typically process the filing, and then time for recipients to discover that their processed rebates were never received along with resolution to determine whether in fact the processed rebates were indeed received and cashed by the actual box purchasers, we believe the application requesting period would have to be significantly shortened in order to allow sufficient time to complete the redemption process on a rebate approach to cease operation of the Program by the end of Fiscal Year 2009⁶¹. We do not believe the latter would be acceptable.

E. Digital-to-Analog Converter Box

SVS is not an equipment manufacturer nor an engineering firm involved in the design, manufacture, or evaluation of DTA set-top converter boxes. With its headquarters in Louisville, SVS is closely located to many of the key global technologies design, manufacture, repair, and reverse logistics companies due to UPS' International Worldwide Hub located in Louisville. In fact, one of the global leaders in set-top box service and repair performs major set-box services out of its Louisville plant location.

If after the rule-making process manufacturer standards are defined and the finalized rules require the program administrator to manage the specifications and certification of standard converter boxes eligible for the coupon program, SVS would seek a qualified partner to provide this expertise. SVS would then propose that approved or certified boxes be managed similar to the WIC database of items, although the number, variety and churn of approved DTA subsidy boxes would represent a fraction of the items compared to the 1,500 item WIC database. The framework would still be similar in that all certified standard boxes eligible for coupon redemption would be maintained real-time on a centralized database.

One of the first requirements imposed upon the retailer is to know and identify what is an eligible item (brand, size and quantity) for which the retailer can subtract the face value from the retail price of the manufacturer-named product. In fact, before that item is presented at retail checkout with the associated coupon, the customer (or with the prior assistance of store personnel) needs to be able to identify what item is eligible for receiving the targeted coupon use value. While manufacturers and retailers may disagree with us, we believe the consumer educational campaign should focus more on defining what a 'standard' eligible box under the subsidy program means and where such boxes can be purchased with the coupons, rather than attempt to list or promote individual manufacturer boxes. Manufacturers, in turn, may choose to mark and promote their individual boxes certified as eligible 'standard' boxes for coupon usage. Again, the educational wrinkle is what is an

⁶¹ Id. "*Request For Information*," Questions and Answers, August 11, 2006, p. 5.

eligible or 'standard' box in easily understood, consumer friendly, terms. As will be noted below, for the consumer, our educational campaign might focus on promoting awareness of a standard SYMBOL (graphical) universally crossing multiple languages as denoting, "DTA coupon eligible".

Once presented at the checkout, SVS has commercial, off-the-shelf systems that can perform item-specific (UPC) authorization at retail point-of-sale. Thus, either at specific UPC level type listing or agreed model/sub-model identification, actual coupon usage can be restricted to only those certified boxes listed on the aforementioned centrally maintained database. All attempted uses would be tracked systematically under standard bank-type security measures whether accepted or denied. While educational program monies with manufacturer aided markings of agreed unifying marks (graphical symbols) could facilitate consumer selection, we believe consumers will also benefit from access to informed manufacturer or sales personnel at retail point-of-purchase. Note, we are not necessarily restricting retail point-of-purchase to only brick and mortar, but recognize that information and knowledgeable service can also be provided over the phone and Internet by remote retailers.

Unless standard boxes include all the variety of connections and configurations introduced on televisions over the past several decades, this may be the area where the manufacturer and retailer community see their opportunity to differentiate themselves from their competitors. We perceive the general educational program focused on letting customers know that assistance is available for them to purchase boxes that will enable them to continue to receive service, however, manufacturers and retailers may also sell additional boxes or models with added features that extend beyond the subsidy program which are not eligible for coupon usage. A unifying service mark could be used to easily alert consumers of potential inclusion, but consumers might be well advised to seek further expertise to better understand their options.

Retailers of course benefit from identification with carrying popular and publicly promoted manufacturer brands. Retailers often jointly participate in manufacturer promotions, offering their own added store discount or co-promoting a coupon that can be used only at their store for the highly recognized brand item. Manufacturers will carefully plan and provide additional monies and incentives to assure that the promoted product is in inventory, might be promoted in the store's individual advertising circulars, receive the best shelf space, secure the attention and knowledge of in-store sales and support staff including cashiers, and perhaps be supported by in-store signage, end-of-lane display, or even broadcasted over the in-store speakers. In a number of trials, excellent results have been obtained from in-store visual broadcasts. District and store personnel will often be provided heads-up awareness and training of planned manufacturer advertising and external promotional campaign components. Staff might even be given pins to wear or special incentives.

The key for highest sales lift is that the coupons are only one component to the overall sales or promotional campaign, and are carefully coordinated and orchestrated with all other components of the campaign from initial public awareness to final sales delivery in order to optimize the program's effectiveness and ROI (return on investment). We believe the same kind of retailer planning, coordination, communication, and program execution should be applied for the DTA converter boxes that are eligible for the subsidy. SVS views this to be key elements of both Consumer Education and Retailer Certification. SVS views the development of the Coupon Program to be a public-private partnership that will require the active input, planning, and execution cooperatively by all stakeholders.

Some of the tools and technologies that a stored-value service provider like SVS would bring to the eligible converter box deliverable involve:

- The unifying artwork, copy and design of the stored-value card and carrier (snap-out) that can:
 - draw public awareness and attention to the need to act;
 - provide information to the holding household about the necessity for and the installation of a converter box;
 - provide suggestion of the types of places where eligible boxes might be obtained;
 - guide consumers on the features that a certified standard box can provide;
 - emphasize the limited period of time the consumer has to act in order to use the subsidy for purchase of an eligible box.
- The in-store, point-of-sale coupon authorization process which enables the automated matching, verification, and validation through integrated:
 - presentment of the stored-value card;
 - scanning of the purchased item bar-code UPC code;
 - item-specific verification that the item being purchased is eligible as an approved item meeting the program certified standards;
 - assurance that the verified eligibility item list is the most current and up-to-date;
 - printing on both the consumer and store copy of the receipt hard copy information detailing the transaction and specifically identifying by manufacturer UPC and description of the eligible item purchased;
 - ability to print-out a reasonable-managed list of eligible boxes certified for subsidy.

SVS' Analytical Reporting packages and query tools could be tapped to timely record, monitor and assess in an automated systematic manner, household use of issued coupons on a store-by-store, store chain, store type classification, and geographic basis. SVS could use the coupon card request and fulfillment data to highlight and alert NTIA and retailer management of designated market area potential demand and unused issued coupon balances.

SVS currently markets and provides a product called CIMS where SVS will provide its retail clients with gift card inventory management, warehousing, direct to store distribution, and auto replenishment down to the store and SKU levels. The product's automatic replenishment (AR) functional tools allow SVS to ship and assure product is available where it is needed. SVS' standard offering provides a "URL web address" for its retailer home offices and remote locations to access critical card fulfillment data in a real-time mode. SVS provides a full complement of fulfillment reports to its CIMS clients.

In short, CIMS is a site/store service that manages SKU level inventory and fulfillment that is driven by min/max parameters set by the client and assists in production forecasting and inventory management. This same system linked to coupon card production could prove extremely valuable in providing a data-driven vehicle so that an adequate number of eligible boxes are made widely available in a designated market area for households to purchase with coupons by and during the transition period. This, however, assumes that manufacturers will make available and produce in sufficient quantities converter boxes that meet NTIA standards, consumer, and retailer preferences.

F. Retailer Certification

From an educational perspective, the overall program must prove attractive across the retailer community so the message can assure that eligible boxes will be widely available to consumers in their home communities as well as via mail-order or Internet if so desired. We believe consumers might find comfort in knowing that retailers they have come to know and trust, both nationally recognizable or historically located in only their community have agreed to participate. What SVS is cautious about involves retailer certification criteria and whether such criteria will require some discretion as toward demonstration of some experience in the consumer electronics realm. Conversely, will manufacturers be able to offer certified boxes for sale at non-traditional consumer electronics outlets, essentially opening up potential purchases at the corner market. We believe, retailer certification needs to be more discerning, however, we can and will administer a systematic approach widely across the retail community as deemed appropriate within the final rules.

As previously noted, SVS under a stored value coupon card approach can systematically restrict coupon usage to only authorized store locations. One of the advantages of such an approach is that coupons can be securely used by eligible households to purchase and redeem at brick and mortar locations, as well as mail order and Internet retailer sites. Commercial, off-the-shelf solutions are available at extremely low cost for both large and small retailers, and specifications and assistance would be available for retailers wishing to integrate on their own existing ECR/POS hardware infrastructures following ISO and ANSI standard transaction sets.

The educational campaign would of course send the message that use of the coupon can be made at only authorized or certified stores under the special coupon program. Consumers could be educated to look for the unifying program mark indicating retailer participation. Again we would hope that retailers would view program participation as attractive and actively promote such participation. Similarly we hope that retailers prominently display the unifying mark at the point-of-purchase and on doors where appropriate.

Specifically related to a stored value card approach, we understand that card based programs such as debit, credit and gift already account for the majority of purchases at current electronics retailers. EBT card type programs such as food stamps have now successfully rolled out across all fifty states. Studies indicate that participants, even those thought previously to be apprehensive to technologies, strongly prefer card solutions to previous paper coupons. Preference for card coupons over paper coupons is now being shown in the popular cents-off coupon market.⁶² We do not believe a card coupon will prove to deter retailer participation, but in fact conversely have reason to believe it will increase retailer participation.

SVS with its vendor team (see On-Card example below as one vendor example) have the ability when fulfilling household requests to print on the mailed pop-out card carriers individual local maps of participating retailers triggered off the geographic address of the household. In the mail-out piece, information could also indicate where consumers can call via phone or visit on the Internet to locate participating retailers in their neighborhood.

⁶² See "News From the Retail Industry," Integrated Solutions For Retailers, August 2004, p. 36.



