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ORIGINAL

June 1, 2000

VIA OVERNIGHT MAIL

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

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:

000683 - TX

Re: RCN Telecom Services, Inc. Application for Authority to Provide Alternative Local
Exchange Service Within the State of Florida - Expedited Treatment Requested

Dear Ms. Bayo:

Enclosed for filing on behalf of RCN Telecom Services, Inc. ("RCN" or "Applicant"), please find an original and six (6) copies of RCN's application for authority to provide alternative local exchange telecommunications services within the State of Florida. Also enclosed is a check in the amount of \$250.00 to cover the filing fee.

RCN respectfully requests expedited treatment of this Application. Applicant stands poised to begin construction in the Fort Lauderdale area immediately. Please note that RCN currently holds a Certificate of Public Convenience and Necessity to provide interexchange telecommunications service, Certificate No. 4011, and requests that all information from that docket be associated with the Application as necessary.¹ Pursuant to Commission Rule No. 25-24.825, RCN will file a Price List with the Commission prior to providing service.

¹ The Commission granted interexchange authority to Commonwealth Long Distance in Docket No. 941278-TI, Order No. PSC-95-0233-FOF-TI., on February 20, 1995. On October 13, 1997, Certificate No. 4011 was amended to reflect a name change from Commonwealth Long Distance Company to RCN Long Distance Company (Docket No. 970296-TI, Order No. PSC-97-1244-FOF-TI). By Order No. PSC-99-2436-CO-TP, issued on December 13, 1999 in Docket No. 991496-TP, the Commission approved a *pro forma* corporate restructuring and reassignment of interexchange Certificate No. 4011 to RCN Telecom Services, Inc.

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Blanca S. Bayo
June 1, 2000
Page 2

Please date-stamp the enclosed extra copy of this filing and return in the self-addressed, stamped envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact Jennifer Schneider at (202) 424-7742.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Michael P. Donahue". The signature is fluid and cursive, with the first name "Michael" being more prominent.

Michael P. Donahue

Counsel for RCN Telecom Services, Inc.

cc: Mr. Tom Williams (PSC)
Mr. Joseph Kahl
Ms. Trudy Longnecker
Ms. Jennifer Schneider

ORIGINAL

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**** FLORIDA PUBLIC SERVICE COMMISSION ****
DIVISION OF TELECOMMUNICATIONS
BUREAU OF CERTIFICATION AND SERVICE EVALUATION

APPLICATION FORM
for
AUTHORITY TO PROVIDE
ALTERNATIVE LOCAL EXCHANGE SERVICE
WITHIN THE STATE OF FLORIDA

Instructions

- ◆ This form is used as an application for an original certificate and for approval of the assignment or transfer of an existing certificate. In the case of an assignment or transfer, the information provided shall be for the assignee or transferee (See Appendix A).
- ◆ Print or type all responses to each item requested in the application and appendices. If an item is not applicable, please explain why.
- ◆ Use a separate sheet for each answer which will not fit the allotted space.
- ◆ Once completed, submit the original and six (6) copies of this form along with a non-refundable application fee of **\$250.00** to:

Florida Public Service Commission
Division of Records and Reporting
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6770

- ◆ If you have questions about completing the form, contact:

Florida Public Service Commission
Division of Telecommunications
Bureau of Certification and Service Evaluation
2540 Shumard Oak Blvd.
Tallahassee, Florida 32399-0850
(850) 413-6600

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M. Lockard
FPSC-BUREAU OF RECORDS

FORM PSC/CMU 8 (11/95)
Required by Commission Rule Nos. 25-24.805,
25-24.810, and 25-24.815

DOCUMENT NUMBER-DATE

06763 JUN-28

FPSC-RECORDS/REPORTING

APPLICATION

1. This is an application for ✓ (check one):
 - (✓) **Original certificate** (new company).
 - () **Approval of transfer of existing certificate:** Example, a non-certificated company purchases an existing company and desires to retain the original certificate of authority.
 - () **Approval of assignment of existing certificate:** Example, a certificated company purchases an existing company and desires to retain the certificate of authority of that company.
 - () **Approval of transfer of control:** Example, a company purchases 51% of a certificated company. The Commission must approve the new controlling entity.
2. Name of company:
RCN Telecom Services, Inc. ("RCN" or "Applicant")
3. Name under which the applicant will do business (fictitious name, etc.):
RCN Telecom Services, Inc.
4. Official mailing address (including street name & number, post office box, city, state, zip code):
105 Carnegie Center
Princeton, New Jersey 08540
5. Florida address (including street name & number, post office box, city, state, zip code):
RCN does not currently have an office in Florida. If RCN does establish a Florida office in the future, RCN will provide this information to the Commission, if the Commission so requests.

6. Structure of organization:

- | | |
|---|--|
| <input type="checkbox"/> Individual | <input type="checkbox"/> Corporation |
| <input checked="" type="checkbox"/> Foreign Corporation | <input type="checkbox"/> Foreign Partnership |
| <input type="checkbox"/> General Partnership | <input type="checkbox"/> Limited Partnership |
| <input type="checkbox"/> Other _____ | |

7. **If individual**, provide:

Name: Not Applicable

Title: _____

Address: _____

City/State/Zip: _____

Telephone No.: _____ **Fax No.:** _____

Internet E-Mail Address: _____

Internet Website Address: _____

8. **If incorporated in Florida**, provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

Not Applicable

9. **If foreign corporation**, provide proof of authority to operate in Florida:

(a) **The Florida Secretary of State corporate registration number:**

Document No. F99000005463

10. **If using fictitious name-d/b/a**, provide proof of compliance with fictitious name statute (Chapter 865.09, FS) to operate in Florida:

(a) **The Florida Secretary of State fictitious name registration number:**

RCN is not using a fictitious name-d/b/a.

11. **If a limited liability partnership**, provide proof of registration to operate in Florida:

(a) **The Florida Secretary of State registration number:**

Not Applicable

12. **If a partnership**, provide name, title and address of all partners and a copy of the partnership agreement.

Name: Not Applicable

Title: _____

Address: _____

City/State/Zip: _____

Telephone No.: _____ **Fax No.:** _____

Internet E-Mail Address: _____

Internet Website Address: _____

13. **If a foreign limited partnership**, provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(a) **The Florida registration number:** Not Applicable

14. Provide **F.E.I. Number** (if applicable): 23-2472885

15. Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

(a) adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, or whether such actions may result from pending proceedings. Provide explanation.

None of RCN's officers, directors, or ten largest stockholders have previously been adjudged bankrupt, mentally incompetent, or found guilty of any felony or of any crime, nor will any such actions result from pending proceedings.

(b) an 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.

The officers and directors of RCN Telecom Services, Inc. are all officers and directors RCN's parent company, RCN Corporation. As such, they are also the officers and directors of the RCN affiliate holding a certificate in Florida, Starpower Communications, LLC. In addition, RCN holds a certificate to provide interexchange telecommunications services (Please see answer to 17(a) for further detail).

16. Who will serve as liaison to the Commission with regard to the following?

(a) The application:

Name: Michael P. Donahue/Jennifer A. Schneider

Title: Counsel for the Applicant; Swidler Berlin Shereff Friedman, LLP

Address: 3000 K Street NW, Suite 300

City/State/Zip: Washington, DC 20007

Telephone No.: (202) 424-7742 Fax No.: (202) 424-7645

Internet E-Mail Address: jaschneider@swidlaw.com

Internet Website Address: www.swidlaw.com

(b) Official point of contact for the ongoing operations of the company:

Name: Trudy M. Longnecker

Title: Tariff & Compliance Manager

Address: 105 Carnegie Center

City/State/Zip: Princeton, New Jersey 08540

Telephone No.: (609)734-4533 Fax No.: (609)734-3784

Internet E-Mail Address: trudy.longnecker@rcn.net

Internet Website Address: www.rcn.net

(c) Complaints/Inquiries from customers:

Name: Customer Service Line

Title: _____

Address: 105 Carnegie Center

City/State/Zip: Princeton, New Jersey 08540

Telephone No.: 800-746-4726 Fax No.: _____

Internet E-Mail Address: custrel@rcn.com

Internet Website Address: www.rcn.net

17. List the states in which the applicant:

(a) has operated as an alternative local exchange company.

The RCN companies are in the process of a *pro forma* corporate restructuring. Prior to the restructuring, RCN Telecom Services, Inc. held no certificates to operate as a local exchange carrier. Rather, subsidiaries of RCN held individual certificates from various states. The restructuring will create one entity, RCN Telecom Services, Inc., the Applicant, which will hold most of the certificates to provide local exchange service. Further information concerning the restructuring may be found in Commission Docket No. 991496-TP. Because the restructuring is not yet complete at this time, RCN as well as its subsidiaries hold certificates and operate as telecommunications providers. Upon completion, RCN will hold most certificates of authority and provide service. At the time of this Application, RCN or its subsidiaries operate as local exchange companies in the following states: California, District of Columbia, Illinois, Maryland, Massachusetts, New Jersey, New York, Pennsylvania and Virginia.

- (b) has applications pending to be certificated as an alternative local exchange company.

Neither RCN nor its subsidiaries have applications pending to be certificated as local exchange companies.

- (c) is certificated to operate as an alternative local exchange company.

RCN or its subsidiaries hold certificates to operate as local exchange companies in the following states: Arizona, California, Connecticut, Delaware, District of Columbia, Illinois, Maine, Maryland, Massachusetts, New Hampshire, New Jersey, New York, Nevada, Oregon, Pennsylvania, Rhode Island, Vermont, Virginia and Washington.

- (d) has been denied authority to operate as an alternative local exchange company and the circumstances involved.

Neither RCN nor its subsidiaries have been denied authority to operate as a local exchange company.

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

Neither RCN nor its subsidiaries have had regulatory penalties imposed for violations of telecommunications statutes.

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

Neither RCN nor its subsidiaries have been involved in civil court proceedings with an interexchange carrier, local exchange company or other telecommunications entity.

18. Submit the following:

A. Financial capability. **Please see Exhibit 1.**

The application **should contain** the applicant's audited financial statements for the most recent 3 years. If the applicant does not have audited financial statements, it shall so be stated.

The unaudited financial statements should be signed by the applicant's chief executive officer and chief financial officer **affirming that the financial statements are true and correct** and should include:

1. the balance sheet;
2. income statement; and
3. statement of retained earnings.

NOTE: This documentation may include, but is not limited to, financial statements, a projected profit and loss statement, credit references, credit bureau reports, and descriptions of business relationships with financial institutions.

Further, the following (which includes supporting documentation) should be provided:

1. **written explanation** that the applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served. **Please see Exhibit 1.**
2. **written explanation** that the applicant has sufficient financial capability to maintain the requested service. **Please see Exhibit 1.**
3. **written explanation** that the applicant has sufficient financial capability to meet its lease or ownership obligations. **Please see Exhibit 1.**


B. Managerial capability: give resumes of employees/officers of the company that would indicate sufficient managerial experiences of each. **Please see Exhibit 2.**

C. Technical capability: give resumes of employees/officers of the company that would indicate sufficient technical experiences or indicate what company has been contracted to conduct technical maintenance. **Please see Exhibit 2.**

**** 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 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:** I understand that a non-refundable application fee of \$250.00 must be submitted with the application.

