7852 Walker Drive, Suite 200
Greenbelt, Maryland 20770
phone: 301-459-7590, fax: 301-577-5575
internet: www.jsitel.com, e-mail: jsi@jsitel.com

June 10, 2011

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: WC Docket No. 10-90, GN Docket No. 09-51, WC Docket No. 07-135, WC Docket No. 05-337, CC Docket No. 01-92, CC Docket No. 96-45, WC Docket No. 03-109
Notice of *Ex Parte* Presentation

Dear Ms. Dortch:

On June 9, 2011, Jeff Leslie of ITS Telecommunications Systems, Inc. ("ITS"), John Kuykendall and Valerie Wimer of John Staurulakis, Inc. ("JSI") met with Trent Harkrader, Amy Bender, Gary Seigel, Patrick Halley and Kevin King of the Wireline Competition Bureau. The subject of discussion was the impact of proposed National Broadband Plan universal service reforms on ITS operations and service to its Florida customers. Attached is a copy of the presentation and data which were provided.

Mr. Leslie explained the vital role ITS plays in its Martin County serving area communities as the preferred telecommunications and data provider, one of the top employers, as a leader in economic development by leveraging the fiber to the premise to attract new businesses to this depressed area, by partnering with Martin County to provide major savings to taxpayers, and as a major supporter of schools, community events, associations and economic development. Details were provided of the ITS fiber network that is currently in place and fiber construction that is slated for completion this year. In addition to regulated telecommunications services, the ITS network provides for high speed Internet and wireless backhaul. ITS believes that it has used its current USF funding to meet the goals of universal voice service and provision of broadband according the current rules.

Mr. Leslie illustrated the financial impact of the near-term universal service reform proposals set forth in the Notice of Proposed Rulemaking ("NPRM")[1] noting that top-line revenue would be severely impacted and that significant capital investment was made

[1] *In the Matter of Connect America Fund, A National Broadband Plan for Our Future, Establishing Just and Reasonable Rates for Local Exchange Carriers, High-Cost Universal Service Support, Developing an Unified Intercarrier Compensation Regime, Federal-State Joint Board on Universal Service, and Lifeline and Link-Up*, WC Dockets No. 10-90 et al., FCC 11-13 (rel. Feb. 9, 2011); 76 Fed. Reg. 11632-11663 (2011).

premised on existing support mechanisms. Mr. Leslie further demonstrated that ITS would default on Rural Utilities Service loan commitments under the proposed reforms.

Commission support was encouraged for a transition period sufficient to amortize present loan commitments, a cap on corporate operations costs rather than elimination, ongoing support for operations in addition to capital, treatment of VoIP as a telecommunications service for intercarrier compensation, and a process to allow carriers to turn off carriers that perform rate arbitrage and do not pay for reciprocal compensation.

Please contact the undersigned with any questions.

Respectfully submitted,

/s/ John Kuykendall

John Kuykendall
Vice President
on behalf of
ITS Telecommunications Systems, Inc.