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Reference is made in the proposed NPRM under section F, Retailer Certification that retailers are “typically familiar with coupon programs and have systems in place to process coupons.” While this is generally true, we do not believe couponing is as common in electronics retailers as for instance in grocery, convenience, or drug stores. According to CMS, Inc., while declining, supermarkets still account for the bulk of coupon redemption, (“declining from 85% in 1993 to 78% in 2002”⁶⁴). As grocery spending shifted to non-traditional shopping channels, coupon redemption also moved to mass merchandisers, discount, variety, dollar, and convenience stores.⁶⁵ While converter boxes may well be found and sold in mass merchandisers and discount stores now more accustomed to handling coupons, consumers may gravitate toward high-profile electronics dealers and chains along with more localized specialty service providers, which in particular we believe are not as familiar with handling coupons.

Industry studies have found high value coupons to be more likely targeted for fraudulent activity or misredemption. Electronic item promotions have tended to transact under mail-in rebate offers, which we have previously noted represent a particularly troubled area for waste, fraud and abuse. Electronics retailers will be more accustomed and programmed at the point-of-sale to print out long receipts with instructions on how and what is needed to file a mail-in rebate along with a duplicate receipt to file with the mail-in. Unlike standard coupons, where retailers

⁶³ On-Card, Inc., Delray Beach, Florida, 2006.

⁶⁴ *Coupon Redemption by Class of Trade*, 2003 CMS, Inc.

⁶⁵ *Id.* 2003 CMS, Inc.

through retailer agents and clearinghouses perform the redemption process, mail-in rebates are filed and sent by consumers to directed rebate-processing houses.

Correspondingly, one of the big areas of fraud on the latter involves the submission of non-receipt claims, (e.g., where consumers themselves claim they never received their rebate generating yet another rebate). Instant savings or in-store rebates are now being combined with mail-in rebates, because another key difference between traditional couponing and rebate programs is that the consumer has the coupon value subtracted from their required payment whereas the consumer has to pay the full amount for the purchase under a rebate program and then experiences often a significant delay before the rebate monies are received. And, there have been many reports and studies that a significant percentage of consumers never file for their rebates, fail to properly file the correct paperwork, or fail to timely file for the rebate thereby never receiving the targeted rebate benefits. While the latter if applied to a DTA subsidy coupon might lower program costs, it would not serve the legislative intended purpose of the program. We would suggest that mass merchandisers and discounters are not as comfortable or geared in their systems and checkout operations to handle mail-in rebates as electronics chains might be.

Internet coupons have risen in popularity and frequently involve electronics promotions. Based on commentary presented in the proposed NPRM, RFI and Questions/Answers indicating that traditional rebate and Internet coupon proposals would be viewed as non-responsive⁶⁶, NTIA already recognizes the many shortcomings in such processes and their high exposure to waste, fraud and abuse. The intent of our commentary here is to suggest that retailers in the electronics industry may not have as much familiarity with coupon programs and have efficient store procedures and processes to accommodate as might be envisioned. Our conversations with the retail community indicate a strong preference toward use of a stored value card solution.

Contrasting traditional coupons with the plastics medium, we would suggest that households and consumers have grown quite accustomed to using card payment vehicles. Where supermarkets lead coupon redemption volume in nearly all methods of coupon distribution⁶⁷, plastics have accelerated in their acceptance and use at leading grocers. Kroger reported that in 2003, electronic payments comprised more than 50% of Kroger's sales for the first time. In 2005, over 60% of Kroger's overall transactions were being made via credit or debit cards⁶⁸. When we first introduced EBT for social service programs such as Food Stamps in the late eighties and early nineties, it was feared that this recipient population consisting of higher proportions of the disabled, lower-income, less educated, high numbers of seniors, and less mobile (sometimes including home-care) might not easily adapt, be familiar or even have an aversion to use of technology or new payment vehicles

⁶⁶ Id. "Request For Information," Operating Methods Required By Legislation, p. 4.

⁶⁷ *Percent Redeemed by Class of Trade and Method* (2002), 2003 CMS, Inc. an Inmar Company.

⁶⁸ "More Retailers Team Up Against Credit Card Fees," Convenience Store News, July 18, 2005, as reported at www.progressivegrocer.com.

such as cards. Intense evaluations performed for FNS found this not to be the case. Today, we understand that EBT card technologies have displaced paper food stamps across all fifty states.

At mass merchandisers and discounters such as Wal-Mart, K-Mart, Target and Sears, card technology has been in place for more than two decades and often account for the majority of payment tender. In the electronics retail chains such as RadioShack, Best Buy, Circuit City, and HH Gregg we believe card transactions also account for the majority of payment tender. Although many of these are being co-branded or transitioned to the more recognizable bankcards, electronic retailers along with home improvement and discounters have a history in offering private label cards, which often accounted for a quarter to one third of sales.⁶⁹ Store personnel are accustomed and infrastructure is commonly in place to handle and process magnetic-stripe cards. Mass merchandisers and even specialty stores have now tapped their checkout and in-department credit and debit card equipment and infrastructure to respond to the explosion of gift card popularity. For the past two holiday seasons, gift stored-value cards have become the number 1 gift of choice nationwide, even over apparel or electronics, (2004 Pre-holiday Top Gift Choice Items: #1 Gift Cards 64%, #2 Apparel 63%, #3 CDs and DVDs 56%, #5 Toys and Games 41%, and #7 Money 32%)⁷⁰.

Today, gift card recipients swipe their stored-value cards just like another credit or debit card held in their wallet. For the 2004 holidays, the average US household purchased 2.4 gift cards and received 2.5 cards. Twenty-one percent of those received were from mass discounters and 24% from specialty stores. This year, 2006, gift card (stored-value) sales are expected to exceed \$100 billion. SVS is now experiencing an explosion in its mass marketing product targeting gift and loyalty card programs at small mom & pop stores. Stored value card solutions are not limited to major chains, but are rapidly being deployed at stores of all sizes, types and locations. As an alternative to credit and debit with growing bank fee structures, stored value card applications also offer significant economic advantages to both retailers and consumers.⁷¹

Before we describe how coupons might be accepted under a stored value card approach, we believe NTIA needs to be aware and concerned about another important retail trend that will become important during the DTA subsidy timeframe. Self-service has gone mainstream in supermarkets, supercenters, warehouse clubs, home improvement centers, and now a new wave is expanding into convenience stores.⁷² Some of the findings from the referenced 2005 North American Retail Self-Checkout Study and newspaper articles⁷³ include:

⁶⁹ First Annapolis Consulting, April, 2005.

⁷⁰ Deloitte Touche and National Retail Federation research, 2005.

⁷¹ *More Retailers Team Up Against Credit Card Fees*, Convenience Store News, July 15, 2005.

⁷² *Self-Checkout Transactions on the Increase*, Progressive Grocer, *Tech Briefs*, *Emerging Technologies for Retail* by IBM, and a Study by IHL Consulting Group 9/1/05.

⁷³ "Study: Self-Scanning Keeps Growing," Kevin Coupe, morningnewsbeat.com, 9/21/2005, referencing an Atlanta Journal-Constitution report.

- ✓ 94% of all respondents have tried self-checkout,
- ✓ Men are 60% more likely than women to use self-checkout on nearly every trip to the store,
- ✓ Kroger in Atlanta says that 40% of its transactions are going through self-checkout,
- ✓ Home Depot estimates that 39% of all its transactions go through self-scan checkouts,
- ✓ In a study released by IHL Consulting reported in the Atlanta Journal Constitution, consumers scanned \$70 billion worth of self-service transactions in 2003, that amount will quintuple to over \$330 billion by 2007.
- ✓ Self-scanning is rapidly expanding from airports to hotels, in convenience stores and fast food outlets, in retailers where a small number of highly visible items are purchased at one time, and soon even at the US post office.

The # 1 complaint about the systems is the need for employee intervention. While some self-service systems are equipped and attempt to handle paper coupons, a host of new concerns and issues can arise including basic compliance such as have the coupons expired. Although the coupon industry added an Extended Code in 1998 and intend to transition to possibly RSS technology in the future, the basic Coupon Bar Code contains a Company Prefix, Family Code, Value Code, Offer Code, and limited options⁷⁴. It's these very limits and required manual interventions that have retailers and manufacturers looking for other solutions and the coupon industry seeking to re-engineer the coupon.

Stored value cards, in turn, have become the media of choice for incentive, loyalty, co-branding and partnership marketing. We believe a stored value card approach offers in the area of coupon acceptance of a NTIA coupon subsidy program the ability to:

- Greatly reduce consumer fraud through CVV (card verification value) technology and the use of artwork and card design properties, (the CVV is a cryptographic checksum generated from the data on the magnetic stripe that uses a secret key and triple-DES (data encryption standard) algorithm which are verified in a secure device at the SVS host site, whereas paper coupons can be easily and cheaply reproduced with common scanning technology making them highly vulnerable to counterfeiting, misuse and fraud);
- Provide a more secure vehicle to facilitate verification by the retailer that the presenting household is indeed the eligible household certified to use the coupon subsidy;
- Assign, print and encode on the magnetic-strip a primary card number (PAN) in accordance with industry standards that will allow specific tracking of each issued coupon corresponding to a certified converter box purchase;
- Allow the additional assignment of a PIN (personal identification number) if desired for recipients to enter at the point-of-sale which together passed only in an encrypted state with the recipient's PAN can incorporate standard

⁷⁴ See couponinfnow.com.

bankcard industry security minimizing WFA associated with lost or stolen coupons, (paper coupons, even serialized coupons, would be extremely cumbersome for retailers to manually avoid misredemption of lost or stolen coupons);

- Allow certified households and recipients a secure vehicle to replace lost or stolen coupon benefits through standard industry practice card deactivation and replacement processes (whereas with paper coupons either the needy household would lose its intended assistance or added non-intended coupon issuance costs would be incurred by the subsidy program);
- Prescribed benefits usage would be restricted through the on-line host authorization process to systematically prohibit household recipients from using more than the one or two prescribed box coupons determined for the specific household;
- Coupling retail POS with the attached or integrated UPC scanning of a certified converter box purchase, recipient consumers would be systematically prohibited from using a coupon to purchase any device other than a converter box certified pursuant to the DTA subsidy coupon program;
- Requiring that each purchase be validated by an item-specific UPC scan and authorization against only certified converter boxes for each coupon use would systematically prohibit coupon holders from using two coupons in combination towards the purchase of a single DTA converter box;
- Meet the retailer need to have a systematic process in place to prevent consumers from returning a converter box to the retailer for a cash refund or for credit towards the purchase of another item, (i.e., converter box purchases with card coupon subsidies would be detailed on the printed consumer receipt copy required for presentation in attempted return for cash or non-certified box exchange. Presumably, cancel or void coupon transaction capability would be desired to provide retailers with the ability to address service interruptions or restore error situations at retail point-of-sale knowing that all such transaction activity would be fully documented, tracked and subject to audit scrutiny.

