



# Public Service Commission

## -M-E-M-O-R-A-N-D-U-M-

DATE: January 22, 1997  
 TO: Tom Williams, Division of Communications  
 FROM: Sonja Jones, Division of Auditing and Financial Analysis *ALM*  
 RE: Docket No. 961267-TI, KMC Telecom Inc., Financial Analysis for *AFC* Certificate *1/28/97*  
 Application for Intrastate Interexchange Telecommunications Service

Section 364.337 (3), Florida Statutes, requires the following:

The commission shall grant a certificate of authority to provide intrastate interexchange telecommunications service upon a showing that the applicant has sufficient technical, financial, and managerial capability to provide such service in the geographic area proposed to be served.

Also Section 364.01 (3) and (4) states that:

- (3) The Legislature finds that the competitive provision of telecommunications service, including local exchange telecommunications service, is in the public interest.
- and
- (4)(d) The Commission shall exercise its exclusive jurisdiction in order to: (d) Promote competition by encouraging new entrants into telecommunications markets . . .

Regarding the showing of financial capability, the Finance staff has analyzed the audited financial statements of KMC Telecom Inc. (KMC) for the six-month period ending June 30, 1996. As the attached schedule shows, KMC has adequate liquidity but reports negative common equity and negative net income.

- ACK \_\_\_\_\_
  - AFA \_\_\_\_\_
  - APP \_\_\_\_\_
  - CAF \_\_\_\_\_
  - CMU \_\_\_\_\_
  - CTR \_\_\_\_\_
  - EAG \_\_\_\_\_
  - LEG \_\_\_\_\_
  - LIN \_\_\_\_\_
  - OPC \_\_\_\_\_
  - RCH \_\_\_\_\_
  - SEC \_\_\_\_\_
  - WAS \_\_\_\_\_
  - OTH \_\_\_\_\_
- In this matter, KMC is asking for a certificate to provide IXC service. Staff notes the limited nature of the application and that no customer provided funds appear to be at risk. For purposes of granting a certificate based on the financial information provided, the financial capability appears marginal.
- Although an analysis of the financial statements reveals the applicant is in a marginal financial position, the applicant attests to its financial capability to provide and maintain the proposed telecommunications service. The applicant notes that it has closed on a financing agreement with AT&T Commercial Finance Corporation, pursuant to which the applicant will have access to up to \$35 million in funding to construct and operate its telecommunications systems in Florida and other markets. In addition to these funds, the applicant expects to generate revenue from its interexchange operations that can be used to maintain the service and cover overhead expenses. Based on this showing, the applicant appears to meet the financial capability standard of Section 364.337, Florida Statutes.
- cc: Division of Legal Services  
 Division of Records and Reporting

DOCUMENT NUMBER-DATE  
 01102 JAN 29 97  
 FPSC-RECORDS/REPORTING

DOCKET NO. 96126  
KMC TELECOM INC.  
IXC CERTIFICATE  
FINANCIAL ANALYSIS

FROM AUDITED FINANCIAL STATEMENTS

FOR THE SIX  
MONTHS ENDING  
6/30/96

CURRENT ASSETS	\$4,601,071
CURRENT LIABILITIES	1,005,092
CURRENT RATIO	4.58
CASH	4,524,213
COMMON EQUITY	(1,127,488)
TOTAL DEBT	10,028,000
TOTAL INVESTOR CAPITAL	8,900,512
COMMON EQUITY RATIO	NMF
NET INCOME	(1,648,851)
RETURN ON EQUITY	NMF

NMF = No Meaningful Figure