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Mary C. Albert
Attorney-at-Law

SWIDLER & BERLIN
CHARTERED

Direct Dial
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ORIGINAL
FILE COPY

November 20, 1996

961394-TA

VIA FEDERAL EXPRESS

Ms. Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Application of KMC Telecom Inc. for Authorization to Provide Alternative Access Vendor Service Within the State of Florida

Dear Ms. Bayo:

Enclosed for filing are an original and 15 copies of the Application of KMC Telecom Inc. for Authorization to Provide Alternative Access Vendor Service Within the State of Florida and a 3.5" disk containing the application. The disk is MS-DOS compatible and high density and the file is in WordPerfect 6.1 Also enclosed is a check for $250.00 to cover the filing fee.

Please file-stamp the extra copy of the application and return it to me in the enclosed self-addressed, stamped envelope.

Thank you for your attention to this matter.

Respectfully submitted,

Mary C. Albert

Mary C. Albert
Counsel for KMC Telecom Inc.

Enclosures

ACK ____
AFA ____
APP ____
CAF ____
CMU ____
CTR ____
EAG ____
LEG ____
LIN ____
OPC ____
RCH ____
SEC ____
WAS ____
OTH ____

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check: AG.

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BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

KMC Telecom Inc. Request for Authority to Provide Alternative Access Vendor Service within the State of Florida	)	Docket No. 961394-

APPLICATION
for
AUTHORITY TO PROVIDE ALTERNATIVE ACCESS VENDOR SERVICE WITHIN THE STATE OF FLORIDA

1. This is an application for (check one) :

(x) Original Authority (New company).
( ) Approval of Transfer (To another certificated company).
( ) Approval of Assignment of existing certificate (To a noncertificated company).
( ) Approval for transfer of control (To another certificated company).

2. Name of corporation, partnership, cooperative, joint venture or sole proprietorship:

KMC Telecom Inc. ("KMC" or "Applicant")

3. Name under which the applicant will do business (fictitious name, etc.):

KMC Telecom Inc.

4. National address (including street name & number, post office box, city, state and zip code).

KMC Telecom Inc.
1545 Route 206, Suite 300
Bedminster, NJ 07921-2567
Telephone: (908) 719-2200
Facsimile: (908) 719-2211

5. Florida address (including street name & number, post office box, city, state and zip code):

The address of KMC's registered agent in Florida, CT Corp., is 1200 South Pine Island Road, Plantation, Florida 33324. Applicant intends to open offices in Melbourne and Tallahassee. Prior to the opening of these offices, inquiries should be directed to Tricia Breckenridge, Vice President of Business Relations, KMC Telecom Inc., 17790 West Pond Ridge Circle, Gurnee, Illinois 60031, (847) 265-9210.

6. Structure of organization;

( ) Individual
(x) Foreign Corporation
( ) General Partnership
( ) Other____________________

( ) Corporation
( ) Foreign Partnership
( ) Limited Partnership

7. If applicant is an individual or partnership, please give name, title and address of sole proprietor or partners.

Not Applicable.

(a) Provide proof of compliance with the foreign limited partnership statute (Chapter 620.169 FS), if applicable.

(b) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

Fictitious name registration number: ____________

(c) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so, please explain.

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

8. If incorporated, please give:

(a) Proof from the Florida Secretary of State that the applicant has authority to operate in Florida.

A copy of Applicant's Certificate of Authority to transact business in the State of Florida as a foreign corporation is attached hereto as Exhibit 1.

Corporate charter number:

F96000002035

(b) Name and address of the company's Florida registered agent.

CT Corp., 1200 S. Pine Island, Plantation, FL 33324

(c) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(1) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. If so please explain.

No.

(2) officer, director, partner or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

No.

9. Who will serve as liaison with the Commission in regard to the following? (please give name, title, address and telephone number):

(a) The application:

Andrew D. Lipman, Esq.
Mary C. Albert, Esq.
Swidler & Berlin, Chartered
3000 K Street, N.W., Suite 300
Washington, D.C. 20007
Telephone: (202) 424-7500
Facsimile: (202) 424-7643

(b) Official Point of Contact for the ongoing operations of the company:

Tricia Breckenridge
Vice President of Business Relations
KMC Telecom Inc.
17790 West Pond Ridge Circle
Gurnee, Illinois 60031
(847) 265-9210 (Tel)
(847) 265-9211 (Fax)

(c) Complaints/Inquiries from customers:

See response to 9(b) above.

10. List the states in which the applicant:

(a) Has operated as an Alternate Access Vendor.

Alabama.

(b) Has applications pending to be certificated as an interexchange carrier.

Applicant is in the process of obtaining intrastate interexchange authority, where required, in numerous states throughout the United States, including Florida, Illinois, Indiana, Kansas, Louisiana, Maryland, Michigan, New Hampshire, North Carolina, and South Carolina.

(c) Is certificated to operate as an Alternate Access Vendor.

Alabama.

(d) Has been denied authority to operate as an Alternate Access Vendor and the circumstances involved.

None.

(e) Has had regulatory penalties imposed for violations of telecommunications statutes and the circumstances involved.

None.

(f) Has been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity, and the circumstances involved.

None.