NTIA could provide retailers with the ability to request or transact reloading of a household prescribed benefit for the return of a certified converter box as a matter of desired policy or to deal with situations involving damaged box returns when out-of-stock inventory prevents the retailer from being able to perform a like certified exchange. This will also allow recipients to receive back the cash portion of their split tender, yet prevent the retailer or recipient from converting the \$40 coupon to cash without a corresponding eligible box purchase.

- Print both a customer and merchant hard copy receipt fully detailing the accepted coupon transaction including identification of the presented card (recommend printing only the last 4 digits of the associated cardholder), merchant ID, name, and store location (including both the store address and phone number), cashier user ID/lane, time, date, number of coupons used or denied, details of the item-specific (UPC) converter box purchased or denied identified numerically and by understandable description, the balance of any

remaining unused coupon benefits, and on the merchant copy additional processing details such as purchase start time, end time, communication connect time, total transaction length time, and any related error messages.

- Record at the SVS centralized host all attempted as well as accepted coupon usage transaction detail including identification of the cardholder, merchant, specific-item accepted or denied, date, time, cashier/lane ID, and related system performance detail.
- Enable communication messages to be provided for display or printed on the consumer cardholder's receipt. Messages could reflect selected standard messages or provide for individual tailored communication to the specific cardholder.
- Lend adaptation following common bankcard processes to facilitate 'non-card present' transaction tender (coupon acceptance) to facilitate secure and acceptable handling of certified converter box purchases via mail-order, phone-order, or Internet-based merchant sales, (paper coupons would not be readily adaptable to support such sales without substantial exposure to potential waste, fraud and abuse even if serialized coupons were deployed and some form of centralized database were attempted to be maintained).
- Systematically establish, assure, and document what is expected and required for a certified retailer to meet its obligations to honor and accept all valid subsidy coupons that are tendered in the authorized manner.
- Provides accepted industry best practices for accepting, authorizing, transacting, and recording retail point-of-sale tender minimizing coupon handling burden on participating retailers and consumers while minimizing waste, fraud and abuse in an efficient and cost effective manner for NTIA.

We would propose that a stored value card solution would also offer substantial advantages for the redemption component, which would include the ability to:

- Systematically only submit subsidy coupons for redemption as a result of purchases made for converter boxes certified by NTIA, (due to the integrated POS purchase, item-specific UPC scan authorization, and coupon validation);
- Automatically submit detailed coupon information on both attempted and accepted coupons electronically accurately accounting for the at-point-of-purchase transaction to NTIA including detail on both the eligible household and the specific purchased converter box, not only within 30 days after the coupon was used to purchase a converter box, but daily and in accordance with generally accepted accounting practice and SAS 70;
- Following centralized on-line authorization back to the retail POS terminal automatic creation of in-store electronic batch detail of completed DTA subsidy coupon purchases, (SVS retail terminal application provides for the continued cycling of three sequential back-up batch files in addition to the current open batch which retailers can elect to correspond to end-of-day, end-of-shift, or business cut-off sequence to facilitate their own in-store and corporate financial reconciliation);
- Print in hard copy both a customer and merchant copy receipt detailing the coupon purchase including detail on the item-specific converter box

authorized, identification of the recommended last 4-digits of the cardholder, specific information on the merchant name, location, cashier/lane, phone number, date, time, and added messages as desired, as well as reasonable assurance through customer PIN entry (like a debit) for customer verification that he or she did complete the transaction;

- Facilitate not only within 60 days but next day reimbursement of retailers through standard bank retail settlement and reconciliation processes;
- Provide retailers and the NTIA best practice retailer system solution to minimize waste, fraud and abuse; and
- Extends this best redemption practice retail system to potentially mail, phone and Internet-order sales vendors.

With regard to the audit requirements for the Program, in the Coupon Industry Survey⁷⁵ conducted by a task force of the coupon industry to gather information for coupon reengineering initiatives, retailers cited numerous issues with paper coupons:

- ✓ Family codes are incomplete and difficult to maintain,
- ✓ Current POS systems do not handle double coupons properly,
- ✓ Counterfeit coupons are hard to detect,
- ✓ Frequent coding errors occur from incorrect value codes and complex offers,
- ✓ Too many chargebacks and requests for proof of purchases are made,
- ✓ Inaccuracies, and
- ✓ Current system takes too much time to process for payment.

Manufacturers complained that:

- ✓ Paper coupons provide inadequate audit and verification trails,
- ✓ Only a low % of retailers scan and validate family code level,
- ✓ Redemptions occur way past the expiration date,
- ✓ There is too much inaccuracy in reporting,
- ✓ Retailers reproduce coupons without consent of the manufacturers,
- ✓ Retailers lack compliance with using as presented,
- ✓ There are count and value differences in the 2-count system,
- ✓ Wholesalers don't care if they pay for misredeemed coupons,
- ✓ The current process takes too long,
- ✓ Family codes do not match specific products, and
- ✓ Coupons are redeemed for items not even carried by the store.

Perhaps the primary burning issue for manufacturers was that they want to know what was purchased and current coupons systems do not provide this information. This is stated as one of the primary objectives of the NTIA subsidy coupon program. As surveyed manufacturers noted, paper coupons simply do not provide adequate audit and verification trails. As a result, industry members are turning to new and alternative couponing solutions. Critical to providing adequate audit and verification trails are some form of integrated electronic validation between coupon

⁷⁵ "2002 Coupon Industry Survey," *Summary*, July 31, 2002, Coupon Re-Engineering Workgroup, Document # 2002-001.

presentation and item-specific purchase. SVS' stored value card and item-specific point-of-sale authorization system provides such an integrated electronic solution. In addition to the redemption related features noted above, key audit and reporting functionality includes the ability to:

- Instantly record and validate at a centralized SVS Host system electronic detail of all attempted and transacted purchases along with detailed sales information related to coupons used in the purchase of certified converter boxes for NTIA reporting, query, audit, forecasting, analysis, and use in enabling NTIA to make adjustments or improvements during the course of the subsidy program;
- Follow standard banking transactional practices that have been proven and are annually audited for compliance with generally accepted accounting practice and SAS70,
- Store or archive sales information to meet proposed 1-year retention requirements in both paper and electronic media (SVS retention requirements are actually much longer);
- Systematically provide a vehicle that facilitates both on-site and remote audit in real-time not only of individual transaction detail but specific retailer transaction velocity or overall system analytics, (see SVS Analytical Reporting below);
- Provide a systematic vehicle to additionally scan, capture and record in electronic media a serialized manufacturer code associated with each manufactured certified converter box which could be utilized to add further manufacturer, retailer and household accountability since both the perception and means would be available and made known to match and identify any exceptions of duplicate, missing, exceeding permissible quantity, impermissible exchange, or other related forms of misredemption. Note that adding the scan, capture and transmission of a MANUFACTURER SERIAL NUMBER (not the item-specific, UPC authorization we were referring to previously which are part of WIC X9.93 standards) to a POS transaction is non-standard to current POS processes and transaction field entry. Therefore, systematic modifications would have to be made to POS procedures, X.9-type standard transaction sets, and transaction processing; however, it is not without precedent (i.e., common in the warranty and reverse logistics business). If NTIA wanted to potentially entertain this latter check, a more readily means to scan the manufacturer serial number would also be desirable. This validation is offered for discussion as a possible expanded element.

NTIA rules for comment propose that participation by retailers will be voluntary and that retailers who choose to participate will not be compensated by NTIA. To participate, however, retailers will have to demonstrate that they can redeem NTIA subsidy coupons expeditiously and efficiently. The rules also propose that to participate retailers would certify, under penalty of law, that they:

- “Provide information to customers about the necessity for and the installation of a converter box”;

While information can be printed or contained on a coupon, carrier or collateral information, this requirement would appear to focus less on the coupon system and more on the educational campaign, application process, retailer knowledge and experience in consumer electronics, and retail promotion and sales process. Retailer input and active participation is critical. Ease of participation and perceived ability to make a profit will assure retailer voluntary enrollment. Of particular interest to us as a potential service provider, does this requirement intend to limit retailer participation to only those retailers able to prove knowledge or experience in consumer electronics?

- Have in place systems that can be easily audited as well as systems that have the ability to prevent fraud and abuse in the coupon program;

Paper processes provide inadequate audit and verification trails. While paper coupon design and best practices provide some protection from fraud and abuse, they will provide far less protection than more automated system approaches such as electronic offerings and stored value card approaches. The concerns raised are how will retailers assess such risk in voluntarily participating, how will they be held accountable, will NTIA simply withhold individual or some percentage of redemptions, and how will retailers counteract their position. In the commercial sector, retailers have sometimes deducted manufacturer chargebacks or failure to timely make redemptions from their manufacturer vendor invoice payments. Without commenting on the frequency or appropriateness of the prior practice, since NTIA will not be distributing or manufacturing the converter boxes, retailers will not be able to take this remedy. Retailers will therefore choose to participate because they inherently have more confidence in the accuracy, integrity and efficiency of the NTIA coupon subsidy program.

- Are willing to be audited at any time during the course of the coupon program;

Being willing to be audited does not assure that NTIA will be able to effectively and efficiently conduct such audits. Retailers already complain about increasing push back by manufacturers requesting POP (proof of purchase).⁷⁶ Manufacturers point out retailer inability to match coupon usage to specific product purchase. Again retailers have a way to offset manufacturer push back in current commercial coupon processes, which will not be available to them under the NTIA program. Without a more

⁷⁶ “2002 Coupon Industry Survey,” *Summary*, July 31, 2002, Coupon Re-Engineering Workgroup, Document # 2002-001.

automated approach, retailers may simply choose to not participate in the NTIA program.

