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STATE OF ALASKA

THE REGULATORY COMMISSION OF ALASKA

Before Commissioners:

G. Nanette Thompson, Chair  
Bernie Smith  
Patricia M. DeMarco  
Will Abbott  
James S. Strandberg

In the Matter of the Joint Application Filed by  
WORLD COM, INC., and INTERMEDIA  
COMMUNICATIONS, INC., for Approval of  
WORLD COM, INC., to Acquire a Controlling  
Interest in INTERMEDIA COMMUNICATIONS,  
INC. )

U-00-149  
ORDER NO. 1

**ORDER APPROVING APPLICATION, SUBJECT TO CONDITIONS;  
GRANTING WAIVER; AND REQUIRING FILINGS**

BY THE COMMISSION:

Summary

On October 23, 2000, WorldCom, Inc. (WorldCom), and Intermedia Communications, Inc. (Intermedia), jointly filed an application for approval of a transaction whereby WorldCom will acquire a controlling interest in Intermedia. We approve WorldCom and Intermedia's joint application and find WorldCom fit, willing, and able to acquire a controlling interest in Intermedia's services in Alaska authorized under Certificate of Public Convenience and Necessity (Certificate) No. 508.

Background

On September 1, 2000, WorldCom and Intermedia executed an Agreement and Plan of Merger, whereby WorldCom agreed to acquire control of

1 Intermedia, including its operations in Alaska as a reseller of intrastate interexchange  
2 telecommunications services, in a stock-for-stock<sup>1</sup> transaction.

3 The application was noticed to the public on November 15, 2000, with a  
4 closing date of December 15, 2000, to file comments in favor of, or in opposition to,  
5 the filing. To date no comments on the application have been received.

6 The Commission Staff (Staff) reviewed the joint application in this  
7 proceeding and on January 22, 2001, submitted its analysis and recommendation  
8 (Report). A copy of Staff's Report is attached to this Order as an Appendix.

9 Staff's Report sets out in detail the history of the proceeding and Staff's  
10 findings and recommendations regarding disposition of the application. Staff  
11 concluded that WorldCom, based on its application, has demonstrated that it is fit,  
12 willing, and able to provide the intrastate interexchange telecommunication services in  
13 Alaska authorized under Certificate No. 508.

14 Staff recommended that the joint application for approval to transfer  
15 controlling interest in Intermedia's Alaska operations under Certificate No. 508 from  
16 Intermedia to WorldCom be approved contingent upon the consummation of the  
17 transaction. Staff also recommended that approval should be subject to the condition  
18 that within thirty days of completing the transaction to acquire controlling interest in  
19 Intermedia, WorldCom should be required to inform the Commission of the actual date  
20 of the transfer. Additionally, Staff recommended that under the provisions of  
21 3 AAC 48.410, Intermedia be granted a waiver of the requirement to file a tariff in its  
22 own because Intermedia's name will remain unchanged as a result of this transaction.

23  
24 <sup>1</sup>While the transaction is a stock-for-stock transaction, the exact number of  
25 shares and the value of the stock Intermedia common and preferred stock  
26 shareholders will receive from WorldCom are unknown at this time.

1 Discussion

2 The Commission's standard for evaluating applications of this type is  
3 whether the proposed transfer/acquisition is affirmatively consistent with the public  
4 interest under the criteria for certification set out in AS 42.05. We have carefully  
5 considered the evidence presented in this proceeding, including Staff's  
6 recommendation, in light of this standard and conclude that benefits would result from  
7 the proposed transfer/acquisition.

8 We find that any risk involved in the transfer can be mitigated by placing  
9 conditions on the transfer, thus, the transfer is consistent with the public interest.  
10 Accordingly, we accept Staff's recommendation to approve the joint application by  
11 WorldCom and Intermedia, subject to the conditions set out above and in Staff's  
12 Report.

13 We concur with Staff that WorldCom should not be required to file a new  
14 tariff in its own name within ninety days of the adoption notice and, thus, on our own  
15 motion we will grant WorldCom a waiver of the requirements of 3 AAC 48.410.<sup>2</sup>  
16 Additionally, within thirty days of the closing date of the transaction, WorldCom is  
17 required to notify the Commission of that date.