UTILITY OFFICIAL

	6/1/00
Signature	Date
President & Chief Operating Officer	609-734-3700
Title	Telephone No.
Address: <u>105 Carnegie Center</u>	<u>609-451-8432</u>
	Fax No.
<u>Princeton, New Jersey 08540</u>	

ATTACHMENTS:

- A - CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT
- B - INTRASTATE NETWORK
- C - AFFIDAVIT

CERTIFICATE SALE, TRANSFER, OR ASSIGNMENT STATEMENT*

1, (Name) _____,

(Title) _____ of (Name of Company)

and current holder of Florida Public Service Commission Certificate Number # _____

_____, have reviewed this application and join in the petitioner's request for a:

() sale ***Not applicable. RCN is applying for original authority.**

() transfer

() assignment

of the above-mentioned certificate.

UTILITY OFFICIAL:

Signature

Date

Title

Telephone No.

Address: _____

Fax No.

INTRASTATE NETWORK (if available)

Chapter 25-24.825 (5), Florida Administrative Code, requires the company to make available to staff the alternative local exchange service areas only upon request.

1. POP: Addresses where located, and indicate if owned or leased.

- | | |
|----------------------------|----------|
| 1) <u>To be determined</u> | 2) _____ |
| _____ | _____ |
| 3) _____ | 4) _____ |
| _____ | _____ |

2. SWITCHES: Address where located, by type of switch, and indicate if owned or leased.

- | | |
|----------------------------|----------|
| 1) <u>To be determined</u> | 2) _____ |
| _____ | _____ |
| 3) _____ | 4) _____ |
| _____ | _____ |

3. TRANSMISSION FACILITIES: POP-to-POP facilities by type of facilities (microwave, fiber, copper, satellite, etc.) and indicate if owned or leased.

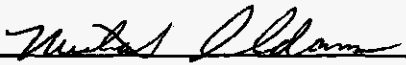
- | <u>POP-to-POP</u> | <u>OWNERSHIP</u> |
|----------------------------|------------------|
| 1) <u>To be determined</u> | _____ |
| 2) _____ | _____ |
| 3) _____ | _____ |
| 4) _____ | _____ |

**** APPENDIX C ******AFFIDAVIT**

By my signature below, I, the undersigned officer, attest to the accuracy of the information contained in this application and attached documents and that the applicant has the technical expertise, managerial ability, and financial capability to provide alternative local exchange company service in the State of Florida. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is true and correct. I attest that I have the authority to sign on behalf of my company and agree to comply, now and in the future, with all applicable Commission rules and orders.

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, punishable as provided in s. 775.082 and s. 775.083."

UTILITY OFFICIAL:

<u></u>	<u>6/1/00</u>
Signature	Date
<u>President & Chief Operating Officer</u>	<u>609-734-3700</u>
Title	Telephone No.
Address: <u>105 Carnegie Center</u>	<u>609-951-8632</u>
	Fax No.
<u>Princeton, New Jersey 08540</u>	

EXHIBITS

EXHIBIT 1	Financial Qualifications and Audited Financial Statements for the Past Three Years
EXHIBIT 2	Managerial and Technical Qualifications
EXHIBIT 3	Certificate of Authority to Transact Business

EXHIBIT 1

FINANCIAL QUALIFICATIONS AND AUDITED FINANCIAL STATEMENTS FOR THE PAST THREE YEARS

RCN Telecom Services, Inc. is financially qualified to provide and maintain its telecommunications services throughout the State of Florida. In particular, Applicant has adequate access to the financing and capital necessary to conduct its telecommunications operations as specified in this Application. RCN will rely upon the financial resources of its parent company, RCN Corporation, to provide capital investment and to fund any operating costs during its initial phase of operations. RCN Corporation will finance RCN's initial operations and will continue to provide financial support to RCN so long as RCN requires additional capital and resources to complete its network and construct facilities.

RCN will also rely on its parent company's existing personnel and technological resources to procure, install and operate facilities and services, and to hire and train additional personnel which may be required to exercise competently and effectively the additional service authority requested by this Application. In support of RCN's application, attached hereto are copies of RCN Corporation's audited financial statements for the past three years. The exhibit is offered to demonstrate Applicant's financial ability to provide the proposed services. With the resources of RCN Corporation, RCN possesses the sound financial resources necessary to effectively procure, install, and operate the facilities and services requested in this Application.

RCN attaches the 10-K's of its parent, RCN Corporation, for the years 1997, 1998 and 1999.

1999

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1999

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File No. 0-22825

RCN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3498533
(I.R.S. Employer
Identification No.)

105 Carnegie Center, Princeton, New Jersey
(Address of principal executive offices)

08540
(Zip Code)

Registrant's telephone number including area code: 609-734-3700
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$1.00 per share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Number of shares of the Registrant's Stock (\$1.00 par value) outstanding at February 29, 2000

78,114,901 Common Stock

Aggregate market value of Registrant's voting stock held by non-affiliates at February 29, 2000 computed by reference to closing price as reported by NASDAQ for Common Stock (\$59.88 per share)

\$2,811,922,404 Common Stock

Documents Incorporated by Reference

1. Proxy Statement for 2000 Annual Meeting of Shareholders is incorporated by reference into Part I and Part III of this Form 10-K.

PART I

Some of the statements made by RCN in this 10-K are forward looking in nature. Actual results may differ materially from those projected in forward-looking statements as a result of a number of factors. We believe that the primary factors include, but are not limited to uncertainties relating to economic conditions, acquisitions and divestitures, government and regulatory policies, the pricing and availability of equipment, materials, inventory and programming, our ability to develop and penetrate existing and new markets, technological developments and changes in the competitive environment in which we operate. Additional information concerning these and other important factors can be found in our filings with the Securities and Exchange Commission. Statements in this release should be evaluated in light of these important factors.

Item 1. BUSINESS

Overview

We are the nation's first and largest single-source facilities-based provider of bundled local and long distance phone, cable television and high-speed Internet services to the densest residential markets in the country. We are currently delivering broadband services over our Megaband(tm) Network and designing and building our network on both the East and West coasts as well as in Chicago. In addition, we are a leading Internet Service Provider ("ISP") in our markets. We offer individual or bundled service options, superior customer service and competitive prices. We are also constructing our networks with significant excess capacity in order to accommodate expanded services in the future. We intend to expand the services provided to our customers through strategic alliances and opportunistic development of complementary products. In addition, we intend to use the excess capacity in our fiber optic networks to provide services to commercial customers located on or near our networks.

Our Megaband(tm) Network is a unique broadband fiber-optic platform capable of offering a full suite of communications services including fully featured voice, video and high-speed Internet to residential customers. The network employs SONET ring backbone architecture, and localized nodes built to ensure that our state-of-the-art fiber optics travel to within 900 feet of our customers, with fewer electronics and lower maintenance costs than existing local networks. Our high-capacity local fiber-optic networks target densely populated areas comprising 44% of the US residential communications market spread over just 6% of its geography. Additional information can be found at www.RCN.com.

Our initial fiber optic networks have been established in selected markets in the Boston to Washington, D.C. corridor, including New York City, and also in the San Francisco Bay area. In addition, we have recently entered into agreements that will allow us to establish and expand our advanced fiber optic networks in the Los Angeles and Chicago areas. We are typically building the first true local network to compete with the aging infrastructure of the incumbent service providers in our markets. In the Boston market we operate our advanced fiber optic network through a joint venture with NSTAR Communications, Inc. or "NSTAR" or "Boston Edison Company" or "BECO". Currently, we own 76.86% interest in and manage the joint venture. Prior to the close of business on December 31, 1999, we owned 53.88%. The joint venture is accounted for on a consolidated basis. In the Washington, D.C. market, we are developing an advanced fiber optic network through a joint venture named Starpower with Pepco Communications, L.L.C., ("PEPCO") an indirect wholly owned subsidiary of Potomac Electric Power Company. We own 50% of Starpower and Pepco Communications owns 50% and it is accounted for under the equity method of accounting. We believe that these joint ventures provide us with a number of important advantages. For example, we are able to access rights-of-way of our joint venture partners and use their existing fiber optic facilities. This allows us to enter our target markets quickly and efficiently and to reduce the up-front costs of developing our networks. In addition, our joint venture partners provide us with access to additional assets, equity capital and established customer bases.

We also benefit from our relationship with our largest shareholder, Level 3 Communications, Inc., and from the experience gained by certain of our key employees who participated in the operation and development of other telephone, cable television and business ventures, including MFS Communications Company, Inc.

Because we deliver a variety of services, we report the total number of our various service connections purchased for local telephone, video programming and Internet access rather than the number of customers. For example, a single customer who purchases local telephone, video programming and Internet access counts as three connections. Since we view long distance as a complementary product we do not currently include customers of our long distance as connections. See "Connections." As of December 31, 1999, we had approximately 947,000 connections which were delivered through a variety of our owned and leased facilities including hybrid fiber/coaxial cable systems, a wireless video system and advanced fiber optic networks. As of that date, we had approximately 223,000 total connections attributable to customers connected to advanced fiber optic networks ("on-net" connections) and had approximately 724,000 connections attributable to customers served through other facilities ("off-net" connections).

We have extensive operating experience in both the telephone and video industries and in the design, development and construction of telecommunications facilities. Our experience provides us with expertise in systems operation and development, and gives us an established infrastructure for customer service and billing for both voice and video services and established relationships with suppliers of equipment and video programming. In addition, our management team and board of directors benefit from experience gained when they managed C-TEC Corporation ("C-TEC"), which, prior to September 30, 1997, owned and operated our company. C-TEC has over 100 years of experience in the telephone business and nearly 25 years of experience in the cable television business. Both C-TEC and certain members of management also have extensive experience in the design and development of advanced telecommunications facilities.

We seek to exploit competitive opportunities in selected markets where population density, favorable demographics and the aging infrastructure of the incumbent service providers' network facilities combine to create a particularly attractive opportunity to develop advanced fiber optic networks. We continue to construct network facilities within the Boston-to-Washington, D.C. corridor. We believe that our experience in the Northeast will provide us with a key strategic advantage as we enter markets in the San Francisco-to-San Diego corridor and in Chicago.

Business Strategy

Our goal is to become the leading provider of communications services to residential customers in our target markets by pursuing the following key strategies:

Exploit the "Last Mile" Bottleneck in Existing Local Networks: Existing local networks are typically low capacity, single service facilities without the bandwidth for multiple or new services and revenue streams. Investment in the local network or "last mile" has not generally kept pace with other industry and technological advances. In our target markets, we seek to be the first operator of an advanced fiber optic network offering advanced communications services to residential customers.

Continue Construction of Advanced Fiber Optic Networks: Our advanced fiber optic networks are designed with sufficient capacity to meet the growing demand for high speed, high capacity, voice, video and data services. Our networks also have a significant amount of excess capacity at relatively low incremental cost which will be available for the introduction of new products. We believe that our high capacity advanced fiber optic networks provide us with certain competitive advantages such as the ability to offer bundled services and the opportunity to recover the cost of our network through multiple revenue streams. In addition, our networks generally provide superior signal quality and network reliability relative to the typical networks of the incumbent service providers.