- Have the ability to electronically provide NTIA with sales information related to coupons used in the purchase of converter boxes, specifically tracking each serialized coupon by number with a corresponding certified converter box purchase;

First, the traditional coupon bar code does not hold an individual serialized number. Options now allow a household ID and extended code implemented in 1998 are targeted to provide better validation of the consumer's purchase, however, many retailer POS systems do not validate such coding nor target specific capture and reporting of such detail. Retailer agents or coupon clearinghouses could provide NTIA with requested sales information, but such information would not be as timely nor complete as what would be reported in an automated coupon system. This shortcoming is a major targeted enhancement of the current coupon reengineering efforts, but such capabilities are not widely in place in the short term. Retailers and manufacturers have emphasized the need to secure more electronic clearing capability in the current paper processes.

A stored value card approach would allow such information to be audited real time including monitoring various activities around exceptions reporting to highlight events outside expected parameters such as retailer transaction velocity. The stored value card approach will also provide NTIA with a daily cumulative account of redemptions to date, issued but unredeemed coupon benefits, expired coupons issued, and coupon requests in process for continuous budgetary and fiscal program management.

- Will only submit coupons for redemption as a result of purchases made for converter boxes certified by NTIA.

Under standard paper coupon processes, this may be the most difficult requirement for retailers to certify and NTIA to audit. Even common bankcard processes focus only on \$'s of the total transaction payment tender. Stored value card applications centered on loyalty, point reward, item-specific authorization, and EBT applications such as WIC have led the introduction of automated checking and matching of detailed elements of the purchase as opposed to authorization of the final payment amount. Electronic retailers may be less familiar with such systems as other retailer types and will likely prove more comfortable making such certifications when an endorsed system is made available.

In addition to these five proposed certifications, the rules propose to require retailers to adhere to and enforce certain restrictions contained in the Act such as:

- Prohibiting coupon holders from using two coupons in combination towards the purchase of a single DTA converter box;

As noted in the Coupon Industry Survey⁷⁷, manufacturers complain that retailers do not match coupons to specific product purchases and retailers submit coupons for redemption on items not even carried in the store. Thus, a retailer could attempt to redeem coupons that may have been doubled up on a previous or single DTA box purchase unless an automated system is validating and tracking each item-specific purchase. Sometimes retailers do not like the constraints imposed by a system that more readily holds and exposes them to detection if they circumvent the intended rules. Conversely, to protect them from penalty of law, we perceive retailers will prefer to be able to point to an endorsed system designed to meet the rules criteria associated with soliciting their voluntary participation.

- Prohibiting consumers from using coupons to purchase any device other than a converter box certified pursuant to the rulemaking;

Again, current paper coupon processes do not adequately assure that only specific approved products are purchased with a coupon. Item-specific authorization of only eligible boxes at the point of purchase with the coupon systematically will be better able to prohibit misredemptions and assure adequate trails for verification.

- Preventing consumers from returning a converter box to the retailer for a cash refund or for credit towards the purchase of another item (limiting returns to even exchanges);

Subsequent attempts by customers to return a coupon-purchased converter box for cash refund or credit towards purchase of non-authorized items could be quite difficult to prevent or discover if retailers do not require and validate previous purchase receipts under paper-based coupon processes. SVS' item-specific authorization receipts provide specific detail highlighting electronic-coupon type purchases and require entry of a return reference number (RRF) from such receipts to cancel, void or reverse a previous specific transaction. Under the NTIA subsidy coupon program, such transactions could be prohibited except under specified error condition situations. NTIA could also provide retailers with the ability to request or transact reloading of a household prescribed benefit for the return of a certified converter box as a matter of desired policy or to deal with situations involving damaged box returns when out-of-stock inventory prevents the retailer from being able to perform a like certified exchange. This will also allow recipients to receive back the cash portion of their split tender, yet prevent the retailer or recipient from converting the \$40 coupon to cash without a corresponding eligible box purchase.

⁷⁷ Id.

Further adding the entry of a unique manufacturer serial number associated with each converter box purchase coupled with the serialized household identification of each coupon usage would provide the ability to either prevent during authorization or highlight for exceptions reporting subsequent to the purchase attempts or purchases of a specific converter box against more than one household coupon. Thus, if a retailer subsequently took back into stock a box previously purchased with a NTIA subsidy coupon and in turn attempted to resell it to another NTIA subsidy coupon holder, the attempted or duplicate redemption against the same manufacturer serialized ID could be systematically prohibited or identified. We are not aware that this capability exists under standard paper coupon processing.

- Requiring retailers to submit coupons or coupon information to NTIA for redemption within 30 days after the coupon has been used to purchase a converter box;

Per the Coupon Industry Survey⁷⁸, both retailers and manufacturers complain about the delays and extended timelines involved for payment under the current paper coupon system. Generally, redemption focuses around the printed expiration period with manufacturers allowing retailers an additional grace period such as 6 months to receive payment. While manufacturers will attempt to manage promotions around specific budgets and time schedules, leniency is extended. Retailers who electronically monitor in-store coupons are able to control expiration and redemption periods. However for paper coupons, coupons have to be collected from cashier drawers, bundled at individual stores, batched again at regional or corporate locations, sent to retailer agents, and then submitted to manufacturer designated locations or clearinghouses when sufficient quantities are accumulated. The process is too labor intensive and cost prohibitive to settle out in small batches daily or even weekly by many retailers. Furthermore, coupons may not be individually stamped with the date of specific purchase for the NTIA to even validate. Conversely, electronic clearing programs such as stored value card approaches can be monitored real-time and provide for daily redemption. Furthermore, the NTIA as the program administrator would have a daily cumulative accounting of expended funds versus program appropriations.

- Reimbursing retailers within 60 days after receiving sales information related to converter boxes purchased with coupons;

While substantial delays may occur from distribution and usage to presentment to designated manufacturer redemption points, settlement takes place fairly shortly thereafter for paper coupons. To speed up payment, the industry has implemented new “one-count coupon” and “quick pay

⁷⁸ Id.

processing”.⁷⁹ Under “one count”, coupon data is captured at the first count at retail clearinghouses instead of the second count previously conducted at the manufacturer’s agent. The data is then transferred electronically between the retail clearinghouse and the manufacturer’s agent. In exchange for accelerated payment, retailers and manufacturers agree to new process guidelines and tolerances to reduce previous settlement disputes or retailer invoice offsets.

Under “quick pay processing”, after coupon information is sent electronically to the manufacturer, the manufacturer or its agent will then use EFT to pay the invoice, and then adjust the quick pay payment from the future manufacturer’s payment after the physical coupons are processed in the normal two-step process. Reconciliation and exception processing becomes more intense as upfront payments must be reconciled with all the later debits, credits, and chargebacks. The objective under both programs is to speed up delivery of financial information and cash flow. Payment is made to retailers before final settlement and resolution of coupon redemption.

The proposed 60 day delay in reimbursement to retailers after receipt of sales information in our opinion is excessive, unnecessary and could prove to be a major disincentive for retailers to voluntarily participate in the DTA subsidy coupon program. Retailers are already being asked to acquire and inventory certified boxes. With \$40 coupons expected to account for 80% of the \$50 price of the box, retailers should not be expected to incur possibly 30 days for redemption presentment and another 60 days for payment. Without knowing procurement and stocking lead times, payment policies should encourage retailers to have sufficient stock on hand to meet eligible household demand.

With defined coupon expiration periods and the possibility that fulfillment could fall short to demand and benefit those on a first come first serve basis, rural households could become disadvantaged as a result of the proposed 60 day reimbursement delay. We had understood that one of the objectives of the program was to incite households to act quickly before service was cut-off. A 60-day delay in reimbursement to retailers runs counter to such objectives. In the commercial sector and government supported electronic benefit programs such as food stamps, WIC, family assistance, and related social service benefits, both retailers and overall settlement of the system is done daily consistent with business operating days of the Federal Reserve. A stored value card approach can support next day retailer and total system settlement and reconciliation consistent with standard retailer and banking system best practices. We believe the closer financial accountability and settlement is moved to real-time and daily reconciliation, the less opportunity there will be for financial waste, fraud, and abuse in the system.

⁷⁹ UCC Coupon Work Group.

- Honoring all valid coupons that are tendered in the authorized manner;

It is difficult to obtain good information on the number or amount of paper coupons dishonored at retail point-of-sale. Unless a household takes the extra time to go to customer service or requests the assistance of a manager, individual cashiers largely determine coupon acceptance at checkout. Expansion of self-service or 'U-scan' checkout is adding a new point for disruption in coupon acceptance. Manufacturers are further removed, relying on customer complaints to record and classify instances of customer use problems.

In an electronic card coupon presentment system, the NTIA will have real-time records of all attempted usage of DTA subsidy coupons including the reason code classification, time, place, household ID, cashier/lane Id, and the specific converter box for all denied as well as accepted attempts for purchase. The NTIA would therefore have timely data to assess retailer acceptance and performance in meeting their agreed obligations under the program. This would be substantially more difficult to accomplish in a non-electronic transaction environment.

Under any program approach, a convenient and easily accessible process will need to be made readily available for eligible households to register service problems, complaints, and seek quick assistance. SVS believes the latter will be an important component of its public awareness and education program, a key element in the design of its card and carrier printed communications, a critical piece of retailer and customer service training, and part of the overall system and human interface design and implementation to facilitate timely assistance with good recipient effect.

- Creating a coupon process that prevents waste, fraud and abuse, while minimizing the burden on participating retailers and consumers.

First, the reason gift card stored-value solutions have so rapidly been accepted by the retail community across both national chain and mom & pop operations is its integration and congruence with existing standard bank payment processing systems. Even more attractive is the ability to extend the solution over a closed-loop system thereby AVOIDING high bankcard interchange and third-party transaction fees⁸⁰. Retailers can elect to receive specifications to add the additional DTA subsidy coupon tender to their existing POS/ECR system or receive a standalone, side-by-side POS terminal solution.