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<sup>2</sup>3 AAC 48.410 provides, in pertinent part:

23 A utility . . . acquiring ownership or control of another utility . . . or  
24 portion of one, and filing a notice adopting the rates, rules, and  
25 regulations, etc. of that utility . . . shall, within 90 days after filing of that  
26 adoption notice, file those rates, rules, and regulations, etc., as a part of its  
own tariff or as a separate tariff in its own name if it plans to continue to  
operate in accordance with them.

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**ORDER**

THE COMMISSION FURTHER ORDERS:

1. The joint application filed by WorldCom, Inc., and Intermedia Communications, Inc., holder of Certificate of Public Convenience and Necessity No. 508, for approval of a transaction whereby WorldCom, Inc., will acquire a controlling interest in Intermedia Communications, Inc.'s operations in Alaska, as more fully discussed in the body of this Order, is approved.

2. Within thirty days of closing of the transaction approved in Ordering Paragraph No. 1 of this Order, WorldCom, Inc., shall file a tariff adoption notice as provided in 3 AAC 48.400.

3. WorldCom, Inc., is granted a waiver of the provisions of 3 AAC 48.410.<sup>3</sup>

DATED AND EFFECTIVE at Anchorage, Alaska, this 26th day of January, 2001.

BY DIRECTION OF THE COMMISSION  
(Commissioners G. Nanette Thompson, Chair,  
and James S. Strandberg, not participating.)

( S E A L )

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<sup>3</sup>See n.2.

STATE OF ALASKA  
**The Regulatory Commission of Alaska**  
1016 West Sixth Avenue, Suite 400  
Anchorage, Alaska 99501

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

TO: Commissioners:  
G. Nanette Thompson, Chair  
Bernie Smith  
Patricia M. DeMarco  
Will Abbott  
James S. Strandberg

DATE: January 22, 2001  
DATE FILED: October 23, 2000

FROM: Chris D. Smith, Utility Financial Analyst

SUBJECT: Docket U-00-149 – In the matter of the Application of WorldCom, Inc. and Intermedia Communications, Inc. for Approval to Transfer Control of Intermedia Communications, Inc. to Worldcom, Inc.

Recommendation

Staff recommends the Commission:

1. Find the applicant WorldCom, Inc. fit, willing, and able to acquire control of Intermedia Communications, Inc. operations in Alaska and the utility services in the application are required for the convenience and necessity of the public.
2. Approve the joint WorldCom, Inc. and Intermedia Communications, Inc. application for WorldCom, Inc. to transfer controlling interest in Intermedia Communications, Inc. contingent upon consummation of the transaction and WorldCom, Inc. providing notification to the Commission within 30 days of completing the transaction.
3. Require WorldCom, Inc. file a tariff adoption notice within 30 days of closing the transaction.

4. Grant WorldCom, Inc. a waiver of 3 AAC 48.410 that require it file amended tariffs within 90 days of filing the adoption notice in Recommendation No. 2.

### Filing

On October 23, 2000, WorldCom Inc. (WorldCom<sup>1</sup>) and Intermedia jointly filed an application for Commission approval to transfer control of Intermedia's Alaska operations, under Certificate of Public Convenience and Necessity (CPCN) No. 508 to WorldCom. The request for transfer of control results from a September 1, 2000 Agreement and Plan of Merger between WorldCom and Intermedia, whereby WorldCom agreed to acquire control of Intermedia, including its Alaskan intrastate interexchange (IXC) operations in a stock-for-stock<sup>2</sup> transaction.

