



Public Service Commission

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

DATE: February 6, 1998
TO: Tom Williams, Division of Communications
FROM: Pete Lester, Division of Auditing and Financial Analysis
RE: Docket No. 980085-TX, KMC Telecom II, Inc., Financial Analysis for Certificate Application for Alternative Local Exchange Telecommunications Service

Section 364.337 (1), Florida Statutes, requires the following:

The commission shall grant a certificate of authority to provide alternative local exchange 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 unaudited financial statements of KMC Telecom Holdings, Inc., the parent company of KMC Telecom II, Inc. (KMC), for the year ended November 30, 1997. An audit could change one's opinion of the company's financial condition. As the attached schedule shows, KMC's parent company has adequate liquidity but reports a low level of common equity and negative net income.

- ACK
AFA In this matter, KMC is asking for a certificate to provide alternative local exchange telecommunications service. Staff notes the limited nature of the application. For purposes of granting a certificate based on the financial information provided, the financial capability appears marginal.
CMU
CTR 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 by noting that it has access to capital through its parent company, which, in turn, can borrow funds from AT&T. The parent company has provided a guaranty for the financial obligations of KMC. 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 (2)

DOCUMENT NUMBER - DATE

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FPCO-REC 1985/REPORTING

**DOCKET NO. 980084-TI
DOCKET NO. 980085-TX
KMC TELECOM II, INC.
IXC CERTIFICATE and ALEC CERTIFICATE
FINANCIAL ANALYSIS
ATTESTATION DONE**

**FROM UNAUDITED FINANCIAL STATEMENTS
ON KMC TELECOM HOLDINGS, INC., THE PARENT
COMPANY OF KMC TELECOM II, INC.**

	YEAR ENDED NOVEMBER 30, 1997
CURRENT ASSETS	29,164,347
CURRENT LIABILITIES	22,611,106
CURRENT RATIO	1.29
CASH	23,061,976
COMMON EQUITY	25,467,579
TOTAL DEBT	79,446,313
PREFERRED STOCK	0
TOTAL INVESTOR CAPITAL	104,913,892
COMMON EQUITY RATIO	24%
NET INCOME	(15,280,915)
RETURN ON EQUITY	-60%