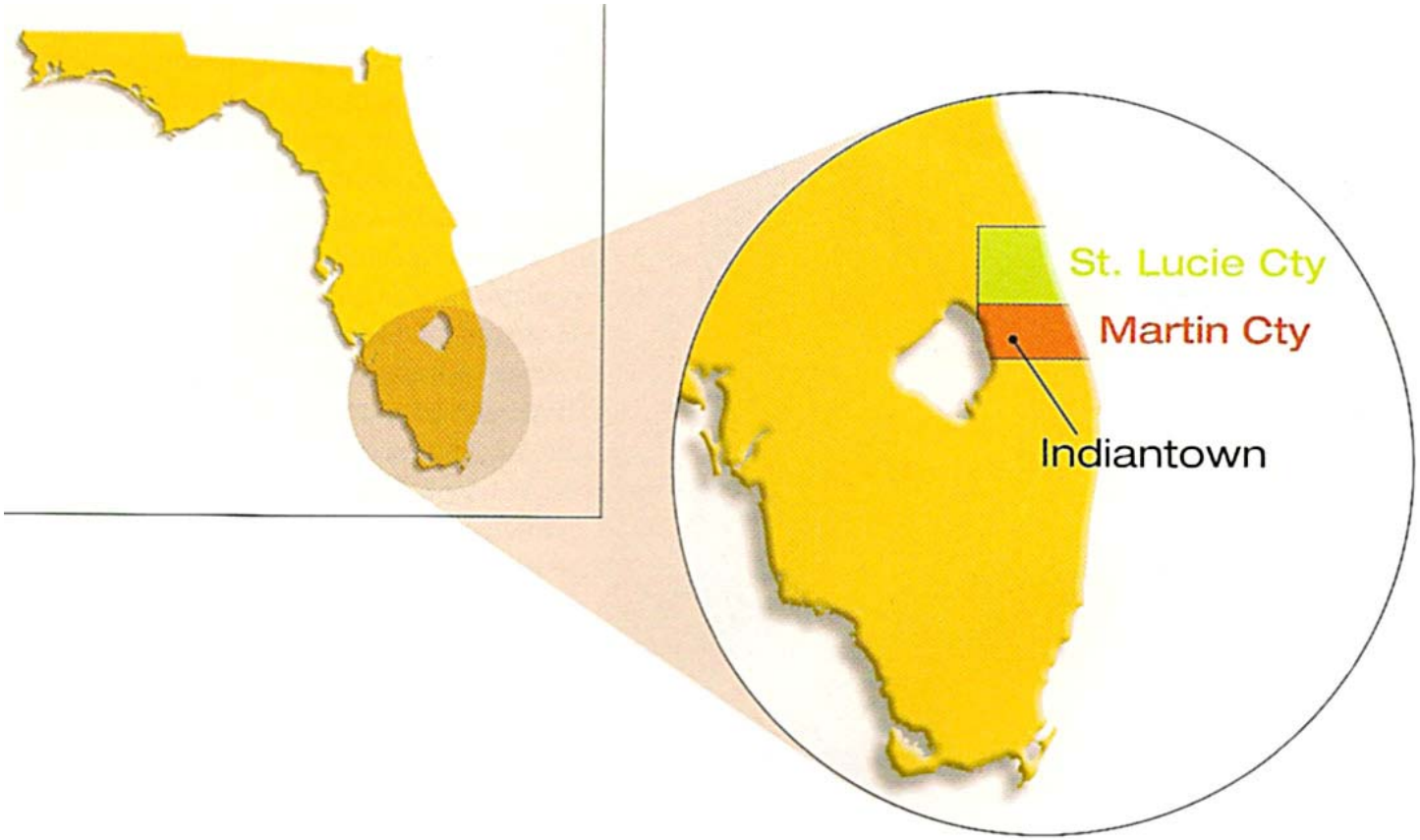
cc: Trent Harkrader
Amy Bender
Gary Seigel
Patrick Halley
Kevin King