Leverage our Network and Customer Base: We are able to leverage our network by delivering a broad range of communications products and by focusing on high density residential markets. This bandwidth capacity and home density allows us to maximize the revenue potential per mile of constructed network. We believe we can further exploit our network capacity and customer base by exploring opportunities to deliver new products and services in the future, including complementary commercial and wholesale products and services.

Offer Bundled Voice, Video and Data Services with Quality Customer Service: We offer our customers a single-source package of competitively priced voice, video and data services, individually or on a bundled basis, with quality customer service. By connecting customers to our own network, we improve our operating economics and have complete control over our customers' experience with us. We believe that the combination of bundled communications services and quality customer care that we provide is superior to services that are typically available from most incumbent telephone, cable or other service providers.

Continue to Use Strategic Alliances: We have been able to enter markets quickly and efficiently and to reduce the up-front capital investment required to deploy our networks by entering into strategic alliances with companies such as Boston Edison Company, Pepco Communications, Level 3, Qwest, MCI/WorldCom and Southern California Edison. By establishing relationships with these companies, we are able to take advantage of their existing extensive fiber optic networks and other assets, and our own existing cable television infrastructure, to expedite and reduce the cost of market entry and business development. We will continue to evaluate other strategic alliances in our existing markets and our developing markets.

Network Development and Financing Plan

Because our network development plan involves relatively low fixed costs, we are able to schedule capital expenditures to meet expected subscriber growth in each major market. Our principal fixed costs in each such market are incurred in connection with the establishment of a video transmission and telephone switching facility. To make each market economically viable, it is then necessary to construct infrastructure to connect a minimum number of subscribers to the transmission and switching facility. We phase our market entry projects to ensure that we have sufficient cash on hand to fund this construction.

Based on our current growth plan, we expect that we will require a substantial amount of capital to expand the development of our network and operations into new areas within our larger target markets. We need capital to fund the construction of our advanced fiber optic networks, upgrade our hybrid fiber/coaxial plant and fund operating losses and repay our debts. We currently estimate that our capital requirements for the period from January 1, 2000 through 2001 will be approximately \$3.6 billion, which include capital expenditures of approximately \$1.4 billion in 2000 and approximately \$1.6 billion in 2001. These capital expenditures will be used principally to fund additional construction of our fiber optic network in high density areas in the Boston, New York City, Washington, D.C. and San Francisco Bay area markets as well as to expand into new markets (including selected markets in the western United States) and to develop our information technology systems. These estimates are forward-looking statements that may change if circumstances related to construction, timing of receipt of regulatory approvals and opportunities to accelerate the deployment of our networks do not occur as we expect. In addition to our own capital requirements, our joint venture partners are expected to contribute approximately \$350 million, of which approximately \$265 million has been contributed, to the joint ventures through 2001 in connection with development of the Boston and Washington, D.C. markets.

In order to facilitate growth beyond 2000, we expect to supplement our existing available credit facilities and operating cash flow by continuing to seek to raise additional capital to increase our network coverage and pay for other capital expenditures, working capital, debt service requirements and anticipated further operating losses. We may seek sources of funding from vendor financing, public offerings or private placements of equity and/or debt securities, and bank loans.

RCN Services

We provide a wide range of local and long distance telephone, video programming and data services, both individually and in bundled service options.

We provide these services through a range of facilities including our advanced fiber optic networks in New York City, Boston and Washington D.C. areas, California, a wireless video system in the New York City, our hybrid fiber/coaxial cable systems in the states of New York (outside New York City), New Jersey and Pennsylvania. We also provide, on a limited basis, resale local and long distance telephone services.

Connections. The following table summarizes the development of our subscriber base:

	As of				
	12/31/98	3/31/99	6/30/99	9/30/99	12/31/99
On-Net Service Connections:					
Voice.....	30,868	40,215	49,539	56,209	62,733
Video.....	86,349	99,098	110,565	120,353	138,577
Data.....	6,167	9,922	13,024	17,985	21,654
Subtotal On-Net.....	123,393	149,235	173,128	194,547	222,964
Off-Net:					
Voice.....	65,022	60,004	54,917	49,271	46,986
Video.....	175,313	170,323	165,523	164,859	153,627
Data.....	491,633	506,180	508,992	535,107	523,728
Subtotal Off-Net.....	731,968	736,507	729,432	749,237	724,341
Total Service Connections.....	855,361	885,742	902,560	943,784	947,305
Homes Passed.....	304,505	350,733	427,843	550,771	713,823
Marketable Homes.....	270,406	301,546	361,015	440,112	551,006

Because we deliver a variety of services to our customers, we quantify our customer activity by the number of individual local telephone, video programming or Internet access services, or "connections", purchased. Consequently, a single customer purchasing local telephone, video programming and Internet access counts as three connections.

We classify connections in the "Off-Net" category until the relevant facilities are capable of providing voice, video and data services, including local telephone service, through an RCN switch.

"Off-Net-Voice" figures in the table above represent resold local phone service provided to customers not connected to the advanced fiber optic networks.

"Off-Net-Video" figures in the table above include at December 31, 1999 approximately 32,000 wireless connections and approximately 4,000 wireline video connections serving the University of Delaware.

As of December 31, 1999 we had approximately 135,000 homes passed and approximately 122,000 basic subscribers connected to our hybrid fiber/coaxial cable system in the New York, New Jersey and Lehigh Valley service areas.

In areas served by our joint ventures in the Greater Boston and Washington, D.C. areas, the subscribers are customers of the relevant joint venture and are fully included in the connections reflected in the table above.

We report marketable homes, which represent that segment of homes passed to which are marketing our entire line of advanced fiber optic network products. The distinction between homes passed and marketable homes recognizes our transition from constructing our network in initial markets to providing services to customers that have ordered our services.

Set forth below is a brief description of our services:

Voice. We offer full-featured local exchange telephone service, including standard dial tone access, enhanced 911 access, operator services and directory assistance. We compete with the incumbent local exchange providers and competitive local exchange carriers ("CLECs"). In addition, we offer a wide range of value-added-vertical services, including call forwarding, call waiting, conference calling, speed dial, calling card, 800-numbers and voice mail. We also provide Centrex service and associated features. Our local telephone rates are generally competitive with the rates charged by the incumbent providers. At December 31, 1999, we had approximately 63,000 telephone service connections on our advanced fiber optic networks and approximately 47,000 customers for resold telephone service. We also provide competitively priced long distance telephone services, including outbound, inbound, calling card and operator services. These services are offered to residential and business customers.

Video Services. We offer a diverse line-up of high quality basic, premium and pay-per-view video programming. Depending on the system, we offer from 60 to 150 channels. Our basic video programming package provides extensive channel selection featuring all major cable and broadcast networks. Our premium services include HBO, Cinemax, Showtime and The Movie Channel, as well as supplementary channels such as HBO Plus, HBO Signature and Moremax. In Demand PPV, available on our advanced fiber optic networks, uses the latest "impulse" technology allowing convenient impulse pay-per-view ordering of the latest hit movies and special events instantly from the customer's remote. "Music Choice" offers 31-45 different commercial-free music channels delivered to the customer's stereo in digital CD quality sound.

As of December 31, 1999, we had approximately 139,000 subscribers for our video programming services provided over advanced fiber optic networks. As of such date, we also had approximately 32,000 connections attributable to the wireless video system and approximately 122,000 connections attributable to the hybrid fiber/coaxial cable systems.

Internet Access and Data Transmission. We operate as an Internet service provider under the RCN.com brand name. We focus on serving individuals and businesses through a network of our owned points of presence ("POPs") which are connected to our advanced fiber optic network. Our primary service offerings are 56K dial-up and high-speed cable modem access. We also sell commercially oriented private line point-to-point data transmission services such as DS-1 and OC-3 and a range of web page and server hosting services. Our subscribers use their RCN accounts to communicate, retrieve and publish information on the Internet. We believe that we are the largest regional provider of Internet services in the Northeast United States. As of December 31, 1999, we had approximately 545,000 Internet subscribers.

Migration of Customers to Advanced Fiber Networks

We provide wireless video services to customers located near our advanced fiber optic network in New York City and dial-up Internet services to acquired subscribers. We have also actively marketed resold telephone service in the past. Our goal is to extend our advanced fiber optic network to service many of those customers. As our advanced fiber optic network is extended into these areas or buildings, customers receiving wireless video service in New York City are switched to the advanced fiber optic network from the wireless video network. The wireless video equipment is then used to provide services to other customers in off-network premises. Similarly, as the advanced fiber optic network is developed, voice and data customers are switched to the advanced fiber optic network from resale and dial-up accounts. The switch to our network allows us to gain additional revenue and higher margins from originating and terminating access fees and to control the related services and service quality.

Strategic Relationships and Facilities Agreements

We have entered into a number of strategic alliances and relationships which allow us to penetrate the telecommunications services market early and to reduce the cost of entry into our markets. We expect to continue to pursue potential opportunities from entering into strategic alliances to facilitate network expansion and entry into new markets.

Southern California Edison

We have an agreement with Southern California Edison ("SCE") that will help us utilize SCE's existing fiber backbone and construction expertise to expedite our entry and expansion into the greater Los Angeles area. The agreement will enable us to reach 1.5 million households in an area with a density of more than 200 homes-per-mile of plant.

The general agreement calls for SCE to install communications cable for us in areas where we secure municipal franchises. In addition, Edison Carrier Solutions, SCE's division that provides wholesale telecommunications services, will provide transport for our telecommunications traffic over the Edison Carrier Solutions' high-speed network.

BECO Joint Venture

In 1996 RCN and the Boston Edison Company, through wholly-owned subsidiaries, formed a joint venture to use 126 fiber miles of BECO's fiber optic network to deliver our comprehensive communications package in Greater Boston. A joint venture agreement provided for the organization and operation of RCN-BECOCOM, LLC, an unregulated entity with a term expiring in the year 2060. RCN-BECOCOM is a Massachusetts limited liability company organized to own and operate an advanced fiber optic telecommunications network and to provide, in the market in and around Boston, Massachusetts, voice, video and data services. Prior to the close of business at December 31, 1999 we owned 53.88% of the equity interest in RCN-BECOCOM and BECO owned the remaining 46.12% interest. This joint venture with BECO is reflected in our financial statements on a consolidated basis.

Pursuant to an exchange agreement between BECO and RCN, BECO has the right, from time to time, to convert portions of its ownership interest in RCN-BECOCOM into shares of our common stock, based on an appraised value of such interest. Shares issued upon such exchanges are issued to NSTAR Communications Securities Corporation ("NSTAR Securities"). In 1999, BECO and the Company entered into two exchange transactions pursuant to which BECO converted a portion of its ownership interest into RCN common stock which was issued to NSTAR Securities. Prior to such exchange transactions, BECO owned a 49% interest in the joint venture. On February 19, 1999, BECO exchanged a portion of its interest for 1,107,539 shares of RCN common stock. Such portion of the interest was valued as of January 15, 1998. On December 31, 1999, BECO exchanged a further portion of its interest for 2,989,543 shares of RCN common stock. Such portion of the interest was valued as of May 27, 1999. Following such exchanges, BECO retains a 23.14% sharing ratio in the joint venture, and the right to invest as if it owned a 49% interest. Such investment percentage will decrease to the extent NSTAR Securities disposes of such RCN common stock.