11. The applicant will provide the following AAV services (Check all that apply).

a. _X_ Intraexchange private line service to an affiliate.
b. _X_ Interexchange private line service to an affiliate.
c. _X_ Special access as part of a private line dedicated service.

d. _X_ Special access to an IXC switched network.

e. _X_ Private line services (Channel Services).

_X_ DS-0, 64 kb/s
_X_ DS-1, 1.54 Mb/s
_X_ DS-2, 6.31 Mb/s
_X_ DS-3, 44.76 Mb/s

12. How does the end user access each of the AAV services that were checked above.

Private line service.

13. Please provide the following (if applicable):

(a) Will the name of your company appear on the bill for your services, and if not who will the billed party contact to ask questions about the bill (provide name and phone number) and how is this information provided?

KMC's name will appear on all bills sent to its customers.

(b) Name and address of the firm who will bill for your service.

KMC will perform its own billing operations.

** APPENDIX A **

CERTIFICATE TRANSFER STATEMENT

NOT APPLICABLE

I, ____,

current holder of certificate number ________________, have reviewed this application and join in the petitioner's request.

UTILITY OFFICIAL

	______________________ Signature	____________ Date
	______________________ Title	____________ Telephone No.

** APPENDIX B **

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be responded to in one of the following ways (applicant please check one):

(x) The applicant will not collect deposits nor will it collect payments for service more than one month in advance.

( ) The applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)

UTILITY OFFICIAL

TRICIA BRECKENRIDGE
Tricia Breckenridge
Vice President,
Business Relations

11-18-96
Date

(847) 265-9210
Telephone No.

**** APPENDIX C ****

SERVICE AREA NETWORK

1. **SERVICE AREA:** Please provide the list of exchanges where you are proposing to provide private line and / or special access service within thirty (30) days after the effective date of the certificate.

KMC is in the process of constructing a fiber optic network that will be used to provide its private line and special access services. Upon completion of construction, KMC initially will offer service in Melbourne, Titusville, Cocoa, Cocoa Beach, Rockledge, Cape Canaveral and Port Canaveral.

2. **CURRENT FLORIDA INTRASTATE SERVICES:** Applicant has ( ) or has not (x) previously provided intrastate telecommunications in Florida. If the answer is has, fully describe the following:

   a) What services have been provided and when did these services begin?

   b) If the services are not currently offered, when were they discontinued?

UTILITY OFFICIAL TRICIA BRECKENRIDGE
Tricia Breckenridge
Vice President,
Business Relations

11-18-96
Date

(847) 265-9210
Telephone No.

FORM PSC/CMU 43 (1/95)

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** A non-refundable application fee of $250.00 must be submitted with the application.

5. **RECEIPT AND UNDERSTANDING OF RULES:** I acknowledge receipt and understanding of the Florida Public Service Commission's Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding AAV service.

6. **ACCURACY OF APPLICATION:** By my signature below, I the undersigned owner or officer of the named utility in the application, attest to the accuracy of the information contained in this application and associated attachments. I have read the foregoing and declare that to the best of my knowledge and belief, the information is a true and correct statement. Further, I am aware that pursuant to Chapter 837.06, Florida Statutes, whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree.

UTILITY OFFICIAL Tricia Breckenridge

Tricia Breckenridge
Vice President,
Business Relations

11-18-96
Date

(847) 265-9210
Telephone No.

171443.1

ATTACHMENTS:

A - CERTIFICATE TRANSFER STATEMENT

B - CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

C - SERVICE AREA NETWORK

<u>List of Exhibits</u>

Exhibit 1 - Certificate of AuthorityTo Transact Business in Florida

Exhibit 2 - Financial Qualifications

Exhibit 3 - Managerial and Technical Qualifications

Exhibit 1

Certificate of Authority To Transact Business

State of Florida

Department of State

I certify from the records of this office that KMC TELECOM INC., is a corporation organized under the laws of Delaware, authorized to transact business in the State of Florida, qualified on April 24, 1996.

The document number of this corporation is F96000002035.

I further certify that said corporation has paid all fees and penalties due this office through December 31, 1996, and its status is active.

I further certify that said corporation has not filed a Certificate of Withdrawal.

Given under my hand and the
Great Seal of the State of Florida,
at Tallahassee, the Capital, this the
Fifth day of June, 1996

GREAT SEAL OF THE STATE OF FLORIDA
IN GOD WE TRUST

Sandra B. Mortham

Sandra B. Mortham
Secretary of State

CR2EO22 (1-95)

Exhibit 2

Financial Qualifications

Financial Statements

KMC Telecom Inc. and Predecessors

June 30, 1996 and December 31, 1995 and 1994

KMC Telecom Inc. and Predecessors

Financial Statements

June 30, 1996 and December 31, 1995 and 1994

Contents

Report of Independent Auditors 1
Balance Sheets 2
Statements of Operations 3
Statements of Net Capital Deficiency 4
Statements of Cash Flows 5
Notes to Financial Statements 6

ERNST & YOUNG LLP

Report of Independent Auditors

The Board of Directors
KMC Telecom Inc.