In Appendix A, Initial Regulatory Flexibility Analysis, by the Acting Assistant Secretary for Communications and Information, issued with the associated

⁸⁰ *More Retailers Team Up Against Credit Card Fees*, Convenience Store News, July 15, 2005.

proposed rulemaking process, under the section E and titled Alternatives to Minimize Burdens, NTIA has “proposed a self-certification for retailers for the various compliance requirements.”⁸¹ As further noted therein, NTIA states that, “alternatively it could require a third-party certification process, or institute a procedure whereby NTIA certifies the compliance process.” Per the required analysis, reference is made that “either option includes additional steps in the certification process and therefore would increase time and cost.” We would concur, adding however, that not pursuing either option would not necessarily relieve the program or associated stakeholders with conducting similar additional steps and most likely would add even increased time and cost, or possible program delay.

Under EBT type programs like Food Stamp and WIC coupons, the state social services agency will determine, certify and authorize individual retailer participation. While SVS under an EBT service provider arrangement will support the state agency in monitoring retailer compliance, continued participation and authorization is managed by the state. The EBT service provider is contracted to conduct retailer training, provide ECR/POS integration specifications or an alternative stand-alone POS terminal solution, conduct the agreed authorizations and purchase transactions consistent with industry standards and defined requirements, extend retailer specific reporting and customer service assistance, and initiate retailer financial settlement and reconciliation.

While retailer participation is defined as voluntary under the proposed rules, we presume some form of legal agreement and certification process will be needed to establish, define, stipulate, and enforce the roles, expectations, requirements, rules, processes, relationships, and covenants among the various stakeholders. In the EBT world, SVS’ contract is established with the state, which defines its relationship, scope of work, obligations, and contractual remedies associated with how it interacts and services the retailer community. Due to the financial settlement obligations, this relationship extends further through the parties established bank intermediaries. Obviously, however, it is the strategic partnership and commitment that makes it work.

In the commercial sector, SVS is accustomed to negotiating, contractually entering, certifying, and servicing its retailer merchants for coupon and card-related services directly. As part of the sales and implementations process, SVS has a team of professionals that perform such vital steps as:

- Validating the legitimacy of the merchant and its authority to do business at the designated location;
- Investigating how the prospective candidate does business and determining whether defined business criteria are met;
- Evaluating the credit worthiness and financial strength of the business to assess our financial risk and exposure, and determining how the merchant pays its financial obligations;

⁸¹ Id. “*Notice of Proposed Rulemaking*,” Initial Regulatory Flexibility Analysis, Appendix A.

- Securing some form of written letter of intent to do business with each other and securing appropriate mutual confidentiality and non-disclosure agreements;
- Documenting and reaching agreement on our scope of work for services to be performed;
- Reaching final contractual agreement on our mutual obligations and remedies associated with the agreed scope of work, timelines, checkpoints, duties and responsibilities, and service performance requirements;
- Recognition and good faith management of required change orders to facilitate unforeseen needs and changes;
- Disciplined planning, testing, possible adjustment, and timely execution with good effect of agreed implementation and service transition plan particularly revolving around training, systems, equipment, supplies, banking relationship, and third-party vendor services;
- Continuous monitoring, measurement and improvement of service performance;
- Quick response to and appropriate escalated addressing of any potential fraudulent or criminal activity stemming out of the relationship or mutual obligations; and,
- Good faith resolution and correction of any service or contractual shortcomings.

The advantage that the state or related governmental authority brings to a certification process if it assumes the compliance requirements is uniformity, a public service mind ness, certain efficiencies, and timelines. Sometimes the state may also be in a better position to justify a denial or removal of a retailer from a public funded program. Conversely, if the agency was to approve and certify a standard, uniform, retailer agreement that would be deployed by the service provider for all voluntary retailer participants; then, similar uniformity, non-discriminating, public service mind ness, sign-up efficiencies and timelines could be achieved by the contracted service provider assuming retailer certification responsibilities.

To further important public service mind ness interests, a Retailer Certification Advisory Group could be established providing membership to governmental agency representation, electronics retailer association representation, large electronics retailer representation, small electronics retailer representation, mass merchandiser representation, service provider representation, and possibly consumer representation. In addition to providing guidance, this group could service an appeal process for retailers denied participation during the certification process, but still wishing to participate. For the program to work, a strategic alliance and working partnership must occur among all stakeholders to minimize related burdens and assure all parties enthusiastically participate and promote the program with good effect!

Finally, the procedural and technology-supported approach offered by the service provider can instill certain systematic discipline, control, and verification important to retailer certification. For example, in a stored value card approach, system design would require retailers to either implement integrated ECR/POS specifications on their existing platform infrastructure to leverage current hardware investments and certain enhanced process and reporting preferences, or install provided standalone terminal system at retail point-of-sale and customer service stations. Thus, before a coupon can be authorized against a certified eligible box, the SVS Host would have to establish that the submitting retailer and network terminal connection is from a valid, authorized retailer. Established POS industry standards, policies, practices, processes, and security measures independently audited for GAAP and SAS 70 conformance provide a level of best practices and proven technology that supports billions of dollars of commerce daily and under continuous Six Sigma quality management minimizes WFA.

As noted in the previous paragraph, a stored-value card approach would require some form of transaction enhancement to existing ECR/POS equipment or the installation of a standalone terminal to perform the new item-specific authorization against the coupon card. The proposed rules as well as statements under Associated Costs of Section E in Appendix A⁸², both note that as part of the retailer certification process retailers wishing to participate must be able “to demonstrate that they have systems in place to redeem coupons expeditiously and efficiently”. While the stated presumption is that retailers already have such systems and therefore would not have to purchase a new system for the coupon program, the proposed rules go on to further state that “the nature of this coupon program, however, may require participating retailers to assume additional costs associated with preventing fraud”⁸³, which the notice indicated “such costs could not be estimated at this point of the rulemaking process”⁸⁴. The reality is that whether retailers elect to participate under a paper coupon process or a stored-value card coupon process, retailers will incur additional cost to handle and redeem the proposed DTA subsidy coupons.

In our response to NTIA’s RFI, we noted that retailers bear a significant cost to accept, count, reconcile, bundle, mail, submit through their corporate office or retailer agent their claim or charge to the various manufacturer agents, respond to proof of purchase demands, bear related bank fees and charges associated with final payment, carry the float or fund the substantial delay between the date of the item sale and multiple week delay in receipt of payment, and incur the deductions associated with substantial misredemptions, acceptance of expired coupons, or counterfeits. Noting that this program will not take the leniency often extended by manufacturers who want to promote sales of their product under manufacturer coupon programs and that the potential fraud and counterfeit appeal of a \$40

⁸² Id. at “*Notice of Proposed Rulemaking*,” Section F, Retailer Certification, p. 7 and “*Initial Regulatory Flexibility Analysis*,” Appendix A, Section E, Associated Costs, p. 4.

⁸³ Id.

⁸⁴ Id.

coupon will likely far exceed the 15% abuse that occurs with coupons averaging around a dollar, retailers may indeed choose to not participate if they perceive such costs will exceed their potential margins attainable on sale of the standard boxes.

Conversely, retailers may argue that they should not have to bear the initial cost to purchase a low-cost standalone terminal or alternatively the cost to program on their ECR/POS platform the additional item-specific transaction set so they could leverage their existing infrastructure across their network of stores. Argument might be made that the latter are part of the administrative cost of the program. Conversely, the statement was made that avoiding the loss associated with 1 counterfeit a month during the program would more than offset the cost of a standalone terminal. For larger chains with hundreds or thousands of stores, the cost to program the integration spread out across all its stores might be offset by avoiding just one counterfeit per store during the full eighteen-month period. We believe retailers will demand an automated, card-based solution when faced with assuming the additional costs associated with fraud. However, we would note that retailers are commonly paid by manufacturers to handle coupons, even though the payment falls far short of their costs and manufacturers are quite lenient in their misredemption policies. Thus, the NTIA may want to allot some portion of the administrative appropriation, perhaps on a per store location allowance, toward providing retailer certification, education, training and system support to handle the proposed coupons in order to allow retailers to reasonably assess and quantify their potential risks and costs associated with voluntary participation. As noted in our response to the RFI, we do not believe such costs will be cost prohibitive.

One of the key components of any process for minimizing waste, fraud and abuse will of course involve supporting management information systems, whether for a paper or card-based coupon. Recommended use of a stored value card coupon approach will systematically assure real-time, daily tracking of all attempted, accepted, and denied coupon usage (redemption) through:

- Centralized, on-line SVS Host authorization, data warehouse, and analytical reporting (including query tools) consistent with ISO 8583 and X9.93 ANSI standard or similarly agreed transaction sets;
- Printed, consumer and merchant hard-copy receipts detailing unused coupon balances, accepted item-specific (UPC) converter box coupon purchases, and denied item-specific (UPC) attempted coupon purchases along with household, retailer, cashier/lane, date/time, and location.
- Sequenced batch file transaction detail of all attempted transactions conducted in a provided standalone POS terminal, plus 3 prior back-up batch sequences;
- Tested retailer integrated ECR/POS developed software meeting program, data warehouse, and system specifications; and
- Standard banking industry, next day settlement and payment via the Federal Reserve ACH process.

Daily coupon request and fulfillment activities would be consolidated, entered, validated, and tracked in an automated database utilized to set-up, administer and control coupon card production and account management. Household coupon requests submitted via program icon links to a SVS website application would provide for earlier systematic tracking and control, than a paper application request sent via mail to SVS for coupon fulfillment. Phone requested applications would pass through customer service agent human user interface (HUI) application entry which involves a PC-based network integrated application tool permitting detailed, automated reporting capability. SVS has a number of automated vendor interfaces supporting various alternative and back-up coupon card printing, personalization, and distribution/logistics processes. QA processes and tools assure required specifications are met. Procedural elements assure two separate, independent reviews and comparison against the job specification. Consistent with our Six Sigma program, SVS' QA process continually strives to measure, assess, and improve upon key performance objectives, particularly focused around customer value.