Attachment

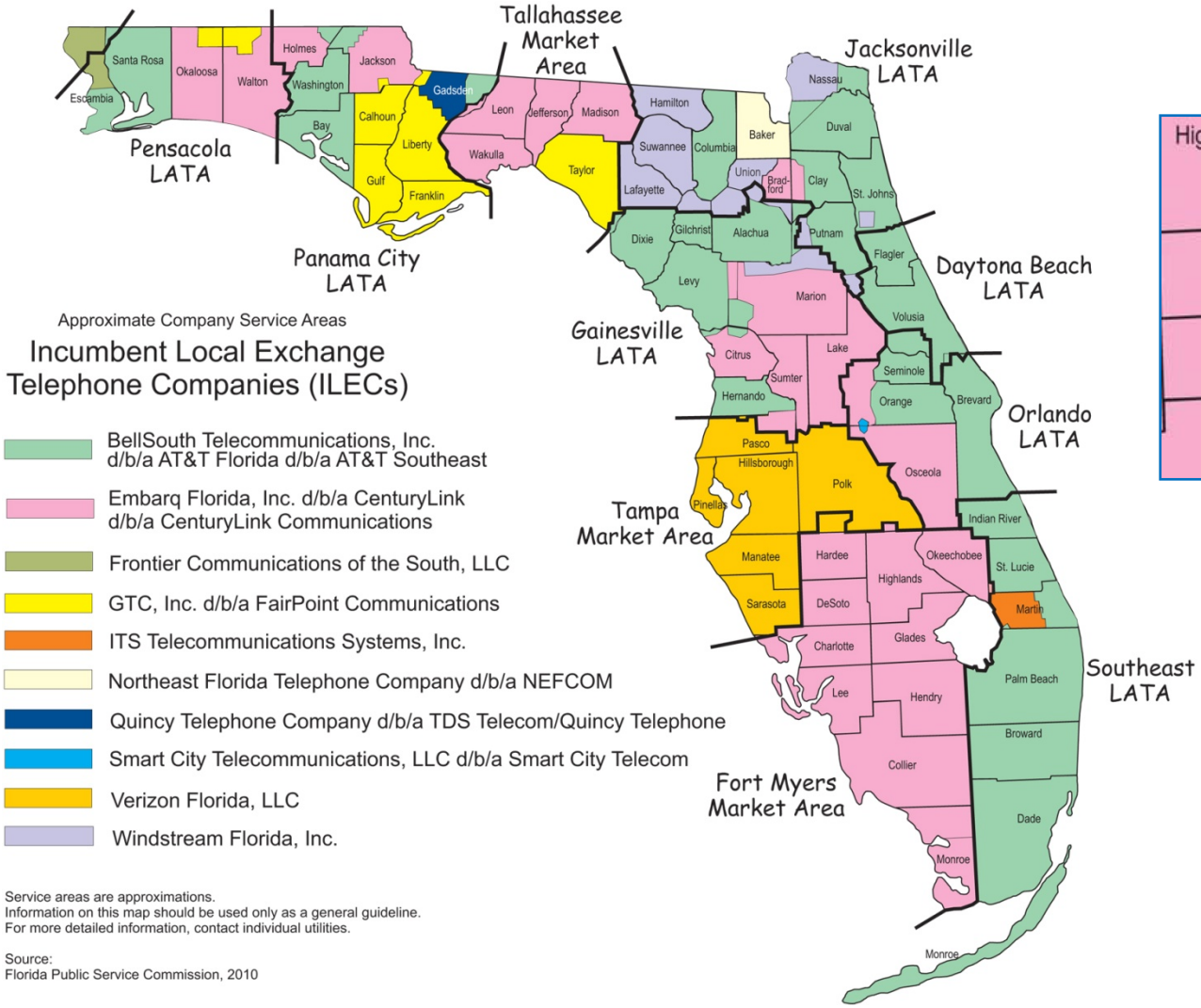
ITSTelecom

Always here. Always clear.

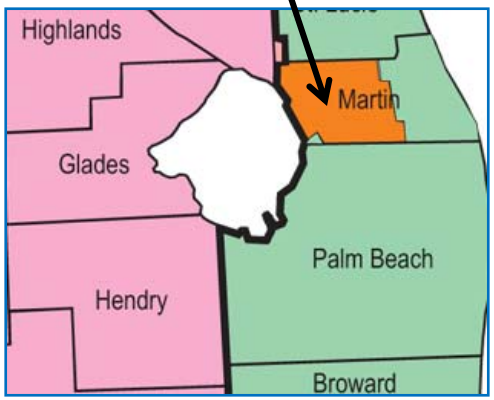
ITS Telecommunications



Florida ILEC Companies



ITS Telecom



ITS Telecommunications

- Located in Indiantown, Florida
- Serving Indiantown for over 50 years
- Sister Company to Indiantown Water & Sewer.

ITS Telecommunications

- Florida ILEC
- Regulated Local and LD Voice
- Approximately 3000 Access Lines
- Business and Residential ISP
- Approximately 1100 High Speed Internet Customers
- Voice Business Systems
- Computer Support
- Data Center Services
- Wireless Backhaul
- DirectTV resale

ITS Telecommunications

Technology

- Voice - Softswitch
- Data - Juniper Core Routing Equipment
- FTTH 80+% by Y/E 2011
- All customers Broadband capable of at least 10mbps up to 100mb
- OSS

  -Martin Group Omnia/Oasis/FM

  -ESP/ECRM Customer Self Care

ITS Telecommunications

Community Importance 50+ Years

- One of top employers in service area
- Leader in Economic Development due to FTTH in depressed area
- Partnering with Martin County to provide major savings to taxpayers
- Major supporter of schools, community events, associations and economic development

Responsive to Local Community

Develops and offers Unique Community Valued Features to Nurture Relationships with Customer Base and to support community development