We have audited the accompanying balance sheet of KMC Telecom Inc. as of June 30, 1996 and the related statements of operations, net capital deficiency and cash flows for the six month period ended June 30, 1996. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The combined financial statements of Kamine Multimedia Corp. and KMC Southeast Corp. (Development Stage Companies and the Predecessors of KMC Telecom Inc.) as of December 31, 1995 and 1994 and for the year ended December 31, 1995 and the period from May 10, 1994 (date of inception) to December 31, 1994 were audited by other auditors, whose report dated April 26, 1996 expressed an unqualified report on those combined financial statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KMC Telecom Inc. as of June 30, 1996, and the results of its operations and cash flows for the six month period ended June 30, 1996, in conformity with generally accepted accounting principles.

September 13, 1996

Ernst + Young LLP

KMC Telecom Inc. and Predecessors

Balance Sheets

	KMC Telecom Inc. June 30, 1996	Predecessors December 31 1995	Predecessors December 31 1994
Assets			
Current assets:			
Cash and cash equivalents	$ 4,524,213	$ 34,370	$ 5,091
Accounts receivable	11,460	–	–
Prepaid expenses and other current assets	65,398	4,542	–
Total current assets	4,601,071	38,912	5,091
Networks and equipment, net of accumulated depreciation	4,677,261	3,496,277	–
Organization costs, net of accumulated amortization	16,419	18,637	–
Deferred charges, net of accumulated amortization	610,853	149,895	2,609
	$ 9,905,604	$ 3,703,721	$ 7,700
Liabilities and net capital deficiency			
Current liabilities:			
Accounts payable	$ 503,221	$ 1,791,247	$ 75
Accrued expenses	420,573	316,874	–
Due to affiliates	81,298	491,067	11,100
Total current liabilities	1,005,092	2,599,188	11,175
Convertible notes payable	6,028,000	–	–
Loans payable to stockholder	4,000,000	2,727,400	–
Total liabilities	11,033,092	5,326,588	11,175
Commitments and contingencies			
Net capital deficiency:			
Preferred stock, par value $.01 per share; 500,000 shares authorized at June 30, 1996, none in 1995 and 1994; none issued	–	–	–
Common stock, par value $.01 per share; authorized 2,000,000 shares at June 30, 1996 and 200 shares in 1995 and 1994; 560,000, 200 and 100 shares issued and outstanding in 1996, 1995 and 1994, respectively	5,600	2	1
Additional paid-in capital	2,140,630	1,998	999
Accumulated deficit	(3,273,718)	(1,624,867)	(4,475)
Total net capital deficiency	(1,127,488)	(1,622,867)	(3,475)
	$ 9,905,604	$ 3,703,721	$ 7,700

See accompanying notes.

KMC Telecom Inc. and Predecessors

Statements of Operations

	KMC Telecom Inc.	Predecessors	
	Six months ended June 30, 1996	Year ended December 31, 1995	May 10, 1994 (date of inception) to December 31, 1994
Revenue	$ 55,333	$ –	$ –
Operating expenses:			
Network operating costs	230,141	–	–
General and administrative	1,212,194	1,591,159	4,475
Depreciation and amortization	92,265	5,770	–
Interest, net	169,584	23,463	–
Net loss	$(1,648,851)	$(1,620,392)	$(4,475)

KMC Telecom Inc. and Predecessors

Statements of Net Capital Deficiency

For the period May 10, 1994
(date of inception) to June 30, 1996

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Net Capital Deficiency
edecessors							
itial capital contribution, Kamine Multimedia Corp., ay 10, 1994	–	$ –	100	$ 1	$ 999	$ –	$ 1,000
t loss	–	–	–	–	–	(4,475)	(4,475)
lance, December 31, 1994	–	–	100	1	999	(4,475)	(3,475)
itial capital contribution, KMC Southeast Corp., pril 19, 1995	–	–	100	1	999		1,000
t loss	–	–	–	–	–	(1,620,392)	(1,620,392)
lance, December 31, 1995	–	–	200	2	1,998	(1,624,867)	(1,622,867)
MC Telecom Inc.							
ange in authorized capital	–	–	559,800	5,598	(5,598)		
nversion of stockholder's loan to equity	–	–	–	–	2,088,000		2,088,000
puted interest on stockholder's loan	–	–	–	–	56,230		56,230
t loss	–	–	–	–		(1,648,851)	(1,648,851)
lance, June 30, 1996	–	$ –	560,000	$5,600	$2,140,630	$(3,273,718)	$(1,127,488)

accompanying notes.