We expect to benefit from our ability to use BECO's large fiber optic network, its focus on innovative technology, its sales and marketing expertise and its reach into the Boston market. In the future, the venture may expand into energy management and property monitoring services. Starting in Boston, the joint venture partners have expanded into surrounding markets, including the cities of Arlington, Somerville and Newton, Massachusetts. As a result of our access to the extensive BECO network, our reliance on and use of MFS/WorldCom facilities in Boston has been reduced significantly.

Starpower Joint Venture

In 1997, RCN Telecom Services, Inc., one of our subsidiaries, and Potomac Capital Investment Corporation ("PCI"), a wholly-owned subsidiary of Potomac Electric Power Company, formed a joint venture to construct, own, lease, operate and market a communications network to provide voice, video, data and other communications services to residential and commercial customers in the greater Washington, D.C., Virginia and Maryland area. Starpower is an unregulated limited liability company with a perpetual term. We own 50% of the equity interest in Starpower and Pepco Communications owns the remaining 50% interest. Starpower is reflected in our financial statements under the equity method of accounting.

Miscellaneous Facilities Agreements

We have also entered into agreements which have helped us accelerate network development, including fiber agreements entered into with MFS/WorldCom. MFS/WorldCom owns or has the right to use certain fiber optic network facilities in the Boston, Massachusetts and New York City markets. Under the fiber agreements, MFS/WorldCom agreed to construct and provide extensions connecting the fiber optic facilities to buildings we designated. We are also able to use certain dedicated fibers in those facilities, except that we may not use the facilities to deliver telephone services to commercial customers.

We have also entered into joint construction agreements with Level 3. The agreements will allow us to deploy additional networks in Boston and New York faster and at a lower cost. We also have entered into a letter of intent with Level 3 for Level 3 to provide us with cross-country capacity to allow our customers to connect to major Internet connection points in the United States. This gives us the ability to negotiate peering agreements that will allow the exchange of traffic as a Tier I operator.

In June 1998, we entered into an agreement with Qwest Communications for Qwest to provide us with capacity in its regional backbone of fiber lines to connect to our local networks from Boston to Washington, D.C.

In December 1999 we announced the approval of an agreement with SKANSKA USA, Inc. ("SKANSKA"). Under the contract SKANSKA will initially provide management services to include construction oversight for the installation of the cable television, telephony and data communications' infrastructure in many of our current and targeted markets. Stuart E. Graham, President of SKANSKA, is a member of the Board of Directors of RCN. A competitive bidding process was conducted prior to such agreement. We believe that the agreement has been reached on terms no less favorable than could have been obtained in any arms length negotiation.

Recent Transactions

In August 1999, we acquired Direct Network Access, Ltd. ("DNAI"), one of the Bay Area's largest independent ISP. We acquired DNAI for approximately \$3.4 million in cash and shares of our common stock with a fair value at the time of issuance of approximately \$6.8 million.

In July 1999, we acquired Brainstorm Networks, Inc. ("Brainstorm"), a leading independent ISP that provides dedicated and DSL services. We purchased Brainstorm for approximately \$2.9 million in cash and shares of our common stock with a fair value at the time of issuance of approximately \$11.6 million.

In April 1999, we acquired a 47.5% ownership interest in JuniorNet Corporation ("JuniorNet"). We purchased the ownership interest for approximately \$47 million in cash. Concurrent with that transaction, JuniorNet purchased our Lancit Media subsidiary ("Lancit") for approximately \$25 million in cash. We acquired Lancit in June 1998 for approximately \$0.4 million in cash and shares of our common stock with a fair value at the time of issuance of approximately \$7.4 million. In February 2000, We made a \$5 million loan to JuniorNet in the form of a convertible bridge loan.

We have entered into a definitive agreement with respect to the acquisition of 21st Century Telecom Group, Inc. ("21st Century"). 21st Century is an integrated, facilities-based communications company, which seeks to be the first provider of bundled voice, video and high-speed Internet and data services in selected midwestern markets beginning in Chicago.

Significant Private Investments

In October 1999, Vulcan Ventures Incorporated ("Vulcan"), the investment organization of Paul G. Allen, agreed to make a \$1.65 billion investment in our company. The investment, which was completed on February 28, 2000, is in the form of mandatorily convertible cumulative preferred stock (the "Preferred Stock"), which will be converted into Common Stock, par value \$1.00 per share ("Common Stock"), no later than seven years after it is issued. Vulcan has purchased 1,650,000 shares of the Preferred Stock. The Preferred Stock has a liquidation preference of \$1,000 per share and is convertible into Common Stock at a price of \$62 per share.

In connection with the investment, Vulcan will generally be authorized to appoint two members to our Board of Directors. On February 28, Vulcan appointed William D. Savoy, President of Vulcan and Edward S. Harris, Investment Analyst with Vulcan. The Preferred Stock will automatically be converted to Common Stock or Class B Stock seven years after the transaction closes, if not previously called or converted. The Preferred Stock has a dividend rate of 7% per annum. All dividends will be paid in additional shares of Preferred Stock.

On April 7, 1999, Hicks, Muse, Tate & Furst, through Hicks Muse Fund IV purchased 250,000 shares of Series A Preferred Stock, par value \$1 per share, for gross proceeds of \$250,000. The Series A Preferred Stock is cumulative and has an annual dividend rate of 7% payable quarterly in cash or additional shares of Series A Preferred Stock and has a initial conversion price of \$39.00 per share. The Series A Preferred Stock is convertible into common stock at any time. The Series A Preferred Stock is subject to a mandatory redemption on March 31, 2014 at \$1,000 per share, plus accrued and unpaid dividends, but may be called by the Company after four years. At December 31, 1999 we paid dividends in the amount of \$13,053 in the form of additional shares of Series A Preferred Stock. At December 31, 1999 the number of common shares that would be issued upon conversion of the Series A Preferred Stock was 6,744,949. We incurred \$10,000 of issuance cost in connection with the sale of the Series A Preferred Stock.

International

As of July 31, 1999, we executed on a pledge of an 8.96% equity interest in Megacable, the second largest cable television provider in Mexico, made by Mazon Corporativo, S.A. de C.V. ("Mazon") to collateralize Mazon's indebtedness to us. As a result, the indebtedness was cancelled, and our ownership interest in Megacable increased to 48.96%. Megacable owns 26 wireline cable systems in Mexico, principally on the Pacific and Gulf coasts and including Guadalajara, the second largest city in Mexico; Hermosillo, the largest city in the state of Sonora; and Veracruz, the largest city in the state of Veracruz. At December 31, 1999, their wireline systems passed approximately 902,000 homes and served approximately 299,000 subscribers. Megacable had revenues of \$52.2 million and \$37.5 million for the years ended December 31, 1999 and 1998, respectively.

Additionally, Megacable presently holds a 99% interest in Megacable Comunicaciones de Mexico S.A. ("MCM"). MCM has received a license from the Mexican government to allow it to build a fiber optic network in Mexico City, Monterrey and Guadalajara. MCM intends to use this network to provide local voice and high-speed data service in these cities, principally to commercial customers in Mexico City.

Competition

Overview

We compete with a wide range of service providers for each of our services. Virtually all markets for voice and video services are extremely competitive, and we expect that competition will intensify in the future. We face significant competition in each of the markets in which we offer voice and video programming services. Our competitors are often larger, better-financed incumbent local telephone carriers and cable companies with better access to capital resources, and many have historically dominated their local telephone and cable television markets. These incumbents presently have numerous advantages as a result of their historic monopolistic control of their respective markets, economies of scale and scope and control of limited conduit and pole space. They also have well-established customer and vendor relationships. However, we believe that most existing and potential competitors will, at least initially, offer narrower services over limited delivery platforms compared to the wide range of voice, video and data services that we provide over our fiber-based networks. This gives us an opportunity to achieve important market penetration.

We compete with the incumbent Local exchange carriers ("LEC's") for the provision of local telephone services, as well as with alternative service providers including CLECs. Cable operators are also entering the local exchange market in some locations. Other sources of competitive local and long distance telephone services include: Commercial mobile radio services providers, including cellular carriers (such as Bell Atlantic Mobile Services); personal communications services carriers such as Sprint PCS; and enhanced specialized mobile radio services providers (such as NextTel).

We face, and expect to continue to face, significant competition for long distance telephone services from the inter-exchange carriers ("IXCs"), including AT&T, Sprint and MCI WorldCom, which account for the majority of all U.S. long distance revenue. The major long distance service providers benefit from established market share and from established trade names through nationwide advertising. However, we regard our long-distance service as a complementary service rather than a principal source of revenue. Certain IXCs, including AT&T, MCI WorldCom and Sprint, have also announced their intention to offer local services in major U.S. markets using their existing infrastructure in combination with resale of incumbent LEC service, lease of unbundled local loops or other providers' services. Internet-based telephony, a potential competitor for low cost telephone service, is also developing and the Company is also pursuing this technology.

All of our video services face competition from alternative methods of receiving and distributing television signals and from other sources of news, information and entertainment. Other sources include off-air television broadcast programming, newspapers, movie theaters, live sporting events, interactive online computer services and home video products, including videotape cassette recorders. Alternative video distribution technologies include traditional cable networks, wireless local video distribution technologies, and home satellite dish ("HSD") earth stations. Home satellite systems enable individual households to receive many of the satellite-delivered program services formerly available only to cable subscribers. The Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Act") contains provisions, which the FCC has implemented with regulations, to enhance the ability of cable competitors to purchase and make available to HSD owners certain satellite-delivered cable programming at competitive costs. We face additional competition from private satellite master antenna television ("SMATV") systems that serve condominiums, apartment and office complexes and private residential developments. The FCC and Congress have adopted policies providing a more favorable operating environment for new and existing technologies that compete, or may compete, with our various video distribution systems. These technologies include, among others, Direct Broadcast Satellite ("DBS") service whereby signals are transmitted by satellite to receiving facilities located on customer premises. We expect that our video programming services will face growing competition from current and new DBS service providers. The FCC has recently determined that DBS is the fastest-growing competitor to franchised cable operations. We also compete with wireless program distribution services such as Multi-Channel Multi-Point Distribution Service which use low-power microwave frequencies to transmit video programming over-the-air to subscribers.

The Internet access market is extremely competitive and highly fragmented. Competition in this market is expected to intensify. Our current and prospective competitors include established online services; local, regional and national ISPs; national and international telecommunications companies including Regional Bell Operating Companies ("RBOCs") such as Bell Atlantic; and affiliates of incumbent cable providers. Increased competition may create downward pressure on the pricing of and margins from Internet access services.

We also compete with companies offering a combination of the services above, such as companies that would result from the merger of Time Warner and America On-line and the merger of AT&T and Media One.

Other new technologies, including Internet-based services, may compete with services that we can offer. Advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring. Thus, we cannot predict the effect that ongoing or future developments might have on the voice, video and data industries or on our operations or financial condition.

We believe that among the existing competitors, the incumbent LECs, incumbent cable providers and the CLECs are most of our competitors in the delivery of "last mile" connections for voice and video services.