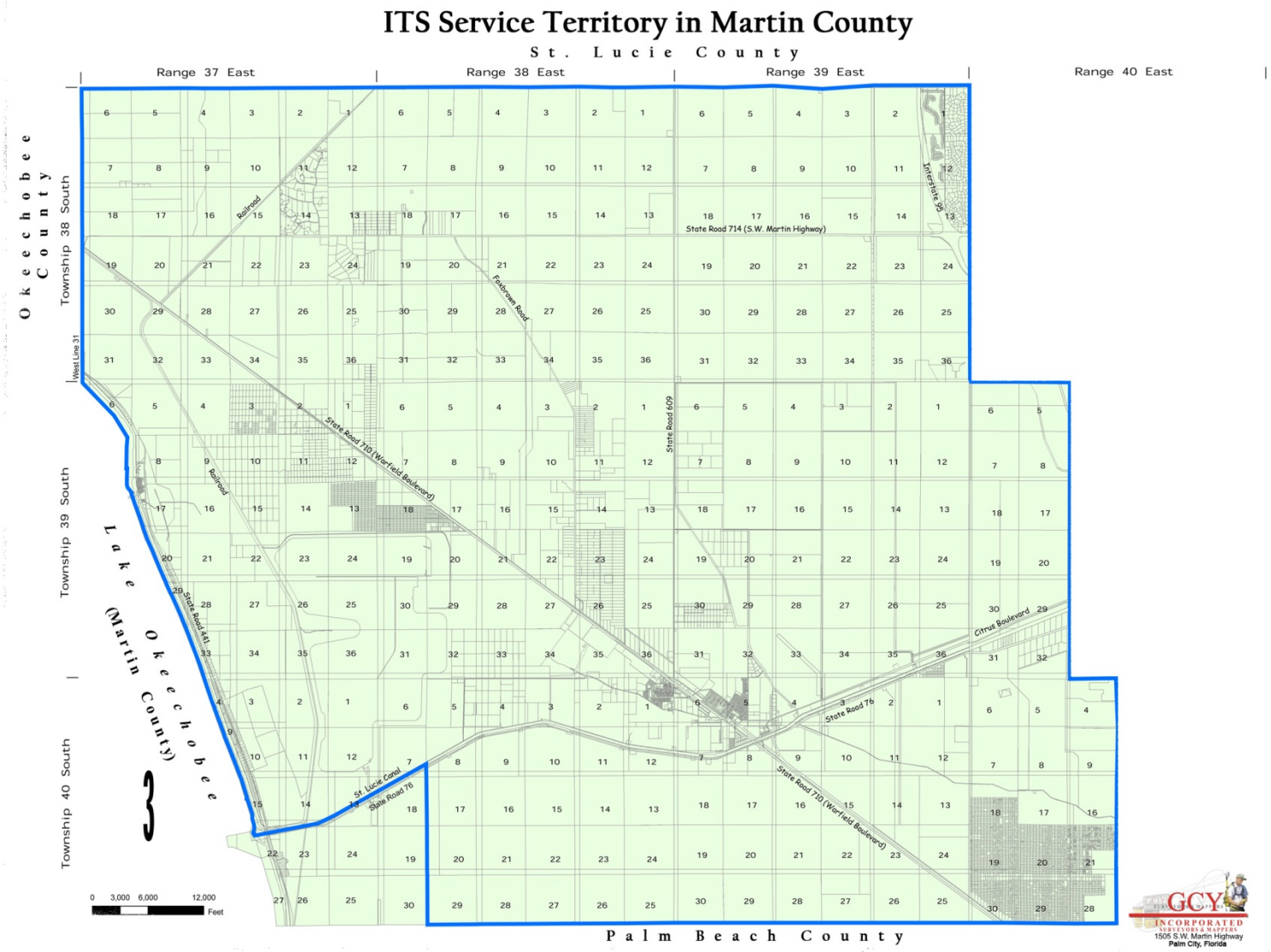
- Notification Hotline to Non-Profits FREE
- FREE Info Lines to all Businesses
- Conference Bridge FREE to All Customers
- Emergency Notification Service