KMC Telecom Inc. and Predecessors

Statements of Cash Flows

	KMC Telecom Inc.	Predecessors	
	Six months ended June 30, 1996	Year ended December 31, 1995	May 10, 1994 (date of inception) to December 31, 1994
Operating activities			
Net loss	$(1,648,851)	$(1,620,392)	$ (4,475)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Depreciation and amortization	92,459	5,770	–
Non-cash interest expense	100,897	–	–
Changes in assets and liabilities:			
Accounts receivable	(11,460)	–	–
Prepaid expenses and other current assets	(60,856)	(4,542)	–
Accounts payable	(1,288,026)	1,791,172	75
Accrued expenses	103,699	316,874	–
Due to affiliates	(409,769)	479,967	11,100
Organization costs	–	(22,226)	–
Deferred charges	(36,413)	(147,286)	(2,609)
Net cash (used in) provided by operating activities	(3,158,320)	799,337	4,091
Investing activities			
Purchase of networks and equipment	(1,262,683)	(3,498,458)	–
Net cash used in investing activities	(1,262,683)	(3,498,458)	–
Financing activities			
Proceeds from stockholder loans	3,542,161	2,727,400	–
Repayment of stockholder loans	(181,561)	–	–
Proceeds from convertible notes payable, net of issuance costs	5,550,246	–	–
Proceeds from issuance of common stock	–	1,000	1,000
Net cash provided by financing activities	8,910,846	2,728,400	1,000
Net increase in cash and cash equivalents	4,489,843	29,279	5,091
Cash and cash equivalents, beginning of period	34,370	5,091	–
Cash and cash equivalents, end of period	$ 4,524,213	$ 34,370	$ 5,091
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	$ 96,974	$ 56,537	$ –
Income taxes	$ –	$ 100	$ –

See accompanying notes.

KMC Telecom Inc. and Predecessors

Notes to Financial Statements

June 30, 1996 and December 31, 1995 and 1994

1. Organization

KMC Telecom Inc. (the "Company") is a rapidly growing competitive local exchange carrier. The Company plans to construct, own and operate state-of-the-art communications facilities and fiber optic networks in selected cities in the United States to provide communication services to interexchange carriers, business, government, institutional and residential end-users.

The predecessors to KMC Telecom, Kamine Multimedia Corp. and KMC Southeast Corp. (the "Predecessors") were incorporated in the state of Delaware on May 10, 1994 and April 19, 1995, respectively. The Predecessors were established through the purchase of 100 shares of common stock of each company by Harold N. Kamine (the "Stockholder") for $1,000 per company. Effective May 23, 1996, Kamine Multimedia Corp. was merged into KMC Southeast Corp., and the surviving corporation was renamed KMC Telecom Inc.

The Company has built an approximately fifty mile fiber optic network in and around the city of Huntsville, Alabama. The network was under construction as of December 31, 1995 and no revenues had been generated as of December 31, 1995. Accordingly, the Predecessors were classified as development stage companies through March 1996, concurrent with the completion of the Huntsville, Alabama network and the generation of revenue from such network. Through February 29, 1996, the deficit accumulated during the development stage was approximately $1,700,000.

Prior to June 1996, the Company was solely dependent upon its Stockholder for the funding of its operating and capital requirements. The Stockholder had indicated his intention to continue funding the operations and capital needs of the Company though January 1, 1997, unless other funding sources were obtained. On June 6, 1996, the Company completed the first portion of a financing with a third party with initial net proceeds of approximately $5,500,000 (see Note 5). Service commenced at the Huntsville, Alabama location in March 1996, however, the Company is not expected to generate significant positive cash flows in the near future, and the Company is presently seeking additional sources of financing to fund the construction of additional networks as well as the Company's ongoing operating needs.

2. Summary of Significant Accounting Policies

Basis of Presentation

As noted above, effective May 23,1996, the Company is the successor resulting from the merger of the Predecessors. The accompanying combined financial statements of the Predecessors include the accounts and results of operations of Kamine Multimedia Corp and KMC Southeast Corp. All significant intercompany accounts and transactions have been eliminated in combination.

Cash and Cash Equivalents

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Networks and Equipment

Networks and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets using the straight-line method for financial statement reporting purposes.

Expenditures for repairs and maintenance are charged to expense as incurred. The costs of major renewals and betterments are capitalized. Gains and losses on dispositions are reflected in income.

The estimated useful lives of the Company's principal classes of assets are as follows:

Networks:	
Fiber optic systems	20 years
Telecommunications equipment	10 years
Furniture and fixtures	5 years
Leasehold improvements	Life of lease

Organization Costs

Organization and start-up costs including costs to incorporate and register to do business have been capitalized and are being amortized over five years.

2. Summary of Significant Accounting Policies (continued)

Deferred Charges

Costs incurred to obtain access to buildings are deferred by the Company and amortized over the term of the agreements. Costs incurred to obtain city franchises are deferred by the Company and amortized over the initial term of the franchise, generally 5 to 15 years

As of June 30, 1996, the Company has capitalized an aggregate of approximately $450,000 of issuance costs related to its convertible notes payable. Such costs are being amortized under the interest method, and $16,667 was charged to interest expense during the six month period ended June 30, 1996 (see Note 5).

Income Taxes

Through June 4, 1996, the Predecessors and the Company elected to be treated as "S" Corporations for federal income tax purposes. As a result, any income or loss generated through such date is allocated directly to the Stockholder. Effective June 5, 1996, the Company has revoked its "S" Corporation election.

The Company uses the liability method to account for income taxes. Deferred taxes are recorded based upon differences between the financial statement and tax basis of assets and liabilities.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The Company's financial instruments consist principally of cash and cash equivalents, stockholder loans and convertible notes payable, for which their carrying values approximates their fair values at June 30, 1996.

2. Summary of Significant Accounting Policies (continued)

Reclassifications

Certain December 31, 1995 amounts have been reclassified to conform to the June 30, 1996 presentation.