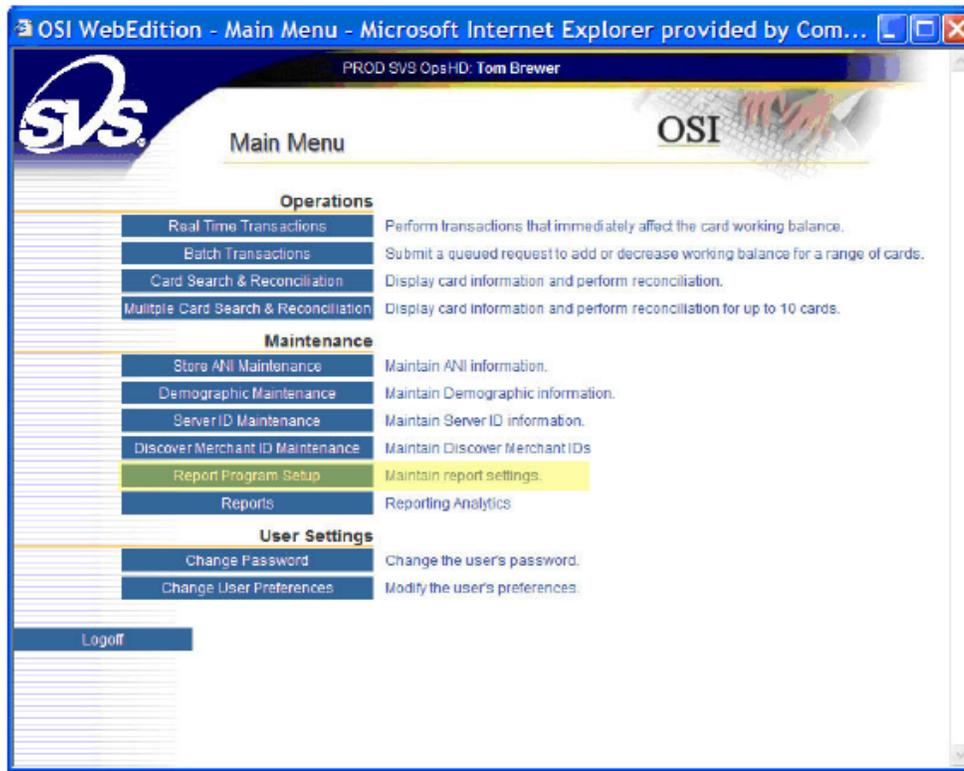
Standard industry type reports are provided on a daily, weekly, and monthly basis. These reports can be obtained by the following options:

- From a website;
- By a report file to be picked up from an FTP site;
- Through flat files picked up from a FTP or web site; or
- On request sent via e-mail or FTP.

SVS does provide a web-based tool to receive reports called I-Connectdata.com. The website is secured using a Secure Socket Layer (SSL) certificate and user login. I-Connectdata.com is used as a portal to obtain access to all standard reports, SVS' Card Inventory Management System (CIMS) application and the Online System Interface (OSI) application. Both CIMS and OSI are web-based applications as well. SVS' standard provided reports are based upon more than 10 years of client input, client focus groups held in 2003 and 2004, and feedback from our SVS Client Working Group on Reporting Needs. Part of the efforts of the latter cited Group is to provide guidance on formulating Industry Benchmark Reports for our clients to compare their own data against different provided Industry Benchmarks.

One of the unique tools SVS provides to its clients to view, save, and print reports that provide information on coupon distribution and redemption activity is called Analytical Reporting. Based on the InfoView mechanism from Business Objects, Inc., Analytical Reporting would allow NTIA to view and retrieve documents from the Business Objects repository. This functionality includes the ability to retrieve and display the reports as HTML, Excel, or Adobe Acrobat.pdf files. In addition, Business Objects offers NTIA the ability to create its own queries on SVS tables directly to sort and display only the relevant information it needs. It also includes drill down capability. A user guide provides step-by-step instructions on Analytical Reporting's login procedures and navigation, locating and opening reports,

responding to prompts and executing queries, and saving reports as Microsoft Excel files.



This tool would give NTIA the ability to define and re-define categories to dissect data as often as it wishes from the desktop PC. For example, our current clients will earmark an incentive or card program and pull a life-to-date report to see how quickly the cards are redeemed, or what the residual value is on the card, if there was lift, or split tender. Information can be sliced as narrow as analyzing redemptions within the window of an hour or day part, or as broad as determining velocity for a week, month, a single store location or by a complete chain. For instance, SVS has clients that want to analyze the popularity of new artwork or promotional material placed at the point-of-sale at a store location. In another situation, we have clients interested in investigating discrepancies at a certain store. Each user within defined security parameters can set his or her own individualized segmentations. Because reports can be produced and saved in Microsoft Excel format, clients are able to further sort, analyze and format selected information as they choose. **Essentially, NTIA WILL HAVE THE MEANS TO TRACK AND ANALYZE COUPON REQUESTS, DISTRIBUTION AND REDEMPTION AT ITS FINGERTIPS ON ITS OWN DESKTOP PCS.** And, the NTIA would have a daily cumulative account of redemptions to date, issued but unredeemed coupon benefits, expired coupons issued, and coupon requests in process for continuous budgetary and fiscal program management, slice or diced to their choosing.

This same tool could also be provided for individual retailers to allow them to secure information to monitor and even better strategize their own marketing efforts. Thus, the tool might give retailers participating in the DTA subsidy coupon program not only the ability to view transactional activity, but the unprecedented flexibility and freedom to specify and assess their own marketing campaign around the DTA coupon subsidy program.

Currently, SVS is taking a leadership role to stop stored value card fraud by sharing industry stored value card anti-fraud “Best Practices” with retailers, assisting federal and local law enforcement agencies, developing anti-fraud card production techniques with manufacturers, and proactively identifying fraud trends and information sharing with merchants. While fraud cannot be eliminated from any program approach entirely, an automated stored value card program will be substantially more secure than a paper coupon approach.

Internally, SVS maintains an Anti-Fraud Unit that includes staff that monitor activity and designed processes to detect, trap and track previous identified patterns and new threats. The head of this unit works closely with the National Retail Federation (NRF) and the Retail Industry Leaders Association (RILA) to identify, alert, share, and formulate joint industry responses to various concerns and trends. Through industry news (link on SVS website), industry newsletters (SVS NEWSLETTER and SVS Focus), Retail Alerts, and break-out sessions at sponsored meetings, SVS is proactively taking steps to put stopgaps in place and educate clients to use preventive measures.



For example, in Vol. 5 No. 3, Fall 2005, issue of SVS NEWSLETTER online, SVS reported on new security alliances and reporting tools introduced to boost stored-value card program security. Two of the tools cited involved enhancements to SVS’ integrated voice response (IVR) system for exceptions reporting and linkage with software providers like Datavantage, Retail Expert, Aspect, Traxx and others for out clients to be able to take SVS card data feeds and run it into their monitoring software for client check, debit and credit card to potentially trigger suspicious activities.



SVS to our knowledge is one of the few firms with designated fraud resources assigned to assist clients with identifying or working issues of potential fraud. Carefully screening transaction activity for fraud patterns is of course one component to timely detect and track threats of WFA. Toward this objective, SVS provides its clients both real-time access and daily reporting to help identify internal and external fraud (such as IVR traps) patterns. Included in the daily reporting are what SVS labels as Clients Fraud Protection Reports. This series of reports are designed to alert the client to 'high risk' transactional activity or events. Pre-defined client settings are mutually established and a series of reports will detail any transactions that meet the pre-defined criteria. Reports are made available daily for transactions processed the previous day, and at the first of each month using the previous month's transactions.

Examples of exceptions reporting areas of potential concern in the DTA coupon subsidy program might include:

- Duplicate suspect household requests for coupons:
 - Address line match with same zip
 - Street name match with same zip
 - Household name match with same city or zip
 - Caller ID or e-mail address matched to another name or address
 - Combinations of the above
- Duplicate suspect households issued coupons:
 - Address line match with same zip
 - Street name match with same zip
 - Household name match with same city or zip

- Caller ID or e-mail address matched to another name or address
- Combinations of the above
- Multiple 'call-in' numbers to IVR by the same household
- Multiple 'call-in' numbers to Customer Service by the same household
- Call-in number to IVR or Customer Service against a household account with a zero balance remaining
- Call-in number to IVR or Customer Service against a reported lost or stolen coupon
- Coupon requests against identified suspect household names
- Coupon requests against identified suspect address locations
- Issued coupons against identified suspect household names
- Issued coupons against identified suspect address locations
- Cancelled coupon redemption attempts
- Coupon redemptions exceeding two against a single household account
- Coupon cards issued with more than two eligible coupons
- Denied coupon redemption attempts due to ineligible converter box
- Denied coupon redemption attempts at more than one retail location
- Coupon redemption attempt at an unauthorized retailer
- Coupon redemption attempts against a household account with a zero balance remaining
- Attempted activity against a reported lost or stolen coupon
- Exchange transactions due to damaged equipment
- Households reporting more than one lost or stolen coupon
- Household accounts with two or more coupon cards issued
- Household accounts with more than 3 successive PIN entry errors
- Attempted activity against a coupon that has expired
- Redemption transactions authorized against an expired coupon card
- Invalid coupon redemption attempts
- Retailer daily redemption activity exceeding X amount designated for a specific location, retail type, or day type
- Retailer weekly redemption activity exceeding X amount designated for a specific location or retail type
- Settlement value given to retail locations with no reported redemption activity on the previous business day
- Settlement value returned due to an invalid bank account
- Redemption activity at retailers "on-watch"
- Redemption activity approved against "shopper audit" accounts
- Attempted activity or activity against 'deactivated' or 'inactivated' household accounts

Suspect activity needing to be reported from the retailer include:

- Attempted activity where the household name and address printed on the coupon do not match the name and address on the indicated presented government picture ID
- Attempted activity on a coupon card that appears to indicate that an attempt was made to alter the printed name or address on the coupon

- Authorized coupon redemption where the last four digits on the card do not match those printed on the hard copy receipt
- Suspect counterfeit card presented

In addition to exceptions reporting, SVS provides a data warehouse-type structure for its clients to perform ad hoc queries, custom reporting, and data downloads. The data will be real-time mirrored from the production database. Access will be via industry standard browser such as Microsoft IE or Netscape Navigator. Reference should be made to the prior section regarding SVS' Analytical Reporting tool, which could be used to view discrepancies at an individual store level or monitor activity down to an hour unit level.