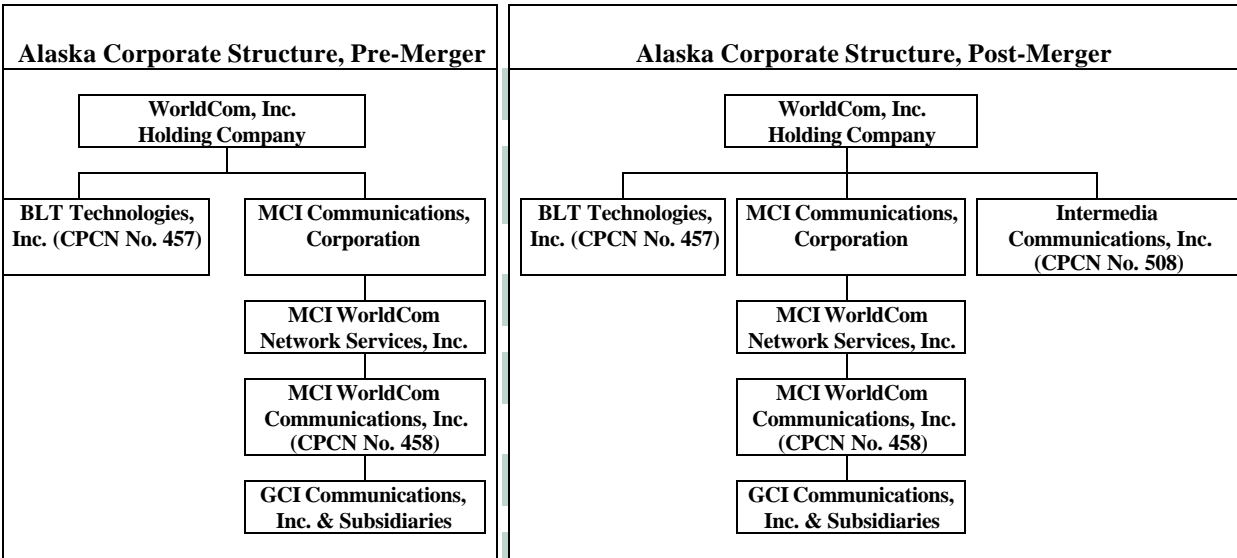
The application asserts that WorldCom will assume Intermedia's debt, and provide funds to cover Intermedia's operating losses, support Intermedia's continued growth, and provide Intermedia with stability, which will benefit Intermedia's customers. Further, WorldCom asserts it is in the public's best interest that Intermedia remain a competitive long distance carrier.

WorldCom asserts Intermedia will be a subsidiary, the only change in ownership will be at the holding company level, no restructuring will occur at the certificated level of subsidiaries operating in Alaska; and therefore, it does not request assignment or transfer of Intermedia's certificate. The merger is tentatively scheduled to close in early 2001. The applicants have diagramed the pre-merger and post-merger corporate structure related to Alaskan operations (see diagram on following page).

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<sup>1</sup> WorldCom, Inc. was formerly known as MCI WorldCom, Inc. Further, WorldCom is the holding company of two operating subsidiaries holding Certificate of Public Convenience and Necessity (CPCN) that grant authority to provide interexchange telecommunication services in Alaska. The subsidiaries and CPCN's are BLT Technologies, Inc. (CPCN No. 457) and MCI WorldCom Communications, Inc. (CPCN No. 458).

<sup>2</sup> While the transaction is a stock-for-stock transaction, the exact number of shares and the value of the stock Intermedia common and preferred stock shareholders will receive from WorldCom are unknown at this time.



Notice

Public notice of U-00-149 was issued November 15, 2000, with a closing date of December 15, 2000 to file comments in favor of, or in opposition to, the application. The Commission did not receive any responses to the noticing of this application.

Analysis

Staff determined if WorldCom is fit, willing, and able to acquire controlling interest of Intermedia; if the acquisition is in the best interest of the public; and if any actions should be taken with regard to the rates and tariffs of the applicants.

Fitness, Willingness, and Ability

Staff reviewed AS 42.05.241, Conditions of Issuance and AS 42.05.281, Transfer of Certificate. AS 42.05.241 states, in part that, *“a certificate may not be issued unless the commission finds that the applicant is fit, willing, and able to provide the utility services applied for and that the services are required for the convenience and*

*necessity of the public.” Further, AS 42.05.281 states, in part, that “a certificate may not be sold or leased, rented, transferred or inherited without the prior approval of the commission.”*

Staff's analysis of the applicants financial fitness, willingness, and ability<sup>3</sup> related to the transfer of control is summarized as follows:

WorldCom, Inc.

1. For year ending December 31, 1999, WorldCom reported total revenues of \$37,120 million, operating income of \$7,888 million, and net income of \$3,941 million. For nine months ending September 30, 2000, WorldCom reported total revenues of \$29,483 million, operating income of \$6,727 million, and net income of \$3,510 million.
2. At December 31, 1999 WorldCom reported consolidated total assets of \$91,072 million. At September 30, 2000 WorldCom reported consolidated total assets of \$99,472 million, an increase of \$8,400 million.
3. WorldCom reported its equity increased from \$54,635 million at December 31, 1999 to \$58,991 million, at September 30, 2000.
4. WorldCom's debt to total asset<sup>4</sup> ratio increased from .40 at December 31, 1999 to .41 at September 30, 2000.
5. WorldCom's long term capital<sup>5</sup> structure changed from 26% debt and 74% equity at December 31, 1999 to 30% debt and 70% equity at September 30, 2000.