3. Networks and Equipment

Networks and equipment at June 30, 1996 and December 31, 1995 are comprised of the following:

	1996	1995
Fiber optic systems	**$3,542,865**	$ –
Telecommunications equipment	**838,892**	–
Furniture and fixtures	**49,532**	47,456
Leasehold improvements	**8,947**	4,864
Construction-in-progress	**320,905**	3,446,138
	4,761,141	3,498,458
Less accumulated depreciation	**(83,880)**	(2,181)
	$4,677,261	$3,496,277

Costs capitalized during the development of the Company's networks include amounts incurred related to network engineering, design and construction, negotiation of rights of way, obtaining regulatory authorizations and the net amount of interest costs related to the construction of the network.

Capitalized interest related to the construction of the fiber optic telecommunication system during the six month period ended June 30, 1996 and the year ended December 31, 1995 amounted to $41,686 and $36,940, respectively.

4. Deferred Charges

Deferred charges at June 30, 1996 and December 31, 1995 are comprised of the following:

	1996	1995
Financing fees	$449,754	$ -
Building access agreements	59,000	55,500
Franchise costs	122,113	94,395
Other	5,000	-
	635,867	149,895
Less accumulated amortization	(25,014)	-
	$610,853	$149,895

5. Convertible Notes Payable

The Company entered into a Note Purchase and Investment Agreement dated as of June 5, 1996 (the "Agreement") with two investment companies, Nassau Capital Partners L.P. and NAS Partners I L.L.C. ("Nassau Capital" and "Nassau Partners", respectively, collectively referred to as "Nassau") pursuant to which convertible secured notes payable of $5,952,616 and $47,384 were issued on June 6, 1996 to Nassau Capital and Nassau Partners, respectively, (the "Notes"). Under the Agreement, Nassau has a first priority lien on substantially all of the assets of the Company and a pledge of all shares of the Company's common stock owned by the Stockholder. The Notes are due and payable in full on June 5, 1997 unless they have been converted to equity as described below.

The Notes bear interest at an annual rate of 7%, payable quarterly. At the option of the Company, such interest may be paid either in cash or through a payment in-kind, increasing the outstanding principal amount due under the Notes. The Company has reflected the $28,000 of interest due through June 30, 1996 as additional principal in the accompanying balance sheet. In the event that the Notes are not repaid or converted prior to June 6, 1997, the interest rate payable thereon shall thereafter increase by 2% per quarter, to a maximum rate of 15%.

The Agreement places certain limitations on the types of transactions that the Company can enter into without the consent of Nassau, including restrictions on payment of dividends to the Stockholder, prohibitions against the purchase, redemption or other acquisition or retirement of the Company's common stock and disallowance of any equity issuance, except for issuance under an equity incentive plan for the Company's

5. Convertible Notes Payable (continued)

management and Board of Directors or to certain additional equity contributions from the Stockholder. Additionally, the Agreement prohibits the Company from obtaining additional financing in excess of $500.000 and $250.000 to fund capital expenditures and working capital, respectively, unless approved by Nassau. The Company must also obtain approval from Nassau for any capital expenditures or commitments in excess of budgeted amounts previously approved by Nassau. The Company is also limited with regard to the types of transactions allowed with its affiliates.

The Agreement contemplates three investment tranches: (i) the initial $6.000.000 convertible notes payable issued on June 6, 1996 ("Tranche 1"); (ii) shares of convertible preferred stock with an aggregate liquidation value of $6.000.000 ("Tranche 2"); and (iii) at the Company's option, shares of convertible preferred stock with an aggregate liquidation value of up to $2.950.000 ("Tranche 3"). Concurrent with the closing of the Tranche 2 investment, the convertible notes payable will, by their terms, automatically convert into shares of convertible preferred stock with an aggregate liquidation value of $6.000.000.

The shares of convertible preferred stock to be issued with respect to the Tranche 1 and Tranche 2 investments will be convertible into shares of common stock equal to 2.0833% of the Company's outstanding common stock on a fully diluted basis per $1,000,000 of the amount invested by Nassau. Similarly, the shares of convertible preferred stock to be issued with respect to the Tranche 3 investment, if any, will be convertible into shares of common stock equal to 2.00% of the Company's outstanding common stock on a fully diluted basis per $1,000,000 of the amount invested by Nassau.

The Agreement establishes various conditions precedent to the Tranche 2 closing, including (i) the hiring of a president/chief executive officer; (ii) meeting certain identified operational objectives; (iii) the adoption of an equity incentive plan for the Company's management and Board of Directors; and (iv) certain other requirements.

In the event that the Company has not (a) entered into a firm commitment by December 31, 1996 with either (i) the Stockholder and/or third party for an equity offering with gross proceeds of at least $10,000,000 or (ii) a third party for a Rule 144A debt or equity offering with gross proceeds of at least $100,000,000; and (b) received the cash proceeds of such offering within 45 days of receipt of such firm commitment, then Nassau shall have the option to purchase up to an additional $10,000,000 of convertible preferred stock. The shares of convertible preferred stock to be issued with respect to this

5. Convertible Notes Payable (continued)

portion of the Nassau investment, if any, will be convertible into shares of common stock equal to 2.50% of the Company's outstanding common stock on a fully diluted basis per $1,000,000 of the amount invested by Nassau.