ITS Telecommunications

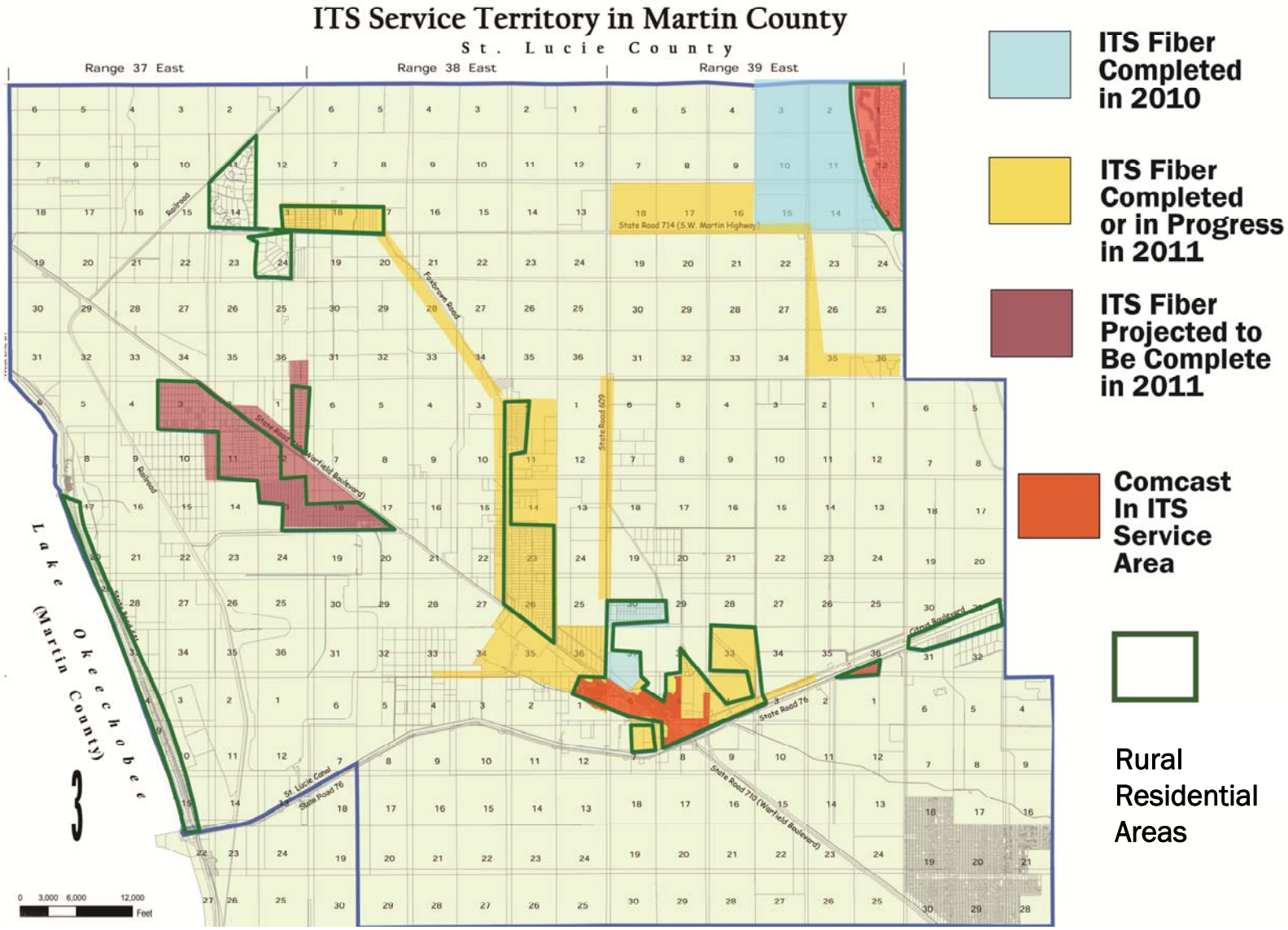
Competition

- Comcast
- Wireless Providers
- VOIP Providers
- IXC's
- Global NAPS, HALO and others that avoid paying access.