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<sup>3</sup> The 10Q filings were obtained from the internet sites of the applicants WorldCom and Intermedia, respectively at:

<http://www.edgar-online.com/bin/irsec/?doc=A-723527-0000931763-00-002561&nad=1&nav=1>  
[http://www.nasdaq.com/asp/quotes\\_sec.asp?symbol=ICIX&selected=ICIX&page=sec&](http://www.nasdaq.com/asp/quotes_sec.asp?symbol=ICIX&selected=ICIX&page=sec&)

<sup>4</sup> The debt to asset ratio is an indication of an enterprise's ability to withstand losses without impairing the interests of creditors. The lower the ratio the more likely the enterprise will be able to remain solvent and a going concern. WorldCom's debt to asset ratio increased slightly in past nine months.

<sup>5</sup> The long-term capital structure indicates how the company is financed, meaning it has significant debt or is funded by owners equity. WorldCom appears to be leveraging the equity it has and accumulating more debt. Total debt increased 4% and equity decreased 4% in the last nine months.

6. WorldCom's current ratio<sup>6</sup> at December 31, 1999 was .60, and its current ratio at September 30, 2000 was .78.

The table below presents select data from the consolidated financial statements of WorldCom and Intermedia.

<b>WorldCom, Inc.</b>			<b>Intermedia Communications, Inc.</b>		
	<b>9/30/2000</b>	<b>12/31/1999</b>		<b>9/30/2000</b>	<b>12/31/1999</b>
	<b>Unaudited</b>	<b>Audited</b>		<b>Unaudited</b>	<b>Audited</b>
	<b>(millions)</b>	<b>(millions)</b>		<b>(millions)</b>	<b>(millions)</b>
<b>Assets:</b>			<b>Assets:</b>		
Current	\$12,105	\$10,324	Current	\$697	\$577
NonCurrent	87,367	80,748	NonCurrent	2,999	2,719
<b>Total Assets</b>	<b>\$99,472</b>	<b>\$91,072</b>	<b>Total Assets</b>	<b>\$3,696</b>	<b>\$3,296</b>
<b>Liabilities:</b>			<b>Liabilities:</b>		
Current	\$15,460	\$17,209	Current	\$226	\$243
NonCurrent	25,021	19,228	NonCurrent	3,852	3,906
<b>Total Liabilities</b>	<b>40,481</b>	<b>36,437</b>	<b>Total Liabilities</b>	<b>4,077</b>	<b>4,149</b>
Equity	58,991	54,635	Equity	(382)	(853)
<b>Total Liab. &amp; Equity</b>	<b>\$99,472</b>	<b>\$91,072</b>	<b>Total Liab. &amp; Equity</b>	<b>\$3,696</b>	<b>\$3,296</b>
	<b>(YTD)</b>	<b>12/31/1999</b>		<b>(YTD)</b>	<b>12/31/99</b>
	<b>9/30/2000</b>	<b>Audited</b>		<b>9/30/2000</b>	<b>Audited</b>
	<b>Unaudited</b>	<b>(millions)</b>		<b>Unaudited</b>	<b>(millions)</b>
	<b>(millions)</b>	<b>(millions)</b>		<b>(millions)</b>	<b>(millions)</b>
Revenues	\$29,483	\$37,120	Revenues	\$768	\$906
Operating Income	\$6,727	\$7,888	Operating Income	\$(419)	\$(305)
Net Income*	\$3,559	\$3,941	Net Income*	\$230	\$(651)
* Inclusive of extraordinary items.					
Source of unaudited 3 <sup>rd</sup> quarter 2000 year-to-date (YTD) financial data is from SEC form 10Q.					
Source of audited 1999 financial data is company SEC form 10Q, filed with application.					

### Intermedia Communications, Inc.

1. From December 31, 1999 Intermedia reported its revenues were \$906 million and it had a net loss of \$651 million. From September 30, 2000 Intermedia reported its revenues were \$768 million and net income was \$230 million.