Voice and Video Services

Incumbent LECs

In each of our target markets for advanced fiber optic networks, we face, and expect to continue to face, significant competition from the incumbent LECs. The incumbent LECs include Bell Atlantic in the Northeast Corridor, and Pacific Bell in California, both of which currently dominate their local telephone markets. We compete with the incumbent LECs in our markets for local exchange services on the basis of product offerings, including the ability to offer bundled voice and video service, reliability, state-of-the-art technology and superior customer service, as well as price. We believe that our advanced fiber optic networks provide superior technology for delivering high-speed, high-capacity voice, video and data services compared to the incumbent LECs' primarily copper wire based networks. However, the incumbent LECs have long-standing relationships with their customers. They have also begun to expand the amount of fiber facilities in their networks, offer broadband digital transmission services and retail Internet access, and prepare to re-enter the long distance telephone service market.

The pending merger between Bell Atlantic and GTE Corporation may enhance the combined entity's ability to compete with us in the Northeast corridor markets. The merger between SBC and Ameritech may also increase competitive pressures in the Northeast corridor if SBC, which already owns a Connecticut incumbent LEC and several wireless franchises in this region, continues to pursue a nationwide strategy.

Under the Telecommunications Act of 1996 (the "1996 Act"), and ensuing federal and state regulatory initiatives, barriers to local exchange competition are being slowly removed. The introduction of such competition, however, also establishes the predicate for the RBOCs, such as Bell Atlantic, to provide in-region interexchange long distance services. The RBOCs are currently allowed to offer "incidental" long distance service in-region and to offer out-of-region long distance service. Once the RBOCs are allowed to offer in-region long distance services, they will also be in a position to offer single source local and long distance service similar to what we offer and what is proposed by the three largest IXCs: AT&T, MCI WorldCom and Sprint. We expect that the increased competition made possible by regulatory reform will result in certain pricing and margin pressures in the telecommunications services business.

We have sought, and will continue to seek, to provide a full range of local voice services which compete with incumbent LECs in our service areas. We expect that competition for local telephone services will be based primarily on quality, capacity and reliability of network facilities, customer service, response to customer needs, service features and price, and will not be based on any proprietary technology. Our new fiber optic networks, employ dual backbone architecture and advanced technology; therefore, we may have capital cost and service quality advantages over some of the networks of the incumbent LECs. We may also have a competitive advantage because we are able to deliver a bundled voice and video service.

The 1996 Act permits the incumbent LECs and others with which we compete to provide a wide variety of video services directly to subscribers. Various LECs currently are providing video services within and outside their telephone service areas through a variety of distribution methods, including both the deployment of broadband wire facilities and the use of wireless transmission facilities. We cannot predict the likelihood of success of video service ventures by LECs or the impact such competitive ventures may have on us. Some LECs, including Bell Atlantic, also offer Internet access services that compete with RCN.com services.

Incumbent Cable Television Service Providers

Certain of our video service businesses compete with incumbent wireline cable companies in their respective service areas. In particular, our advanced fiber optic networks compete for cable subscribers with the major wireline cable operators in our markets, such as Time-Warner Cable in New York City, Cablevision in Boston and TCI in Washington, D.C. and San Francisco. Our wireless video service in New York City competes primarily with Time-Warner Cable. We believe that the expanded capacity and fiber-to-node architecture of our advanced fiber optic networks make us better equipped to provide high-capacity communications services than traditional coaxial cable based networks using "tree and branch" architecture. Our Lehigh Valley, Pennsylvania hybrid fiber/coaxial cable television system competes with an alternate service provider, Service Electric, which also holds a franchise for the relevant service area.

Cable television systems generally operate pursuant to franchises granted on a non-exclusive basis, and the 1992 Act prohibits franchising authorities from unreasonably denying requests for additional franchises and permits franchising authorities to operate cable systems. Therefore, well-financed businesses from outside the cable industry, such as the public utilities that own certain of the conduits or poles which carry cable, may become competitors for franchises or providers of competing services. Telephone companies or others may also enter the video distribution market by becoming open video service operators as we have done in several markets, pursuant to Section 653 of the Communications Act. No local franchise is required for the provision of such service, but see regulation of Video services below.

CLECs and Other Competitors

We also face, and expect to continue to face, competition from other potential competitors in certain of our geographic markets. Other CLECs, such as subsidiaries of AT&T and MCI WorldCom, compete for local telephone services, although they have, to date, focused primarily on the market for commercial customers rather than residential customers. In addition, potential competitors capable of offering private line and special access services also include other smaller long distance carriers, cable television companies, electric utilities, microwave carriers, wireless telephone system operators and private networks built by large end-users, including Winstar, Dualstar and New Vision. However, we believe that, at least initially, we are relatively unique in our markets in offering bundled voice, video and data services primarily to customers in residential areas over our own advanced fiber optic network.

Internet Services

The Internet access market is extremely competitive and highly fragmented. No significant barriers to entry exist and, accordingly, competition in this market is expected to intensify. Our current and prospective competitors include many large companies with substantially greater market presence and financial and other resources. RCN.com competes directly or indirectly with:

- o established online services, such as America Online, the Microsoft Network and Prodigy;
- o local, regional and national ISPs such as PSINet, EarthLink, Mindspring and Rocky Mountain Internet;
- o the Internet services of national and international telecommunications companies, such as AT&T, GTE, MCI WorldCom and Cable & Wireless;
- o Internet access (including high speed digital subscriber line service) offered by RBOCs such as Bell Atlantic; and
- o online services offered by incumbent cable providers, such as At Home and Roadrunner.

Bell Atlantic has recently asked the FCC to authorize it to build a regional high-speed network, which would serve as an Internet backbone, and to exempt this network from pricing and other regulatory restrictions. The network would span the states from Maine to Virginia. Internet access competition is likely to increase as large diversified telecommunications and media companies acquire ISPs and as ISPs consolidate into larger, more competitive companies. For example, AT&T has completed the acquisitions of TCI's cable television networks, which gives it a significant ownership interest in At Home, an ISP. Diversified competitors may bundle other services and products with Internet connectivity services, potentially placing us at a competitive disadvantage. In addition, competitors may create downward pressure on the pricing of and margins from Internet access services. Competition could also impact our ability to participate in transit agreements and peering arrangements, which could, in turn, adversely effect the speed of service that we can provide to our customers.

Other new technologies may become competitive with our services. A provider of Limited Multi Distribution Systems ("LMDS") recently began offering wireless Internet and video programming services in New York City and has announced plans to offer telephone service in the future. Advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring. In addition, a continuing trend toward business combinations and alliances in the telecommunications industry may also create significant new competitors. We cannot predict the effect that competition from developing and future technologies or from future competitors will have on our operations or financial condition.

Regulation

Our telephone and video programming transmission services are subject to federal, state and local government regulation. The 1996 Act introduced widespread changes in the regulation of the communications industry, including the local telephone, long distance telephone, data services, and television entertainment segments. The 1996 Act was intended to promote competition and decrease regulation of these segments of the industry. The law delegates to both the FCC and the states broad regulatory and administrative authority to implement the 1996 Act.

Telecommunications Act of 1996

The 1996 Act eliminates many of the pre-existing legal barriers to competition in the telephone and video programming communications businesses. The Act also preempts many of the state barriers to local telephone service competition that previously existed in state and local laws and regulations and sets basic standards for relationships between telecommunications providers.

The 1996 Act removes barriers to entry in the local exchange telephone market by preempting state and local laws that restrict competition and by requiring LECs to provide nondiscriminatory access and interconnection to potential competitors, such as cable operators, wireless telecommunications providers, and long distance companies. In addition, the 1996 Act provides relief from the earnings restrictions and price controls that have governed the local telephone business for many years. The 1996 Act will also, once certain thresholds are met, allow incumbent RBOCs to enter the long distance market within their own local service regions.

Regulations promulgated by the FCC under the 1996 Act require LECs to open their telephone networks to competition by providing competitors interconnection, access to unbundled network elements and retail services at wholesale rates. As a result of these changes, companies such as ours are now able to interconnect with the incumbent LECs in order to provide local exchange services. Numerous parties appealed certain aspects of these regulations, and implementation of several provisions of the rules was delayed while the courts considered these appeals. On January 25, 1999, the Supreme Court issued an opinion confirming the FCC's authority to issue regulations implementing the pricing and other provisions of the 1996 Act and reinstating most of the challenged rules. While the Supreme Court confirmed that the FCC has authority to issue rules implementing the 1996 Act, particular rules still may be challenged in future court proceedings. Future regulatory proceedings and court appeals may create delay and uncertainty in effectuating the interconnection and local competition provisions of the 1996 Act. Recent decisions by the FCC, including a proceeding resulting from the Supreme Court decision described above, have reaffirmed the incumbent LECs' obligation to unbundle most elements of their networks, and have expanded these obligations in some respects. Because we are building our own networks rather than relying on the incumbent LECs' facilities, these rulings may benefit us less than they do some of our competitors. However, we do require interconnection with the incumbent LECs for a variety of purposes, and regulatory actions have generally facilitated this interconnection.

We have entered into interconnection agreements with Bell Atlantic, Pacific Bell and other incumbent LECs serving our target market areas. Some of these agreements have expired or will expire shortly. As a general matter, our agreements provide for service to continue without interruption while a new agreement is negotiated. Most of the agreements also provide for amendments in the event of changes in the law, such as the regulatory and court decisions described above. We cannot assure you, however, that we will be able to obtain or enforce future interconnection agreements, or obtain renewal of existing agreements, on acceptable terms.

The 1996 Act establishes certain conditions before RBOCs are allowed to offer interLATA long distance service to customers within their local service regions. These conditions include 14 "checklist" requirements designed to open the RBOC networks to competitors. To date, the only RBOC that has received FCC authorization to provide in-region long distance service is Bell Atlantic for New York, although other applications may be approved in the future. If an RBOC is authorized to provide in-region long distance service in one or more states, the RBOC may be able to offer "one-stop shopping" services that compete with our service offerings. See "Business-Competition". In addition, the RBOC will lose the incentive it now has to rapidly implement the interconnection provisions of the 1996 Act in order to obtain in-region authority, although the RBOC will still be subject to a legal obligation to comply with those provisions.

The 1996 Act also makes far-reaching changes in the regulation of video programming transmission services. These include changes to the regulations applicable to video operators, the elimination of restrictions on telephone company entry into the video business, and the establishment of a new OVS regulatory structure for telephone companies and others. Under the 1996 Act and implementing rules adopted by the FCC, local telephone companies, including both incumbent LECs such as Bell Atlantic, and CLECs such as RCN, may provide service as traditional cable television operators subject to municipal cable television franchises, or they may choose to provide their programming over open video systems. Although OVS operators are not required to secure local franchises by federal law, local franchising authorities may legally require such a franchise. To date, however, none have done so. OVS operators must make available a portion of their channel capacity for use by unaffiliated program distributors and must satisfy certain other requirements, including providing capacity for public, educational and government channels, and paying a gross receipts fee equal to the franchise fee paid by the incumbent cable television operator. We are one of the first CLECs to provide television programming over an advanced fiber optic network under the OVS regulations implemented by the FCC under the 1996 Act. As discussed below, we are currently providing OVS service in certain suburbs of Boston, in the City of New York, Washington, D.C. and in a limited number of smaller communities. We are also negotiating similar agreements in Northern New Jersey, Philadelphia and surrounding communities, and communities surrounding San Francisco. Starpower is negotiating similar OVS agreements and local franchises in communities surrounding Washington D.C.