ITS Telecom Service Area



Activities in ITS Service Area



Recent Considerations of Note

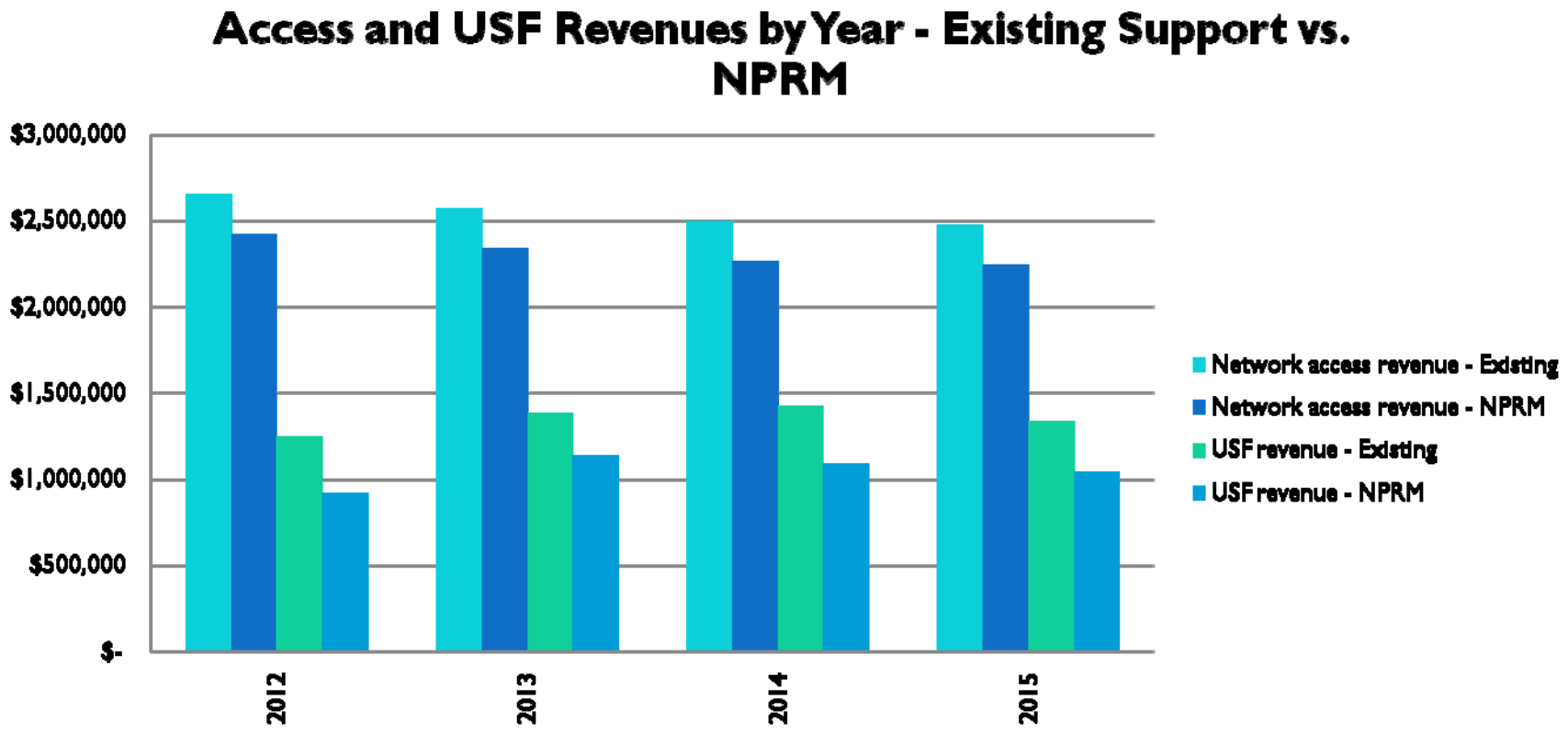
- 2008 passing of owner and no interested purchasers
- RUS against expansion of Copper
- Comcast unwillingness to serve local developments without compensation
- Comcast interconnect and loss of only 7 voice customers in first year.

NPRM Impact Overview

- Elimination of corporate operations expense recovery in High Cost Loop, ICLS and LSS
  - Decrease in National Average Cost Per Loop (NACPL) for High Cost Loop support from $468.41 to $335.26 (as calculated by NECA)
- Reduction in the Support Percentages for High Cost Loop support from the current percentages of 65% and 75% to 55% and 65%, respectively
- Immediate elimination of Safety Net Additive

Financial Impact of NPRM

- NPRM would severely impact top-line revenue, especially USF-HCL support
  - Significant capital investment was made premised on existing support mechanisms



Financial Impact of NPRM (cont.)