<sup>6</sup> The current ratio is dollars of current assets to cover current liabilities, and used to determine the liquidity of an enterprise. The current ratio at December 31, 1999 is current assets of \$10,324 million divided by current liabilities of \$17,209 million or .60. The current ratio at September 30, 2000 is current assets of \$12,105 million divided by current liabilities of \$15,460 million or .78.

2. Intermedia reported that as of December 31, 1999 it had consolidated total assets of \$3,296 million. Intermedia reported that as of September 30, 2000, it had consolidated total assets of \$3,696 million.
3. Intermedia reported negative net cash flows used by operating activities were \$224 million for the year ended December 31, 1999 and \$191 million for the three-quarters ended September 30, 2000.

The applicants' managerial and technical fitness, willingness, and ability related to the merger are summarized here. WorldCom is a global communications company with operating subsidiaries currently operating in Alaska providing intrastate telecommunications services. WorldCom's management has a comprehensive background in the telecommunication industry, and it has several subsidiaries currently operating and providing telecommunications services in Alaska.

Staff recommends the Commission find WorldCom fit, willing and able to provide interstate IXC telecommunications services in Alaska, and its application for authority to acquire a controlling interest of Intermedia be approved.

#### Public Interest

Staff reviewed AS 42.05.241, Conditions of Issuance, which states, in part that, *“the commission may issue a certificate granting an application in whole or in part and attach to the grant of it the terms and conditions it considers necessary to protect and promote the public interest.”*

WorldCom's application asserts it intends to hold and operate Intermedia's telecommunications services, assets, and operations separate from WorldCom, while it evaluates options for maximizing the value of Intermedia's operations. Such options may include selling Intermedia's assets and operations to a third party or consolidating

all or some of Intermedia's assets and operations into other WorldCom operations. WorldCom intends to continue Intermedia's operations in Alaska, pursuant to Intermedia's existing certificate under the same rates, terms, and conditions.

As a result of WorldCom's decision to acquire Intermedia, it entered into a consent decree with the Department of Justice (DOJ). The decree allows WorldCom to retain controlling interest of Digex, however, WorldCom is required to promptly divest itself of Intermedia's assets. DOJ stated its objective was to preserve a viable competitor in the provision of Internet backbone and access services.

Staff concludes WorldCom's acquisition of Intermedia is not contrary to the public interest. Approval of the application should be contingent upon the applicant consummating the transactions described above, and filing the appropriate notices adopting Intermedia's tariff within 30 days of closing the transactions.

## Tariffs

Staff reviewed the applicants' tariffs and applicable tariff regulations. In accordance with 3 AAC 48.400<sup>7</sup>, WorldCom is required to file an adoption notice due to the transfer of the controlling interest of Intermedia. Additionally, 3 AAC 48.410<sup>8</sup> requires WorldCom file amended tariffs within 90 days after filing an adoption notice; however, 3 AAC 48.300(c)(3) allows the Commission authority to waive such requirements.

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<sup>7</sup> 3 AAC 48.400 ADOPTION NOTICE (a), states, in part,  
*a utility . . . is transferred from the operating control of one utility or . . . to that of another by . . . acquisition of a controlling interest by any means . . . a tariff supplement containing an adoption notice . . . [which states the] . . . utility . . . hereby adopts, as if they had been originally filed by it . . . .*

<sup>8</sup> 3 AAC 48.410 TARIFF OF ACQUIRED UTILITY OR PIPELINE CARRIER states in part,  
*A utility . . . acquiring ownership or control of another utility . . . filing a notice adopting the rates, rules, and regulations, etc., of that utility . . . shall, within 90 days after the filing of that adoption notice, file those rates, rules, and regulations, etc., as a part of its own tariff or as a separate tariff in its own name if it plans to continue to operate in accordance with them.*

Staff concludes the Commission should require WorldCom file the appropriate adoption notices within 30 days of consummating the transactions. Staff recommends the Commission grant WorldCom a waiver requiring it to file amended tariffs, since Intermedia's name will remain unchanged as a result of this transaction.

### CONCLUSION

Staff concludes WorldCom is financially fit, willing, and able to acquire controlling interest of Intermedia, and its application should be approved. Approval of this application should be contingent upon consumation of the transaction and WorldCom filing an adoption notice as required by 3 AAC 48.400 within 30 days of consummating the transaction. WorldCom should not be required to file revised tariffs, and the Commission should grant it a waiver. For the reasons discussed above, Staff made its recommendations regarding the issues.