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March 17, 1998

VIA FACSIMILE AND U.S. MAIL

Mr. Charles Pellegrini  
Division of Legal Services  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Florida Public Service Commission  
RECEIVED  
MAR 18 1998  
LEGAL DIVISION

Re: DOCKET NO. 961233-TI: In Re: Initiation of show cause proceedings against Fox Fiber Optics for violation of Rules 25-24.470, F.A.C., Certificate of Public Convenience and Necessity Required, and 25-4.043, Response to Commission Staff Inquiries.

**Additional Background on ITS Billing, Inc.**

Dear Mr. Pellegrini:

The purpose of this letter is to provide additional background on the financial history of ITS Billing, Inc., which has applied for the transfer of Certificate Number 2929 from WATS/800, the current holder. As you are aware, the certificate transfer is a key step in the settlement of the show cause proceeding in Docket No. 961233-TI. I am providing this explanation because AFAD has expressed reservations about the financial integrity of ITS Billing, Inc., and is reluctant to recommend that ITS Billing be certificated by transfer of certificate or otherwise.

My understanding is that the major concern of AFAD is that the attached income statement of ITS Billing Inc. reflects large losses for a relatively short period. There are two responses I can provide that will hopefully reassure AFAD.

**ITS BILLING USED AN EXPENSIVE MARKETING STRATEGY TO JUMP START ITS BUSINESS**

First, these losses were due primarily to the start-up costs of initiating an aggressive, high-quality sweepstakes marketing campaign. As you will see, almost 80% of the Total Operating Expense was due to three categories of expenses: gross payroll and taxes; marketing, advertising and BNA information; and software, equipment and depreciation. The level of expense for each of these categories was either primarily or significantly driven by the sweepstakes program.

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FPSC-RECORDS/REPORTING

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In undertaking the sweepstakes program to build up quickly its customer base, ITS Billing was well aware of the problems attendant to sweepstake generated LOAs. ITS Billing, therefore, implemented a "Cadillac" marketing program to avoid unauthorized PIC conversions, other types of consumer complaints and customer churn. Although this expensive marketing approach did avoid the level of consumer complaints that have plagued some other companies, unfortunately it did not generate the level of revenues management had anticipated. Consequently, ITS Billing discontinued its sweepstakes approach last summer and began the process of trimming expenses while it patiently increased its revenues.

In sum, ITS Billing opted to use an expensive approach to "jump start" its business by quickly building a larger customer base. Although this approach put ITS Billing into debt initially and the customer base produced was not as large as expected, this approach nonetheless provided the customer base from which to grow and to produce a revenue stream to become profitable.

**ITS BILLING IS APPARENTLY NOW OPERATING AT A PROFIT**

The second reason is that ITS Billing appears to be operating at a profit. This representation is based on the financial officer's preliminary assessment of the data. ITS Billing will be able to produce a more current income statement in April 1998, and anticipates that this new statement will reflect that it operates at a profit.

**PROPOSED APPROACH: APPROVE TRANSFER OF CERTIFICATE WITH FINANCIAL REPORTING REQUIREMENTS**

Because of the unique circumstances of this case and the settlement, denying the transfer of the certificate from WATS/800 to ITS Billing would be tantamount to revoking a certificate of a company because of financial distress. This would be most unfortunate because ITS Billing has demonstrated that it can persevere through lean times without sacrificing its commitment to providing quality service to its customers. Thus, I would like to suggest an approach that would allow the transfer to be approved notwithstanding AFAD's concerns.

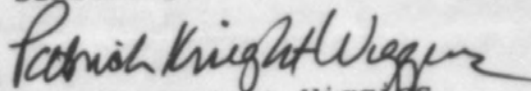
I propose that the transfer be approved, but as a condition of the approval that ITS Billing be required during 1998 to submit quarterly and year-end financial statements to the Commission. By monitoring these financial statements and any customer complaints filed with the Division of Consumer affairs, the Commission can ensure that ITS Billing is providing intrastate telecommunications service consistent with the public interest. In addition, this approach would avoid subjecting inadvertently ITS Billing to discriminatory regulation, i.e., it would avoid effectively

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revoking a certificate simply due to the company's financial distress, a regulatory measure the Commission has never before taken.

I hope that staff finds this approach satisfactory. Please contact me if any additional information is required.

Sincerely,


  
Patrick Knight Wigg

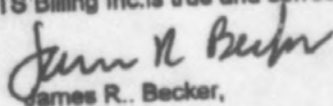
Attachment

**ITS BILLING INC.**  
**INCOME STATEMENT**  
**FOR THE PERIOD FEBRUARY 7 TO MAY 31, 1997**

	FEB 7, 1997- MAY 31, 1997
<b>OPERATING REVENUE</b>	
<b>USAGE BILLED:</b>	
ITS	\$ 1,005,266
USBI	143,740
MONTHLY FEES	6,091
BILLING SERVICE FEES, ETC	182,224
<b>TOTAL OPERATING REVENUE</b>	\$ 1,337,321
<b><u>COST OF REVENUE</u></b>	\$ 586,668
CARRIER CHARGES	168,400
SWITCHING & NETWORK	755,068
<b>TOTAL COST OF REVENUE</b>	\$ 755,068
<b>GROSS PROFIT</b>	\$ 582,253
<b><u>OPERATING EXPENSES</u></b>	\$ 589,211
GROSS PAYROLL & TAXES	12,045
RECRUITING, EMPLOY. ADVERTISING, ETC.	14,422
HEALTH INSURANCE	228,001
MARKETING, ADVERTISING, ETC.	46,733
BUILDING RENT, ELECTRIC & AMORT.	15,865
TELEPHONE	33,449
TRAVEL, SEMINARS	100,289
SOFTWARE, EQUIPMENT & DEPR.	59,371
LEGAL, TARIFF & TAX	32,164
SUPPLIES, POSTAGE & BILLING	18,027
MISCELLANEOUS	18,027
<b>TOTAL OPERATING EXPENSES</b>	\$ 1,148,377
<b>OPERATING INCOME (LOSS)</b>	\$ (566,124)
<b>OTHER INCOME (EXPENSE)</b>	(2,182)
<b>NET INCOME (LOSS)</b>	\$ (568,306)

I hereby affirm that the above statement of ITS Billing Inc. is true and correct.

  
 Damain T. Freeman,  
 Chief Operating Officer

  
 James R. Becker,  
 Treasurer