In the event that the Notes have not been converted to equity prior to June 6, 1997, the Company is required to issue to Nassau a warrant exercisable for 10 years from the date of issuance for 7% of the fully diluted shares of the Company's outstanding common stock. Although the Notes have a maturity date of June 5, 1997, they are classified as noncurrent liabilities at June 30, 1996, as management believes that the Notes will be converted to equity prior to June 6, 1997 and Nassau has agreed to extend the maturity date to July 1, 1997.

6. Loans Payable to Stockholder

At June 30, 1996 and December 31, 1995 the Company had loans payable to the Stockholder aggregating $4,000,000 and $2,727,400, respectively.

The proceeds of such loans were used to fund the construction of the network in Huntsville, Alabama, and to fund operating cash flow requirements. These loans are payable on demand and, through April 30, 1996, bore interest at the prime rate (8.25% at April 30, 1996). Interest expense charged by the Stockholder under these loans amounted to approximately $108,000 and $57,000 for the six month period ended June 30, 1996 and the year ended December 31, 1995, respectively (none for the period ended December 31, 1994). Effective May 1, 1996 the Stockholder has elected not to charge interest on these loans. However, for financial reporting purposes, $56,230 of interest expenses has been imputed on these loans for the period from May 1, 1996 to June 30, 1996, and a corresponding credit has been recorded to additional paid-in capital.

In accordance with the terms of the Agreement with Nassau, the Stockholder has agreed not to demand repayment of the loans, other than in the event the Company receives proceeds from an equity issuance with net proceeds of $4,000,000. In the event no such additional equity proceeds are received, the loans will be converted to common equity.

7. Income Taxes

At June 30, 1996, the Company has net operating loss carryforwards of approximately $360,000 which expire at the end of calendar year 2011.

7. Income Taxes (continued)

For financial reporting purposes, the Company has approximately $1,470,000 of available loss carryforwards and net temporary differences. At existing tax rates the future benefit approximates $500,000. A valuation allowance has been established for the entire net tax benefit associated with all carryforwards and temporary differences at June 30, 1996 as their realization is not assured. The composition of expected future tax benefits at June 30, 1996 is as follows:

Loss carryforwards	$ 122,000
Temporary differences:	
Start-up costs	372,000
Other, net	6,000
	500,000
Less valuation allowance	(500,000)
	$ -

8. Commitments and Contingencies

Leases

The Company leases various facilities and equipment under operating leases. Minimum rental commitments are as follows:

Period ending December 31:	
1996	$ 98,600
1997	223,500
1998	238,200
1999	238,800
2000	245,100
Thereafter	2,769,000
	$3,813,200

Rent expense under operating leases was $35,000 and $42,000 for the six month period ended June 30, 1996 and the year ended December 31, 1995 (no rent expense for the 1994 period).

Franchise Agreements

At June 30, 1996, the Company was obligated under franchise agreements to various cities to make payments based upon the Company's financial performance. The franchise

8. Commitments and Contingencies (continued)

terms range from 5 to 15 years, with several of the franchise agreements providing for renewal options. The franchise fees payable under the agreements are based on percentages of various financial measurements, including gross receipts, gross revenues, and billings. Several of the franchise agreements contain construction commitment clauses, with specified timeframes for commencement and completion of construction of the fiber optic telecommunication systems.

The Company has not commenced construction within the time specified by two of its franchise agreements. Neither of these municipalities has indicated to management that it intends to exercise its option to revoke the franchise. In the event one or both of these franchises were revoked, it would not have a material adverse impact on the Company's financial statements.

Consulting Agreements

The Company entered into an agreement with a third party marketing services company specializing in real estate on August 7, 1995. The agreement is for an initial period of two years, and may be renewed for successive one year terms if agreed to by the parties. The third party's services will include the marketing and negotiation services related to obtaining building entry agreements in the Huntsville, Alabama area. The third party has successfully obtained 50 agreements through June 30, 1996.

The Company entered into an agreement with a third party provider of specialized professional information technology services on September 18, 1995. The agreement is for an initial period of one year starting upon commencement of a specified phase of the contract. The agreement may be renewed if agreed to by the parties. The third party's services will include configuration, delivery, installation, maintenance and technical support services related to the fiber optic telecommunication system in Huntsville, Alabama. Minimum future consideration for the initial period of this agreement is approximately $235,000.

Purchase Commitments

As of June 30, 1996, the Company has outstanding commitments aggregating approximately $2,100,000 related to the purchases of fiber optic cable and telecommunications equipment as well as engineering services.

9. Related Party Transactions

The Company has informal agreements with certain affiliated companies whereby the affiliated companies provide certain administrative services, such as personnel, utilities, supplies and, through May 31, 1996, rent for the Company and its Predecessors. The Company incurred approximately $205,000 of expense related to these agreements for the six month period ended June 30, 1996 and $859,000 of expense related to these agreements for the year ended December 31, 1995 (none for the period ended 1994).