G. Consumer Education

Testimony provided by the GAO on September 6, 2005⁸⁵ noted that a survey conducted back in 2002 “found that 83% of respondents had never heard of or were only somewhat aware of the transition.” From our own informal polling, we believe a large percentage of consumers are still only slightly aware of the impending transition and are confused between digital and high definition. Furthermore, brief inquiry to some retailers and other industry representatives led us to conclude that considerable awareness and educational efforts will be needed there as well. Thus, despite the initiatives and on-going efforts of numerous organizations to distribute and make publicly available some excellent material on the DTV transition, the public campaign to be launched under this program may be the most important component outlined in the proposed scope of work.

Our initial view concurs with comments presented that NTIA will need to leverage the proposed \$5,000,000 spending limit⁸⁶ by complementing and collaborating with the other stakeholders. In many respects, this is how EBT was first launched and this is how we have led the development of the gift card industry. In our early EBT days, key partnerships were formed among various social service agency members, retailers, retailer associations, consumer groups, advocacy groups, community members, members of the media, and individual recipients. Clear, concise, open and responsive communication at every stage of the project from initial planning to final evaluation proved critical and was the best assurance for program success. We found each partner wanted and needed ownership. When they got it, positive things happened! Costs involved primarily time and travel.

To the extent specific objectives and measures are provided and agreed among key stakeholders, we believe that a separate proposal process could be carved out to produce common usable pieces and themes for use across all media to convey a clear, unifying and consistent message. Conversely, since the effectiveness of this

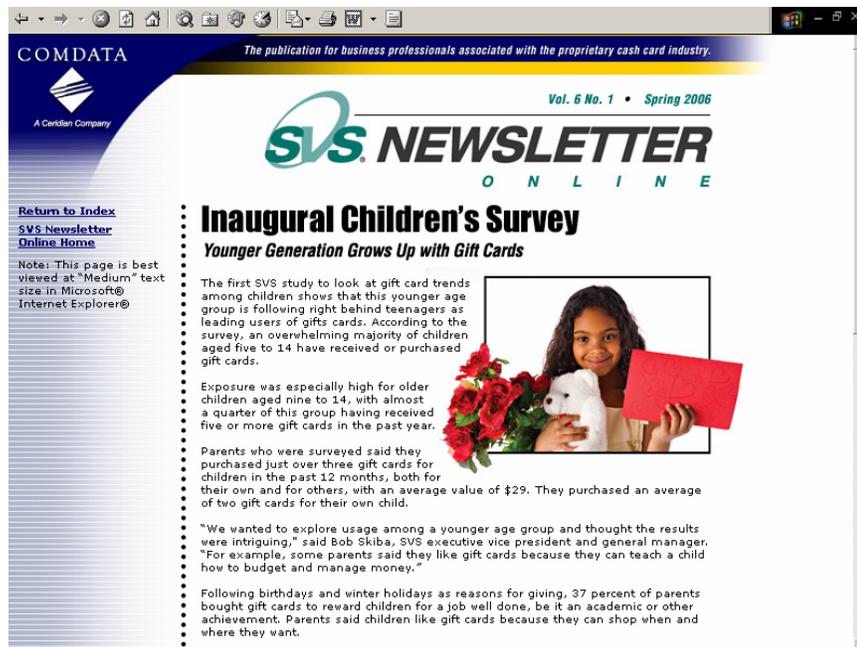
⁸⁵ “*Digital Television Transition: Issues Related to an Information Campaign Regarding the Transition*,” GAO-05-940R Digital Television Transition, September 6, 2005, p. 5.

⁸⁶ Id. at “*Notice of Proposed Rulemaking*,” Section G, Consumer Education, p. 8.

material and campaign will be so critical to the successful delivery and performance of all other components of the program, we would be extremely hesitant if it were awarded separate from the overall work and program objective. Our sense is that the application process and the coupons themselves are critical pieces to the consumer education campaign as well as the retailer provided certification, education, and collateral material supporting coupon use and redemption at point-of-sale. We would further suspect that lift from the campaign should be tested, measured, and efforts refined during the course of implementing and running the coupon program. Therefore, where does consumer educational efforts end and are they truly separate from daily performance of the other required program activities? Our general sense is that they are inseparable and so vital to the overall effective performance that consumer education should preferably come under the overall project management of an end-to-end service provider.

SVS' core competency, however, is not in designing or mounting a national public awareness and education campaign. We would subcontract a significant part of this work to a reputable firm. While we have existing relationships, we also often work with those firms and agents of the most highly recognized retailers in the country, if not in the world. Today, we operate globally in 37 different countries. Currently we believe and research supports that one of our competitive advantages in the gift and coupon card industry is our client support in marketing and education. Those clients are primarily retailers; so much of our focus is from their perspective and helping them drive consumer awareness and usage. We succeed because our retailer clients succeed with their customers!

Toward this end, we collaborate, conduct, and share primary market research. Some of this information is made publicly available through access on our website and publications released. Obviously, more detailed information and

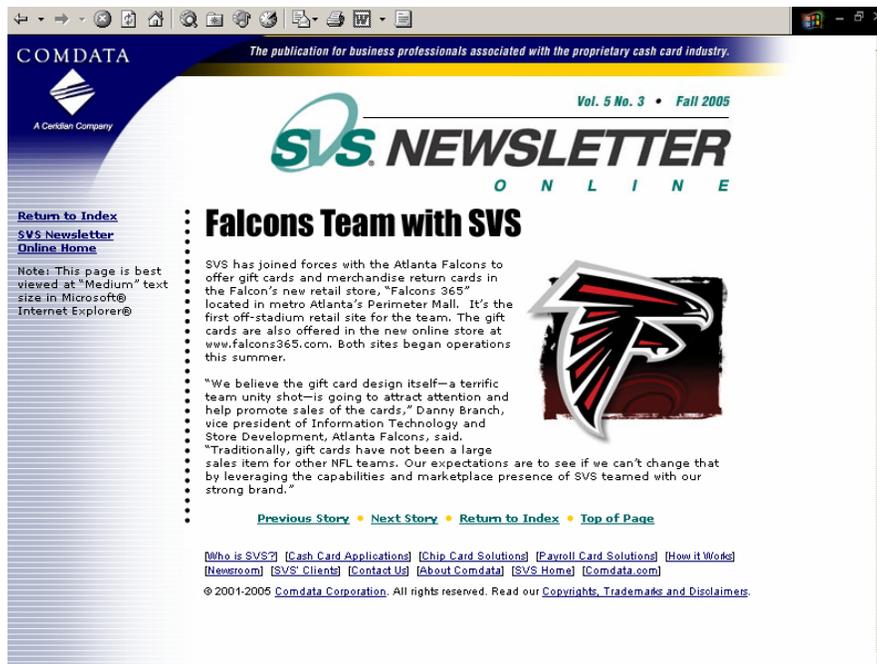


analyses are processed to benefit our clients. Our shared common objective, for example in gift cards, is to increase their demand and use both nationally and globally. SVS' primary research data is used by our clients to create copy and build campaigns that appeal to these opportunities.

SVS actually treats and tracks the cards associated with these promotions as separate product SKU's. SVS clients can then access SVS Analytical Tools to pull at any time a life-to-date report to: see how quickly the cards are purchased, measure if there was a particular lift as a result of a change in artwork, determine how quickly the cards are redeemed, identify whether split tender occurred with use of the cards, evaluate the residual value on the cards, or dimension the frequency that value was reloaded onto the cards. Clients can slice information as narrow as analyzing purchases or redemptions within the window of an hour or day part, or as broad as determining velocity for a week, month, a single store location, or by a complete division.



Clients sometimes want to analyze the popularity of new material at point-of-purchase (POP) for a particular holiday, compare lift from different themes placed in different locations, or set their own individualized segmentations. If desired, data can be extracted and saved to a Microsoft Excel format for even further client manipulation. This tool could prove particularly useful in support of community outreach efforts, for example in partnering with key organizations in the Hispanic, Native American, African American, or similar communities. Likewise, the tool would assist in measuring program efforts and effectiveness to special needs individuals such as those with hearing or visual impairments, or those requiring additional assistance due to physical or learning impairments. We believe one of keys to consumer education will be to provide tools, communication and ownership to those vital organizations that directly service the diversity of US households.



To facilitate improvement, SVS will generate industry benchmarks and allow individual retailer or chains to compare themselves to their industry, other divisions, or different regions/countries. SVS will be asked by industry groups to share strategies for Best Practices or Best In Class, i.e. what works and what doesn't work! SVS will also share more generic success stories or alert clients to specific new programs in the industry. Again, vehicles for timely and frequent communication are often the key.



For purposes of the consumer education program, many of these same tools can be used both during initial strategy formulation and during program transition to assess different elements and mix, compare alternative campaigns, evaluate the lift from assistance of specific community groups and outreach efforts, measure the boost from specific public service announcements, assess investment in retail point-of-purchase materials, or determine the impact on coupon non-redemption due to electronics retailer attempts to up-sell coupon holders toward purchase of higher feature, non-eligible boxes.