Regulation of Voice Services

Our voice business is subject to regulation by the FCC at the federal level for interstate telephone services (i.e., those that originate in one state and terminate in a different state). State regulatory commissions have jurisdiction over intrastate communications (i.e., those that originate and terminate in the same state).

State Regulation of Intrastate Local and Long Distance Telephone Services. Our intrastate telephone services are regulated by the public service commissions or comparable agencies of the various states in which we offer these services. Our subsidiaries or affiliates have received authority to offer intrastate telephone services, including local exchange service, in substantially all of the states in our target market areas, and have applications for such authorization pending in several additional states. We also have authority to provide in-state long distance services in all states except Alaska and Hawaii. To date, none of our applications for state authorizations has been rejected.

FCC Regulation of Interstate and International Telephone Services. We provide domestic interstate telephone services nationwide under tariffs on file at the FCC. We have been authorized by the FCC under Section 214 of the 1996 Act to offer worldwide international services as well.

Local Regulation of Telephone Services. Municipalities also regulate limited aspects of our voice business by, for example, imposing various zoning requirements. In some instances, they require telecommunications licenses, franchise agreements and/or installation permits for access to local streets and rights-of-way. In New York City, for example, we will be required to obtain a telephone franchise in order to provide voice services using our advanced fiber optic network facilities located in the streets of New York City, although services may be provided over certain leased or resold facilities while we wait to receive a franchise.

Regulation of Video Services

Open Video Systems. At various times between February 1997 and December 1999, our subsidiaries and affiliates have been certified by the FCC to operate OVS networks in New York City, Boston, Washington, D.C., Philadelphia, Los Angeles, Phoenix, Portland, Seattle, and San Francisco, and communities surrounding each of these cities, Cook County, Illinois and in the Northern New Jersey area. Initiation of OVS services is subject to completion of an open enrollment period for non-affiliated video programmers to seek capacity on the systems and after negotiation of certain agreements with local governments. The initial open enrollment period for each of these systems has expired, except for the Northern New Jersey system, Philadelphia, Los Angeles, Portland, Seattle, Cook County and Phoenix where the open enrollment period has not yet begun. We executed an agreement with the City of Boston on June 2, 1997, and initiated OVS service in the City on that day. Under our agreement with the City of Boston, we were required to pay a fee to the City equal to 5% of video revenues. We have entered into similar OVS agreements or are in the process of negotiating agreements with certain other Boston-area municipalities, either to offer OVS services or franchised cable television services. In July of 1999 the OVS Agreement with Boston was terminated by mutual consent and a franchise agreement was substituted therefore. We entered into an agreement with the City of New York on December 29, 1997 and have initiated OVS service in the Borough of Manhattan. RCN also provides video distribution service in Manhattan and a portion of the Bronx using microwave facilities and antennas; located at multiple dwelling units. On July 10, 1998, we supplemented our agreement with the City of New York to include all five boroughs. On October 26, 1998, Starpower entered into an agreement with the District of Columbia and initiated OVS service in the District in the last quarter of 1998. Starpower has entered into similar agreements or is in the process of negotiating agreements with numerous suburban communities near Washington, D.C., to offer either OVS services or franchised cable television services.

In areas where we offer video programming services as an OVS operator, we are required to make any "open capacity" on the system available to unaffiliated Video Program Providers ("VPPs"). The commissions rules permit us to retain up to one-third of the system capacity for our own (or affiliate's) use. Under the OVS regulations, during the initial open enrollment period we must offer at least two-thirds of our capacity to unaffiliated parties, if demand for such capacity exists during the open enrollment period. In certain areas, at the request of local officials, we are in discussions to explore the feasibility of obtaining a cable franchise instead of an OVS agreement. We will consider providing RCN video service under franchise agreements rather than OVS certification, if franchise agreements are preferred by the local authorities and can be obtained on acceptable terms and conditions. We will consider the relative benefits of OVS certification versus local franchise agreements, including the possible imposition of build out requirements, before making any decisions.

In a decision released in January of 1999, the U.S. Court of Appeals for the Fifth Circuit approved some portions of the FCC's OVS rules but struck down other portions. Although a number of the Court's rulings are favorable to OVS operators, others could have an adverse impact on our OVS operations and planning. The Court's most significant decision was to strike down the FCC's rule preempting local authority to franchise OVS operators. The FCC's rules had set forth a relatively simple procedure at the FCC for rapid certification of each OVS system on a regional basis and permitted local authorities to regulate OVS only as to rights-of-way administration and in other minor respects. One of the principal advantages of OVS as structured by Congress and by the FCC was to eliminate the time, expense, and uncertainty generally required to secure a local franchise. The Court's action allowing local governments to require area-by-area franchising may significantly reduce the advantage of OVS operation as compared with traditional franchising and delay achieving agreements with local governments. To date, however, no local franchising authority has insisted on franchising OVS systems, although some have considered doing so. However, in many instances RCN, at the insistence of local authorities, has been negotiating franchise agreements in lieu of OVS agreements and agreeing to provisions in OVS right-of-way agreements which to some extent erode the differences between the two modes of operation. Accordingly, while the ruling is disadvantageous to us, we expect to continue to expand our video service offerings.

The FCC's rules require OVS operators to make their facilities available to video program providers on a non-discriminatory basis, with certain exceptions. One exception is that competing in-region cable operators are not entitled to become video program providers on an OVS except in certain limited circumstances. Time Warner Cable Co., which then operated franchised cable systems in many suburban Boston communities included within our OVS certification, also petitioned the FCC for an order compelling us to release certain OVS system data so that it allegedly could analyze the possibility of being a VPP on RCN's OVS. Time Warner was not then competing with any RCN-provided OVS service and restricted its request to communities where it is not the franchised cable operator. RCN denied the request on the ground that the Time Warner should be considered ineligible under the FCC's rules. Time Warner filed an OVS complaint against RCN and also sought FCC action to impose fines or cancel our OVS authority. The Cable Services Bureau ruled that Time Warner was an eligible user in areas where no service overlap existed or was imminent, partially granted the data request, and partially denied it, but found too little evidence to justify further exploration of our good faith in implementing OVS authority. We sought partial reconsideration of the Bureau's order. Time Warner filed a similar complaint against us in New York City where we compete with it for video distribution business in Manhattan. The FCC's Cable Services Bureau partially granted Time Warner's complaint, and partially denied it, relying on its prior decision in the Time Warner complaint in the Boston area. We sought partial reconsideration of both decisions.

The FCC issued a consolidated opinion in which it rejected the analysis underlying the Cable Services Bureau's conclusions with respect to Time Warner's eligibility to use the OVS system and in lieu thereof reinterpreted the relevant rule by substituting a newly-formulated test of eligibility based on whether the in-region cable competitor is franchised within the "technically integrated service area" of the OVS certificate holder. The Commission also confirmed the Cable Services Bureau's rulings on the scope of the OVS data which must be disclosed to Time Warner, and directed RCN to file supplemental data with the Cable Services Bureau concerning the Commission's new interpretation of the relevant rule. The Commission indicated that upon the submission of such data the Cable Services Bureau was to determine whether Time Warner was eligible for the OVS data it had been seeking from RCN.

RCN is seeking review of the FCC's decision in the U.S. Court of Appeals for the D.C. Circuit, alleging that the Commission's interpretation of the rule governing the eligibility of an in-region competitor to be a VPP was contrary to law. Time Warner sought reconsideration of the decision at the FCC. Time Warner also sought intervention in the Court of Appeals and the FCC has asked the Court to hold the case in abeyance pending the resolution of Time Warner's request for reconsideration. The Court granted both motions. RCN filed the supplemental service area data with the Cable Services Bureau as required by the Commission's decision for the Boston and New York markets but sought a stay of the obligation to make such filings in other markets where RCN has been certificated and has already filed certain so-called "notices of intent." The Cable Services Bureau denied RCN's request for stay, and RCN thereupon filed the supplemental data for all relevant OVS markets. RCN has sought confidential treatment from the Commission of those portions of the supplemental data which were not publicly available already, contending that it would be seriously damaged competitively if it were required to provide such data to its in-region competitor. RCN contended also that the provision of such data to Time Warner (or any in-region cable competitor in other markets) prior to the Court's consideration of RCN's appeal would deny RCN its due process rights to have the necessity for such disclosure of competitively sensitive data adjudicated by the Court of Appeals. The Commission has not yet ruled on these requests for confidential treatment.

On February 10, 2000 Time Warner renewed its request for OVS data from RCN for certain suburban communities in the Boston metropolitan area, alleging that it had sold its cable properties within RCN's certified OVS area to MediaOne and hence was no longer an in-region cable competitor. RCN declined to provide such data, noting that Time Warner had certain affiliations with MediaOne through the proposed acquisition of MediaOne by AT&T and that Time Warner had not indicated whether it had any residual contractual rights, or data sharing obligations with MediaOne or AT&T. On March 14, 2000, Time Warner filed an "Emergency Petition to Enforce Commission Order and Impose Forfeiture" renewing earlier allegations that RCN was not adhering to certain of the OVS rules and was not operating a truly "open" OVS system. Time Warner sought an order compelling RCN to provide the OVS data to Time Warner, and for the imposition of forfeitures on RCN for allegedly failing to comply with Commission orders. RCN is opposing the Emergency Petition and the Commission has not yet acted on it.

Two additional cable company OVS access complaints have been filed against Starpower, seeking data and a determination of eligibility for carriage on the metropolitan Washington, D.C. OVS system. As in the prior complaints, they challenge our status as an OVS operator and seek to revoke our OVS authority. These complaints were filed by Media General Cable of Fairfax, Inc., and Media General Cable of Fredericksburg, Inc. Both claimed to be seeking system data for areas in which they do not provide franchised service. Starpower declined to provide system data to either complainant. Media General has also sought to initiate discovery against Starpower. The Cable Services Bureau, citing its prior decision in Boston and New York, granted the Media General request. Starpower sought reconsideration which is still pending. The complaining Media General companies have since been acquired by Cox Cable, Inc.

Cable industry representatives have opposed or commented adversely on two other RCN OVS initiatives. In respect to our application for OVS authority in the San Francisco area, the California Cable Television Association filed an opposition, alleging that we were misusing the OVS rules to compete unfairly against franchised cable operators. The Pennsylvania Cable & Telecommunications Association filed comments on our OVS application for OVS authority in the Philadelphia region, making similar allegations but not formally opposing the application. The Cable Services Bureau granted both of our applications, indicating that our applications were consistent with the rules and that the opposing parties had not provided sufficient evidence to justify initiating any regulatory action against us. There is language in each of these Cable Bureau determinations involving our implementation of the OVS concept which leave open the possibility for adverse parties to challenge our status as an OVS operator. We believe that we are operating in strict conformity with all applicable provisions of the law and will continue to defend our OVS roll-outs against what we believe are anti-competitive requests for data or carriage by competing in-region cable operators. However, we cannot assure you that the FCC or the Court of Appeals will resolve the pending OVS complaints in our favor. If the FCC were to grant any such complaints and as a result we were obliged to share system data with our local competitors, we would be forced to reassess the desirability of continuing to operate in certain markets as an OVS operator as compared with seeking traditional cable franchises. We do not believe that abandoning our OVS certifications under such circumstances would materially adversely affect our video distribution activities.