Effective June 1, 1996, the Company has entered into a lease through November 2015 with an affiliated company. The lease provides for a base annual rental cost of approximately $112,000, adjusted periodically for changes in the consumer price index, plus operating expenses. Rent expense recognized under this lease for the month of June 1996 was $12,700.

Amounts due to affiliated companies were $81,298, $491,067 and $11,100 at June 30, 1996 and December 31, 1995 and 1994, respectively.

10. Subsequent Events

The Company has obtained three additional franchise agreements subsequent to June 30, 1996. The franchise terms under the agreements range from 7 to 15 years, and the franchise agreements provide for a renewal option. The franchise fees payable under the agreements are similar to those under the Company's existing agreements.

In July 1996, the Company entered into a three year employment agreement with its new chief executive officer. In addition to a base salary, the agreement provides for certain incentive compensation payments, based upon the Company's completion of construction and attainment of specified revenues for additional networks. Additionally, the agreement provides for the award of stock options subsequent to the Company's adoption of an equity incentive plan.

The Company and Nassau are currently finalizing the documents related to the Tranche 2 closing, which will incorporate revisions to certain terms and conditions of the Note Purchase and Investment Agreement. The Tranche 2 closing is expected to generate an additional $6,000,000 of gross proceeds from Nassau in the form of convertible secured notes payable. The Company expects that all of the Nassau notes will be converted to equity prior to their maturity dates.

Exhibit 3

Managerial and Technical Qualifications

Michael Sternberg - *President*

Mr. Sternberg has 28 years of experience in all facets of telecommunications, including business development, marketing, sales and general management. Most recently, Mr. Sternberg was founder and Chief Operating Office of RimSat, a privately owned satellite company, which owns and operates two Russian-built satellites, and which sells TV, voice and data capacity to Asian operators.

Previously, Mr. Sternberg was Senior Vice President, Sales and Marketing with Metropolitan Fiber Systems in Oak Brook, IL; President of Stantel Telecommunications, division of STC, a leader in digital telecommunications transmission products in Falls Church, VA; Senior Vice President, Marketing and Corporate Development at CIT-Alcatel in Reston, VA; Vice President, Marketing at General Dynamics Communications Company in St. Louis, MO; Executive Vice President, Marketing and Sales of OKI Electronics of America in Fort Lauderdale, and Chief Operating Officer of National Telephone Company in Hartford.

G. Scott Brodey, Sr. - *Executive Vice President*

Mr. Brodey has 30 years of solid experience in the telecommunications industry, including 22 years as a Corporate Officer and 4 Chief Executive Officer positions.

Since March 1995, he has had overall responsibility for the P&L direction, daily operation, long-range planning, construction, and expansion of city networks for KMC Telecom Inc.

Mr. Brodey began his career at Bell Telephone Co. Of PA in 1960 and was eventually promoted to the position of District Manager. From there, he became Executive Vice President of a new facsimile company, Graphic Sciences, Inc., which was later sold to the Burroughs Corporation. After the sale, he moved on to MCI and was promoted to Senior Vice president of Nationwide Operations for the company, as well as serving as a Chief Executive Officer of a subsidiary (N Trip C). In the late seventies and early eighties, Mr. Brodey was Vice President of Sales and Marketing for RCA Global Communications and also CEO of a subsidiary, RCA GlobCom Systems. He then went on to become President of the LIN Communications, a major non-wireline cellular provider, which later was solid to McCaw Communications.

In 1985, Mr. Brodey launched the Competitive Access Provider ("CAP") Industry. As Founder, President and CEO, he took Institutional Communications Company ("ICC") from the conceptual stage, to become the first metropolitan bypass fiber optic telecommunications company in the country. He was successful in raising $35MM to fund the construction of the first CAP network, ICC, in Washington, D.C. Since that time, Mr. Brodey has been involved in the start-up of four other city CAP operations.

In 1990, he started RiverWatch, Inc., an international consulting firm, serving senior management in Business Development, Strategy Planning and Feasibility Studies.

Tricia Breckenridge - *Vice President Business Relations*

Mrs. Breckenridge has overall responsibility for the identification and development of growth opportunities as it pertains to the competitive access division of KMC Telecom Inc. In this capacity, she develops business plans for expansion into new cities, including the negotiation and acquisition of rights-of-way and city franchises, assessing the regulatory environment and obtaining the necessary certifications. Additionally, she produces the business plans for financing, including an encompassing market assessment, which is the quantification and qualification of the customer base.

In her most recent capacity as a Vice President and City General Manager for FiberNet USA, she had total responsibility for the operation, construction and success of the network. This encompassed all sales and marketing functions, including the development of a sales plan, its execution, contract administration, negotiation of building rights-of-entry license agreements, execution of IXC master service and collocation agreements and liaison with city officials.

Prior to joining FiberNet, she was Vice President of Sales and Marketing for Diginet Corporation, which had competitive access networks in Milwaukee, WI, Northbrook and Chicago, IL. In this position, she contributed to and managed the effort which increased sales revenues 100% in 10 months

Mrs. Breckenridge is a senior manager with a solid background in telecommunications. She has had extensive experience in the competitive access industry ("CAP") in several functions, including overall corporate management, corporate development, business and strategic planning, government affairs, market strategy and high level sales.