- ITS would *default* on loan commitments with RUS
  - Times Interest Earned Ratio <1.0000

Debt Test Analysis - NPRM Scenario

	2012	2013	2014	2015
Times Interest Earned				
Net Income	(329,510)	(118,275)	(177,159)	(204,518)
Add: Interest expense - new debt	223,697	213,602	203,097	192,166
Add: Interest expense - existing debt	140,171	134,061	127,681	121,018
Net income + interest expense	34,357	229,388	153,619	108,667
	0	0	0	0
Interest expense - new debt	223,697	213,602	203,097	192,166
Interest expense - existing debt	140,171	134,061	127,681	121,018
Total interest expense	363,868	347,663	330,778	313,185
	0	0	0	0
Times interest earned ratio (TIER)	0.0944	0.6598	0.4644	0.3470
Minimum requirement	1.0000	1.0000	1.0000	1.0000
Pass/Fail?	**Fail**	**Fail**	**Fail**	**Fail**

Debt Test Analysis - Existing Support Scenario

	2012	2013	2014	2015
Times Interest Earned				
Net Income	39,370	197,148	194,928	142,673
Add: Interest expense - new debt	223,697	213,602	203,097	192,166
Add: Interest expense - existing debt	140,171	134,061	127,681	121,018
Net income + interest expense	403,238	544,810	525,706	455,858
Interest expense - new debt	223,697	213,602	203,097	192,166
Interest expense - existing debt	140,171	134,061	127,681	121,018
Total interest expense	363,868	347,663	330,778	313,185
Times interest earned ratio (TIER)	1.1082	1.5671	1.5893	1.4556
Minimum requirement	1.0000	1.0000	1.0000	1.0000
Pass/Fail?	**Pass**	**Pass**	**Pass**	**Pass**

ITS Supports

- Transition time long enough to amortize present loan commitment
- Cap on Corporate Operations Costs not elimination
- On-going support for Operations in addition to capital
- Treat VOIP like Telecommunications for ICC
- Provide a process to allow carriers to turn off carriers that perform rate arbitrage and do not pay for reciprocal compensation

ITS Telecommunications Systems, Inc.

SAC ID: 210331

NPRM Proposed Changes

FCC proposes to eliminate (or reduce) support for corporate expenses in all funding mechanisms.

High Cost Loop Fund Changes:

Current HCL Support*			$666,021
Reduction due to algorithm change	(stand alone)	($95,515)	
Reduction due to elimination of Corp. Exp.	(stand alone)	($500,834)	
Combined effect (run together)			($526,247)
Increase due to resizing of NACPL	(assumed NACPL reduction of 26.86%)		$277,380
Revised HCLF Support			$417,154

FCC proposes to reduce the reimbursement percentages for high-cost loop support from the current percentages of 65% for qualifying study area loop costs between 115 - 150% and 75% for qualifying study area loop costs in excess of 150% to 55% and 65%, respectively.

Local Switching Support Changes:

Current LSS	$229,889
Reduction due to elimination of Corp. Exp.	($36,017)
Revised LSS Support	$193,872

The FCC seeks to eliminate local switching support, or combine this program with high-cost loop support. Alternatively, the FCC would combine the LSS program into the HCLS program—creating a LHCS hybrid, using an algorithm similar to HCLS.

Interstate Common Line Support Changes:

Current ICLS	$678,634
Reduction due to elimination of Corp. Exp.	($194,568)
Revised ICLS Support	$484,066

Safety Net Additive

Current Safety Net Support	$0
Reduction due to elimination of Safety Net	$0
Revised Safety Net	$0

The FCC seeks to eliminate safety net additive support immediately, or implement a phase-down over possibly three years.

	Original	Revised	Impact	% Change
HCLF	$666,021	$417,154	($248,867)	-37.37%
LSS	$229,889	$193,872	($36,017)	-15.67%
ICLS	$678,634	$484,066	($194,568)	-28.67%
Safety Net	$0	$0	$0	0.00%
Totals	$1,574,544	$1,095,092	($479,452)	-30.45%
Loops	3,138	3,138	3,138	
USF/Loop/Year	$501.77	$348.98	($152.79)	-30.45%

*2010-1 NACPL of $458.36