As in the case of traditional franchised cable systems, OVS operators must in virtually all locations have access to public rights-of-way for their distribution plant. In a number of jurisdictions local authorities have attempted to impose rights-of-way fees on us which we believe are in violation of federal law. A number of FCC and judicial decisions have addressed the issues posed by the imposition of rights-of-way fees on CLECs and on video distributors. To date the state of the law is uncertain and may remain so for some time. The obligation to pay local rights-of-way fees which are excessive or discriminatory could have adverse effects on our business activities. See "Legal proceedings" below. The incumbent cable operator in Boston, MA, Cablevision of Boston, Inc., filed suit in 1999 in U.S. District Court in Boston against the City of Boston, RCN-BECOCOM, RCN, BECOCOM and others, alleging that the City had followed a discriminatory policy in administering access to public rights-of-way for the installation and use of underground conduit and that the private defendants had participated in an effort to unlawfully construct and use underground conduit. Cablevision claimed that the defendants were in violation of the 1996 Act and Massachusetts state law, and sought a preliminary injunction. RCN and the other defendants denied participating in any unlawful activity. The Court denied the preliminary injunction. The First Circuit Court of Appeals affirmed and thereafter Cablevision withdrew the suit.

Access issues have also arisen in a proceeding before the Massachusetts Department of Telecommunications and Energy (the "MDTE"). In 1997, the MDTE opened an investigation into Boston Edison Company's compliance with a MDTE order in 1993 that permitted Boston Edison to invest up to \$45 million in its unregulated subsidiary Boston Edison Technology Group for three limited purposes. RCN-BECOCOM intervened in the current proceeding, as did Cablevision Systems Corporation and the New England Cable Television Association, Inc., along with the Massachusetts Attorney General's office. Hearings began in December 1998 and are still proceeding. The intervenors, in particular Cablevision, have advocated that if the MDTE finds that Boston Edison's investment in RCN-BECOCOM violated the 1993 Order then Boston Edison should be forced to divest itself of its interest in RCN-BECOCOM, RCN-BECOCOM should be subject to the same terms and conditions as other cable television providers who seek to attach their facilities to Boston Edison facilities, and installed RCN-BECOCOM cable and fiber-optic facilities should be relocated. Boston Edison is vigorously defending the propriety of its compliance with the MDTE's 1993 Order, and its investment in RCN-BECOCOM. RCN cannot assure you that the MDTE will not determine that Boston Edison violated the MDTE's 1993 Order nor can RCN assure you as to the nature of any remedy that the MDTE may determine to be appropriate including those proposed remedies which are equitable in nature. RCN is participating in the proceeding and plans to take such action as it deems appropriate to protect its rights.

Wireless Video Services. Our 18 GHz wireless video services in New York City are distributed using microwave facilities. We are currently using one microwave path on the basis of a conditional license. We anticipate our pending application for this path will be granted soon by the FCC. However, our failure to obtain this license might adversely affect our wireless video operations in New York City.

We cannot assure you that we will be able to obtain or retain all necessary authorizations needed to construct advanced fiber optic network facilities, to convert our wireless video subscribers to an advanced fiber optic network or to offer wireless video services under our own FCC licenses.

Hybrid Fiber/Coaxial Cable. Our hybrid fiber/coaxial cable systems are subject to regulation under the 1992 Act. The 1992 Act regulates rates for cable services in communities that are not subject to "effective competition," certain programming requirements, and broadcast signal carriage requirements that allow local commercial television broadcast stations to require a cable system to carry the station. Local commercial television broadcast stations may elect once every three years to require a cable system to carry the station ("must-carry"), subject to certain exceptions, or to withhold consent and negotiate the terms of carriage ("retransmission consent"). A cable system generally is required to devote up to one-third of its activated channel capacity for the carriage of local commercial television stations whether under the mandatory carriage or retransmission consent requirements of the 1992 Act. Local non-commercial television stations are also given mandatory carriage rights. The FCC recently issued rules establishing standards for digital television ("DTV"). The FCC's rules require television stations to simulcast their existing television signals ("NTSC") and DTV signals for a period of years. During this simulcast period, it is unclear whether must-carry rules will apply to DTV signals. The FCC has initiated a rule making proceeding seeking comment on the carriage of broadcast DTV signals by cable and OVS operators during the transitional period to full digital broadcasting. The FCC's proceeding addresses the need for the digital systems to be compatible, seeks comment on possible changes to the mandatory carriage rules, and explores the impact carriage of DTV signals may have on other FCC rules. The cable industry has generally opposed many of the FCC's proposals, on the grounds that they constitute excessively burdensome obligations on the industry. The Communications Act permits franchising authorities to require cable operators to set aside certain channels for public, educational and governmental access programming. Cable systems with 36 or more channels must designate a portion of their channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator.

Because a cable communications system uses local streets and rights-of-way, such cable systems are generally subject to state and local regulation, typically imposed through the franchising process. The terms and conditions of state or local government franchises vary materially from jurisdiction to jurisdiction. Generally, they contain provisions governing cable service rates, franchise fees, franchise term, system construction and maintenance obligations, customer service standards, franchise renewal, sale or transfer of the franchise, territory of the franchisee and use and occupancy of public streets and types of cable services provided. Local franchising authorities may award one or more franchises within their jurisdictions and prohibit non-grandfathered cable systems from operating without a franchise. The Communications Act also provides that in granting or renewing franchises, local authorities may establish requirements for cable-related facilities and equipment, but not for video programming or information services other than in broad categories. The Communications Act limits franchise fees to 5% of revenues derived from cable operations and permits the cable operator to seek modification of if franchise requirements through the franchise authority or by judicial action changed circumstances warrant.

Our ability to provide franchised cable television services depends largely on our ability to obtain and renew our franchise agreements from local government authorities on generally acceptable terms. We currently have 91 franchise agreements relating to the hybrid fiber/coaxial cable systems in New York (outside New York City), New Jersey and Pennsylvania. These franchises typically contain many conditions, such as time limitations on commencement and completion of construction, conditions of service, including the number of channels, the provision of free service to schools and certain other public institutions, and the maintenance of insurance and indemnity bonds. These franchises provide for the payment of fees to the issuing authorities and generally range from 3% to 5% of revenues. The duration of these outstanding franchises presently varies up to the year 2011. To date, all of our cable franchises have been renewed or extended, generally at or before their stated expirations and on acceptable terms. Approximately 39 of our hybrid fiber/coaxial cable systems' franchises are due for renewal within the next three years. We cannot assure you that we will be able to renew our franchises on acceptable terms. No one franchise accounts for more than 7% of our total revenue. Our five largest franchises account for approximately 27% of our total revenue.

Hybrid fiber/coaxial cable systems are also subject to certain service quality standards and other obligations imposed by the FCC and, where effective competition has not been demonstrated to exist, had been subject to rate regulation by the FCC as well. Our cable television system in Pennsylvania has been operating in a competitive cable environment for almost 30 years, with approximately 80% of the homes passed having access to an alternate cable operator, Service Electric Cable TV. As a result, our Pennsylvania cable system is exempt from many FCC cable television regulations, including rate regulation. Our other cable television systems in New York State and New Jersey had been subject to FCC rate regulation. As required by the 1996 Act, however, all cable programming services were deregulated on March 31, 1999. There has been discussion in Congress about possible legislation to reimpose cable rate regulation. We cannot assure you that legislation will not be adopted. We anticipate that the remaining provisions of the 1992 Act that do not relate to rate regulation, including provisions relating to retransmission consent and customer service standards, will remain in place and may reduce the future operating margins of our hybrid fiber/coaxial cable television businesses as video programming competition develops in our cable television service markets.

The FCC is required to regulate the rates, terms and conditions imposed by utilities, ILEC's and CLEC's for cable systems' and telecommunications providers use of utility pole and conduit space unless state authorities can demonstrate that they adequately regulate pole attachment rates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. In some cases, utility companies have increased pole attachment fees for cable systems that have installed fiber optic cables and that are using these cables for the distribution of non-video services. The FCC concluded that, in the absence of state regulation, it can determine whether utility companies have justified their demand for additional rental fees and that the Communications Act does not permit disparate rates based on the type of service provided over the equipment attached to the utility's pole. The 1996 Act modified the prior pole attachment provisions of the Communications Act. It permits providers of telecommunications services to rely upon the protections of the current law and requires that utilities provide cable systems and telecommunications carriers with nondiscriminatory access to any pole, conduit or right-of-way, owned or controlled by the utility if the facility is carrying wires already. The FCC adopted new regulations to govern the charges for pole attachments used by companies providing telecommunications services, including cable operators. These regulations will become effective five years after enactment of the 1996 Act, and any increase in attachment rates resulting from the FCC's new regulations will be phased in in equal annual increments over a period of five years beginning on the effective date of the new FCC regulations. The ultimate outcome of these rulemakings and the ultimate impact of any revised FCC rate formula or of any new pole attachment rate regulations on us or our businesses cannot be determined at this time.

The 1992 Act, the 1996 Act and FCC regulations preclude any cable operator or satellite video programmer affiliated with a cable company, or with a common carrier providing video programming directly to its subscribers, from favoring an affiliated company over competitors. In certain circumstances, these programmers are required to sell their programming to other multichannel video distributors. The provisions limit the ability of program suppliers affiliated with cable companies or with common carriers providing satellite delivered video programming directly to their subscribers to offer exclusive programming arrangements to their affiliates. The FCC's Cable Service Bureau, however, has ruled that, except in limited circumstances, these statutory and regulatory limitations do not apply to programming which is distributed other than by satellite. We are experiencing difficulty in securing access to certain local sports programming in the New York City market, which we consider important to successful competition in that market. RCN brought a formal program access complaint against Cablevision Systems, Inc. over its refusal to provide such programming to RCN. The Cable Services Bureau sustained its traditional view, however, that programming distributed by fiber optic cable was not covered by the program access provisions of the Communications Act, and denied RCN's complaint. RCN believes that the Cable Services Bureau is misreading the law and has sought review by the full Commission of this ruling. The Communications Act also includes provisions concerning horizontal and vertical ownership of cable systems, customer service, subscriber privacy, marketing practices, equal employment opportunity, obscene or indecent programming, regulation of technical standards and equipment compatibility.

In addition to the FCC regulations previously discussed, there are other FCC regulations covering areas such as:

- o equal employment opportunity;
- o syndicated program exclusivity;
- o network program non-duplication;
- o registration of cable systems;
- o maintenance of various records and public inspection files;
- o microwave frequency usage;
- o lockbox availability;
- o sponsorship identification;
- o antenna structure notification;
- o tower marking and lighting;
- o carriage of local sports broadcast programming;
- o application of rules governing political broadcasts;
- o limitations on advertising contained in non-broadcast children's programming;
- o consumer protection and customer service;
- o ownership and access to cable home wiring and home wiring in multiple dwelling units;
- o indecent programming;
- o programmer access to cable systems;
- o programming agreements;
- o technical standards; and
- o consumer electronics equipment compatibility and closed captioning.