Her initial entry into the industry was as an original Founder/Director of Chicago Fiber Optic Corporation ("CFO"), which is now known as Metropolitan Fiber Systems ("MFS"). She was part of the team that executed the successful bank financing for the construction of one of the first competitive access networks in the country. Since then, she has been intricately involved in several other start-up CAP operations, including Fiber Optic Corporation of the United States ("FOCUS"), where she was President and had overall responsibility for P&L, direction, daily operation, long range planning, and the financing of the Corporation and city networks. It was in this capacity that she managed the financing, construction and direction of Philadelphia Fiber Optic Corporation ("PFO").

Prior to her involvement in the competitive access industry, Mrs. Breckenridge was Director of Regulatory Affairs for Telesphere Corporation, a non-facilities based reseller of long distance services.

Mrs. Breckenridge has been very active in industry associations. She served on the Board of Directors and Executive Committee for the Competitive Telecommunications Association ("COMPTEL") for eight years, and is currently serving her sixth year on the Board of Directors for the Association of Local Telecommunications Services ("ALTS"). Additionally, she was just reelected to the ALTS Executive Committee, which was reestablished in 1995. She is the past

Chairman of the ALTS Legal/Regulatory Affairs Committee and is presently serving as a member.

James A. Gillis - *Vice President, Regional Manager*

Mr. Gillis has five years with the Kamine Group as the Vice President, New Business Development, with a primary emphasis in telecommunications. Mr. Gillis has been involved in evaluating new business opportunities in telephone, cable, video, and competitive access industries. He has been instrumental in spearheading discussions regarding joint ventures, mergers, and acquisitions in the Cable and the Competitive Access industries. His primary objective has been to develop synergy between industries by applying new technology with incremental investment and increasing the cash flow of the combined businesses. He has gained wide exposure to new emerging fiber design, technologies, and required telecommunications architecture that enables existing services providers to be able to deliver additional voice, data and video services in the converging marketplace.

Mr. Gillis is responsible for KMC Telecom's sales revenue and profit and loss of CAP operations. Additionally, he develops and maintains key relationships with interexchange carriers and major commercial and government accounts. As Vice President and Regional Manager, Mr. Gillis will evaluate, negotiate and recommend new strategic partners, alliances and acquisitions for KMC Telecom's CAP growth. Also in this capacity, he will develop regional and city expansion plans, evaluate new market areas, integrated businesses and services, operating provisions and expenses, budget capital requirements and development of enhanced services.

Mr. Gillis has had 11 years of extensive experience in sales, marketing and management for Union Carbide prior to the Kamine Group. He initiated several new geographic expansions through innovative marketing and sales programs. Additionally, he was responsible for bringing to market several successful value-added services that enhanced overall customer value, and became the recognized commercial application throughout the industry. As Divisional Sales Manager, he provided management with expansion feasibility and implemented the plan. He increased the number of service locations by 60%, and became a Quality Control facilitator for a major company-wide quality initiative.

Tom Drolet - *Director of Engineering and Operations*

Prior to joining KMC, Mr. Drolet was Director of Engineering and Operations for Metronet, Inc., where he was responsible for all engineering and CAD activities in the company's telecommunications and CATV divisions.

Immediately preceding his tenure at Metronet, Mr. Drolet held various management positions at MCImetro, where he was responsible for all Outside Plant Engineering activities in the east and central regions of the country. Mr. Drolet played a key role in MCImetro's successful and rapid expansion into the CAP market with the development of 40 Sonet Ring networks between

January 1994 and October 1995.

During the five years Mr. Drolet spent with MCImetro, and his additional five years with MCI Telecommunications, he has gained a wealth of experience in all aspects of Outside Plant Engineering in managing the feasibility, development, and implementation of 300 mile long-haul projects, to small area networks for various clients throughout the United States.

MARY C. ALBERT
ATTORNEY-AT-LAW

SWIDLER
&
BERLIN

CHARTERED

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961394-TA

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

DEPOSIT	TREAS. REC.	DATE
D407		NOV 21 '96

November 20, 1996

VIA FEDERAL EXPRESS

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check: A-9

Ms. Blanca S. Bayo
Director, Division of Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850

Re: Application of KMC Telecom Inc. for Authorization to Provide Alternative Access Vendor Service Within the State of Florida

Dear Ms. Bayo:

Enclosed for filing are an original and 15 copies of the Application of KMC Telecom Inc. for Authorization to Provide Alternative Access Vendor Service Within the State of Florida and a 3.5" disk containing the application. The disk is MS-DOS compatible and high density and the file is in WordPerfect 6.1 Also enclosed is a check for $250.00 to cover the filing fee.

Please file-stamp the extra copy of the application and return it to me in the enclosed self-addressed, stamped envelope.

SWIDLER & BERLIN
CHARTERED
3000 K STREET, N.W., SUITE 300
WASHINGTON, D.C. 20007

FIRST UNION NATIONAL BANK
WASHINGTON, D.C.

15-122/540

0051819

NO. 051819

EXACTLY****250*DOLLARS AND*00*CENTS

DATE 11/20/96

AMOUNT $$$$$250.00

PAY TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISS

GENERAL ACCOUNT

[redacted]