We believe through collaborative efforts, materials can be jointly produced and disseminated to provide unifying messages across various media including public service announcements, web sites, print articles, flyers, and manufacturer or retailer promotion. We are less sure that monies used for pure program advertising would be an effective and efficient use of scarce resources. Our understanding is that the intent of the program is to “assist consumers who rely exclusively on analog-only transmission and who wish to continue receiving broadcast programming over the air using analog-only televisions after February 18, 2009, the date that full-power television stations are required to cease analog broadcasting.”⁸⁷ The effectiveness and efficiency of the consumer education program can be measured during the course of the transition by how progress is made and full penetration attained toward receiving numbers of requests and having coupons redeemed in each segmented market, (i.e., geographic, cultural, economic, rural, or even behavioral). Ongoing measures of consumer awareness and action will also prove useful to gauge performance. When analog broadcasting is ceased, our measure of success will be “no adverse effects either actual or perceived to DOC/NTIA or the digital transition due to unawareness of the transition or problems in coupon operations.”⁸⁸

Consistent with the public campaign to let consumers know that they can continue receiving broadcast programming over the air using analog-only televisions after February 18, 2009 when analog broadcasting is required to cease, the campaign has to let consumers know that the government will help defray the cost if they meet the eligibility criteria. Clear determination of eligibility will be critical and how to make the public aware of eligibility criteria in a positive vein.

We believe the amount of \$40, particularly if it offsets 80% of the expected \$50 cost of standard boxes, will spread quickly by word-of-mouth when consumers become aware that they must act. The \$40 defrayal provides a reason to act timely. We believe the \$40 chance to save brings a dollar incentive to bridging the messages “why should I care” and “why should I act now” in both the application request and coupon fulfillment materials and processes.

⁸⁷ “*Notice of Proposed Rulemaking (7/25/2006)*,” Summary, p. 1.

⁸⁸ *Request For Information (RFI)*, Draft Statement of Requirements, Section Objectives of DTA Converter Box Coupon Program, p. 3.

Whether the coupon is paper or a stored-value card, research indicates that clearly stating and prominently displaying the coupon's face value is important for coupon design. Because expectations are that multiple manufacturers will develop eligible boxes, brand or manufacturer name may become less important or will not be as prominent for the subsidy coupon as in the normal coupon world. Government is the issuer or entity making the coupon deal available, and we believe part of the communication and presentation involves positioning 'government' as the giver of value, making the transition painless, while noting all the added benefits consumers will get from digital TV. Manufacturers may then want to come back to promote their brands noting the added services that might be obtained, but we perceive that our campaign needs to focus on the standard box and keeping current service operational.

Research notes that coupon users don't generally focus on the final cost, but are motivated on what they will save. From informal discussion with some electronics retailers, if the program assures that there is a market, we believe retailers will feature the \$40 potential coupon savings in their targeted advertising and would welcome in-store point-of-purchase material. Providing unifying trademarks and copy for retailers to include in their own promotions would appear to be a good use of a portion of the consumer educational funding. One of the challenges of the subsidy program is to provide clear consumer guidance as to what qualifies as an eligible, standard box. Symbols can provide a simple, clear mark across multiple languages.

Successful manufacturing coupon issuers will also report that they carefully coordinate their coupon program launches as a component of their overall promotional campaign. Therefore, manufacturers will solicit co-retailer promotion through website, signage, POP and door promos, preferred shelf-display, additional retail discount/sale, inclusion in retail circulars or ads, training and education of sales staff, and possibly excitement generators such as 'ask me' buttons (with unifying mark). Retailers can be a tremendous partner in the overall public campaign to let households know that "service can be retained" and "the government will help defray the cost;" but, you must act now!

The Internet has rapidly become a key tool for anyone searching for information on a topic. Keywords need to be identified and coordinated with major search engines to link inquiries to a designated site promoting the program and available governmental assistance. Converter box icons highlighted with "For more information," "if you need assistance," "help with the cost," or "apply now" linked directly to specially designed web pages in multiple languages and appealing to different cultural groups can be made available for placement virtually on any stake holder's website having an interest in the program.

Consumer and volunteer groups, however, become even more important partners for distribution and guidance to their constituencies. During SVS' launch a number of years ago of a smart card demonstration for electronic food stamp delivery in

Dayton, Ohio, approximately one hundred twenty (120) consumer interest and advocacy groups partnered to get out the word with an army of volunteers and a means to meet with households in ways we could have never attained or foreseen. We learned first hand that “people help other people find financial assistance.” These other people, however, need simple, easy-to-understand information and communication!

Essentially, we want to be everywhere! The first educational hurdles involve letting households know they need to act, assistance is available, and this is where and how you can get it! While assistance is available, under the Act, it must be requested. When households are ready to apply, SVS recognizes the importance of being able to accept applications from a variety of sources and medium. The most difficult mechanical and potentially controversial step, however, involves discerning eligibility. Thus the educational campaign hurdle must not only establish how assistance can be requested, but guide potential requesting households on how to determine whether they are eligible to apply.

H. Implementation

The decisions on how NTIA will require the DTA coupon program to be rolled-out, (i.e., phased in geographically or turned-on overnight), is of concern. In the EBT arena, implementations are carefully piloted, tested and then implemented across the state in an organized and staggered basis. A national program roll-out presents a far more challenging situation. In some of the referenced data contained in the Comments of the Association of Public Television Stations made before NTIA, considerable detail was noted for example in Appendix C about numbers of households relying on over-the-air analog service provided by Dennis Haarsager and Television Bureau of Advertising (November, 2003)⁸⁹ which could be used to plan and stagger national roll-out.

If the implementation was not only phased, but the program window possibly narrowed for each phased in region, resources such as staff to sign-up and certify retailers, trainers, equipment installers, and possibly folks to meet with volunteer and consumer interest groups could be driven by experienced personnel leveraging from what was learned in each prior phase implementation. Even standalone terminal equipment or promotional signage could be reused. We believe there could be significant fixed cost leveraged under such an implementation. In our discussions with various stakeholders, the message repeated over-and-over was a perception that there would be a major lull between the first month or two, and the last two months!

⁸⁹ “A Roadmap For Early Return of Public Television’s Analog Spectrum,” by Andrew D. Cotlar, Association of Public Television Stations, Digital-Only Broadcasting, March 2004, Appendix C, p. 40.

We believe shorter, regional implementations would yield substantially more cost effective and efficient implementation of the program with better effect on many stakeholders. However, we do understand that different parties may intend to pursue differing strategies that might prefer the full eighteen-month window nationally. We also understand that there may be some legislative or regulatory hurdles to address. Since fulfilled coupons carry an expiration date of three months, we would not be limiting individual household coupon usage. We could be viewed as limiting the time window to act and request assistance, which some consumer interest groups might view as too restrictive. Conversely, these same interest groups could better marshal usage of their own limited resources by concentrating their outreach and ‘get-out-campaigns’ in a more manageable, regional basis.

Retailers might benefit from better turnover of their standard box inventory; however, they would incur a shorter window for building store traffic. National retailer chains might benefit from more effective regionalized use of promotional or advertising dollars and the ability to fine-tune their marketing efforts, but others may prefer the longer national traffic building campaign opportunity. Manufacturers might be better able to gauge production, warehousing and distribution efforts, which could translate into less consumer stock-out situations. We would think that retailers would similarly benefit from improved warehousing and distribution. Other manufacturers might view the full national eighteen-month window as more attractive to their marketing aspirations. Broadcasters might similarly benefit through accelerated ability to eliminate supporting costly dual transmissions, bring the digital revolution to Americans, and free up valuable spectrum for other more effective use.

Perhaps there is real value in the learning and experience attained from the European DTV transitions that merit more debate for possible application in our own roll-out. We understand, views will differ, however, we want to indicate that as a potential service provider, we are quite flexible on this matter and can see real advantages to a phased-in approach for program implementation.

I. Conclusion

For the above stated reasons, Stored Value Systems and its partners believe an item-specific, stored-value card approach best meets the objectives and proposed requirements of a DTA subsidy coupon program, caters to the differing needs of various stakeholders, and mitigates the potential for waste, fraud and abuse in a cost-effective manner. Some of those important attributes of our stored-value card coupon approach include to:

1. Let U.S. households know that “service can be retained, services will improve, and the government will help defray the cost, but you must act now!”

2. Recognize that ‘people help other people’ to explain and find financial assistance, and these helping people want and need program ownership. When they get it, positive things happen.
3. Realize that a service provider brings tools, techniques and enabling technologies solutions, but it is members of the public that best understand how to mutually leverage and implement such solutions for optimal effect. The service provider’s role is to bring expertise, be flexible, and serve!
4. Be essentially everywhere when households are ready to apply, allowing information and the request for coupon benefits to be made via hand, mail, phone, fax, or electronic transmission seamlessly from wherever households might intuitively or readily seek such assistance recognizing the diversity and language differences of US households.
5. Ensure that such benefit requests are fulfilled timely and accurately, but in compliance with program directives and preventing duplicate issuance.
6. Extend assistance to those households for which the benefits are intended, and assure those benefits are not lost because a coupon might be stolen, misplaced, or a damaged box is returned.
7. Provide a vehicle for households to easily and conveniently use those benefits without hassle, stigmatization, or denial of intended access, (focus on providing benefits, not the physical coupon).
8. Foster clear communication and information to all stakeholders on which DTA and where converter boxes will be demanded and can be purchased before the transition date, so that they are widely available at a variety of knowledgeable, authorized, retailer brick & mortar, mail-order, and Internet based locations conveniently accessible to coupon holders.
9. Validate that coupons are used only to purchase certified ‘standard’ eligible boxes at the point-of-purchase in a systematic, integrated manner that assures compliance with program rules and intended use.
10. Encourage retailer participation by systematically facilitating quick, accurate, and secure coupon acceptance, redemption, and funds settlement.
11. Minimize retailer burden and risk associated with seeking certification and complying with program regulations and requirements.
12. Account in a verifiable, accurate and timely manner all commitment and use of program funds on a daily basis in accordance with generally accepted accounting and audit practices.

13. Mitigate levels of waste, fraud and abuse throughout coupon operations tapping best practices and automated technologies in a cost effective manner.
14. Provide leadership and accountability throughout coupon program design, development, implementation, operation, and completion so that there will be no adverse effects either actual or perceived to DOC/NTIA or the digital transmission due to problems in coupon operations.

SVS believes that through a public-private partnership, the objectives, requirements, and timelines for the proposed Coupon Program are feasible under an item-specific, stored-value card approach and can be met cost effectively by the vendor community with good effect on all stakeholders.

Respectfully submitted,

/s/ Mike Godfrey

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September 25, 2006