The FCC has the authority to enforce its regulations through imposing substantial fines, issuing cease and desist orders and/or imposing other administrative sanctions, such as revoking FCC licenses needed to operate certain transmission facilities often used in connection with cable operations. We have had difficulty gaining access to the video distribution wiring in certain multiple dwelling units in the City of Boston in which Cablevision is the incumbent provider of video services. In some buildings the management will not permit us to install our own distribution wiring and Cablevision has not been willing to permit us to use the existing wiring on some equitable basis when we wish to initiate service to an individual unit previously served by Cablevision. We have sought a ruling from the FCC's Cable Services Bureau that existing FCC inside wiring rules require Cablevision to cooperate with us to make such wiring available to it. The matter is currently pending before the FCC's Cable Services Bureau staff. However, because RCN status in the city of Boston has changed from OVS operator to franchisee, we will be able to use the Massachusetts Mandatory Access law if it is necessary to do so to gain access to these MDUs.

Other bills and administrative proposals pertaining to cable television have previously been introduced in Congress or considered by other governmental bodies over the past several years. There will likely be legislative proposals in the future by Congress and other governmental bodies relating to the regulation of communications services.

Cable television systems are subject to federal compulsory copyright licensing covering the retransmission of television and radio broadcast signals. In exchange for filing certain reports and contributing a percentage of their basic revenues to a federal copyright royalty pool, cable operators can obtain blanket licenses to retransmit the copyrighted material on broadcast signals. Numerous jurisdictions have imposed so-called "open access" requirements for the grant or transfer of a cable franchise and many more are considering doing so. RCN believes its business interests may be served by such open access but is opposed to further regulations or government intervention in regard to such matters.

Responding to pressure principally from direct broadcast satellite ("DBS") companies, Congress passed the Satellite Home Viewer Improvement Act in late fall of 1999. The principal purpose of this legislation, known as "SHVIA" was to amend the copyright law to permit the DBS companies to carry more local broadcast programming in their programming packages (so-called "local-into-local"). At the same time the legislation directed the FCC to develop new regulations concerning retransmission consent and mandatory access. The retransmission consent provision of SHVIA covers all multiple video program distributors as well as DBS providers. The Commission has adopted its retransmission consent rules as required in SHVIA. These new regulations establish an obligation on the part of broadcasters to bargain in good faith and define good faith by reference to certain prohibited bargaining tactics or positions. The regulations also bar exclusive retransmission agreements but do permit broadcasters to enter into varying terms with MVPDs carrying their signal based on normal competitive criteria. To the extent RCN will need to negotiate such retransmission consent agreements in the future these regulations should help to strength our negotiating position.

Other Regulatory Issues. The data services business, including Internet access, is largely unregulated at this time apart from Federal, state and local laws and regulations applicable to businesses in general. However, we cannot assure you that this business will not become subject to regulatory restraints. Some federal, state, local and foreign governmental organizations are considering a number of legislative and regulatory proposals with respect to Internet user privacy, infringement, pricing, quality of products and services and intellectual property ownership. We are also unsure how existing laws will be applied to the Internet in areas such as property ownership, copyright, trademark, trade secret, obscenity and defamation. Additionally, some jurisdictions have sought to impose taxes and other burdens on providers of data services, and to regulate content provided via the Internet and other information services. We expect that proposals of this nature will continue to be debated in Congress and state legislatures in the future. In addition, although the FCC has on several occasions rejected proposals to impose additional costs on providers of Internet access service and other data services for the use of local exchange telephone network facilities for access to their customers, the FCC or Congress may consider similar proposals in the future. The adoption of new laws or the adaptation of existing laws to the Internet may decrease the growth in the use of the Internet, which could in turn have a material adverse effect on our Internet business.

We have interconnection agreements with Bell Atlantic and other incumbent local exchange carriers that entitle us to collect reciprocal compensation payments from them for local telephone calls that terminate on our facilities. We make similar payments for outbound local calls we deliver to the incumbent local exchange carriers. However, Bell Atlantic and other ILECs around the country have been contesting whether the obligation to pay reciprocal compensation to CLECs should apply to local telephone calls from ILECs customers to Internet service providers served by CLECs. The ILECs claim that this traffic is interstate in nature and therefore should be exempt from compensation arrangements applicable to local, intrastate calls. CLECs have contended that the interconnection agreements provide no exception for local calls to Internet service providers and reciprocal compensation is therefore applicable.

On February 26, 1999, the FCC released a Declaratory Ruling determining that ISP traffic is interstate for jurisdictional purposes, but that its current rules neither require nor prohibit the payment of reciprocal compensation for such calls. In the absence of a federal rule, the FCC determined that state commissions have authority to interpret and enforce the reciprocal compensation provisions of existing interconnection agreements, and to determine the appropriate treatment of ISP traffic in arbitrating new agreements. The FCC also requested comment on alternative federal rules to govern compensation for such calls in the future. The FCC order has been appealed by several parties. Oral argument was heard on November 22, 1999.

In light of the FCC's order, state commissions, which previously addressed this issue and required reciprocal compensation to be paid for ISP traffic, may reconsider and modify their prior rulings. Several incumbent LECs, including Bell Atlantic, are seeking to overturn prior orders that they claim are inconsistent with the FCC ruling. Of the 26 state commissions that have considered the issue since the FCC's February 26, 1999 order, 22 have upheld the requirement to pay reciprocal compensation for ISP-bound traffic. Only Massachusetts, New Jersey, Louisiana and South Carolina are not requiring reciprocal compensation for this traffic, at least pending negotiations or a further FCC decision. The New York Public Service Commission ("NYPSC") determined that in certain circumstances, Bell Atlantic can pay a lower reciprocal compensation rate for calls terminated by a competitive LEC in excess of a ratio of three terminating minutes to each originating minute.

We provide dial-up access lines to our affiliated ISPs as well as other ISP customers, so adverse decisions in state proceedings could have a material impact on our revenues and earnings in those states. Starpower currently has pending complaints against Bell Atlantic in the District of Columbia and Virginia, and against GTE in Virginia, based on these companies' refusal to pay reciprocal compensation.

In order to develop our networks, we must obtain local franchises and other permits, as well as building access agreements and rights to use underground conduit and pole space, private easements and other rights-of-way and fiber capacity from entities such as incumbent local exchange carriers and other utilities, railroads, long distance companies, state highway authorities, local governments and transit authorities. We cannot assure you that we will be able to maintain our existing franchises, permits and rights or to obtain and maintain the other franchises, permits, building access agreements and rights needed to implement our business plan on acceptable terms. Although we do not believe that any of the existing arrangements will be canceled or will not be renewed as needed in the near future, certain cancellation or non-renewal of these arrangements could materially adversely affect our business. In addition, our failure to enter into and maintain any such required arrangements for a particular network, including a network which is already under development, may affect our ability to acquire or develop that network.

We have summarized present and proposed federal, state, and local regulations and legislation affecting the telephone, video programming and data service industries. This summary is not complete. Other existing federal regulations, copyright licensing, and, in many jurisdictions, state and local franchise requirements, are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could change, in varying degrees, the operations of communications companies. The ultimate outcome of these proceedings, and the ultimate impact of the 1996 Act or any final regulations adopted under the new law on us or our businesses cannot be determined at this time.

Employees

As of December 31, 1999, we had approximately 3,450 full-time employees including employees of the joint ventures, general office and administrative personnel and approximately 168 part-time employees. The Company has a collective bargaining agreement that covers approximately 110 employees, which is valid through January 14, 2001. We consider relations with our employees to be good.

ITEM 2. PROPERTIES

Overview of Advanced Fiber Optic Networks

RCN's advanced fiber optic networks are designed to support voice, video and data services via a fiber-rich network architecture. The Company's multi-service network is presently operating in Boston, MA; New York City; Lehigh Valley, PA; Washington, D.C.; San Francisco, CA; Queens, NY; and Philadelphia, PA. The advanced fiber optic network consists of fiber optic transport facilities; local and long distance digital telephony switches; video head-ends; voice, video and data transmission and distribution equipment; Internet routing and WAN equipment and the associated network wiring and network termination equipment. The Company's telephone switching network utilizes the Lucent 5ESS-2000 switching platform as the local switching element and the network is designed to provide highly reliable life-line telephony service. In each of the seven existing markets, a Lucent 5ESS-2000 switch is installed and fully operational. The Company is also entering the Chicago market through its agreement to acquire 21st Century Telecom Group, Inc., a facility-based bundled service provider. The acquisition is expected to close in the second quarter of 2000.

The networks' common backbone signal transport medium for both digital signals (voice, video and data) and analog signals (video) is exclusively fiber optic cable, either RCN-owned, or leased from other providers such as MCI WorldCom, Qwest or Level 3. The digital fiber optic backbone transport network utilizes a Synchronous Optical Network ("SONET") self-healing ring architecture to provide high speed, redundant connections for the delivery of RCN's voice, video and data services. Facility connections from the backbone network to individual buildings or residential and commercial service areas are typically provided via RCN-owned fiber optic facilities. RCN's advanced fiber optic network contains over 2,068 route miles of fiber cable (backbone and distribution fiber) and 3,646 total network route miles (fiber and distribution coax).

Presently, RCN owns and operates seven local telephony switches, two long distance switches, and seven video head-ends within the seven existing markets. As of December 31, 1999, RCN has passed 713,823 homes with its advanced fiber optic network and has connected 968 buildings directly to its fiber optic facilities in metropolitan areas.

We believe that all of our properties are in good operating condition.

The majority of RCN's network infrastructure is built using fiber optic cable as the predominant transport medium. Fiber optic systems are suitable for transmission of digitized voice, video and data information, or a combination of these types of signals. The main benefits resulting from the deployment of fiber optic cable in the backbone and local distribution portions of the network, in place of traditional coaxial cable or copper wire, are greater network capacity, increased functionality, smaller size service areas and decreased requirements for periodic amplification of the signal. These factors contribute to lower installation and maintenance costs and increases the variety and quality of the service offerings. The inherent bandwidth limitations of twisted pair copper wire historically used in telephone networks present a substantial obstacle to the use of existing telephone networks to provide video programming services. Although coaxial cable provides substantially greater bandwidth than twisted pair copper wire, fiber optic cable provides substantially greater bandwidth than coaxial cable. Consequently, newly constructed fiber networks, such as RCN's, provide a superior platform for delivering high speed, high capacity voice, video and data services, when compared to traditional systems based largely on copper wire or coaxial cable.

The fiber optic cable utilized by RCN's network has the increased capacity necessary for the transport and delivery of today's high-bandwidth data and video transmission requirements. The fiber optic cable typically used contains between 12 and 288 fiber strands; however, larger sizes up to 864 strands have been used in certain applications. Each individual strand of fiber is capable of providing a large number of telecommunications channels or "circuits". Depending on the transmission electronics used, a single pair of glass fibers on RCN's network currently can transmit tens of thousands of simultaneous voice conversations, whereas, a typical pair of copper wires can carry a maximum of 24 simultaneous conversations using standard TDM multiplexing systems. Although the LECs commonly use copper wire in their networks, they are currently deploying fiber optic cable to upgrade portions of their copper based network, particularly in areas served by RCN. RCN expects that continued developments and enhancements in communications equipment will increase the capacity of each optical fiber, thereby providing even more capacity at relatively low incremental cost.

As the Company's network is further developed, it will be dependent on certain strategic alliances and other arrangements in order to provide the full range of its telecommunication service offerings. These relationships include RCN's arrangements with MCI WorldCom to lease portions of MCI WorldCom's fiber optic network in New York City and, to a lesser extent, RCN's joint venture with Boston Edison in Boston, the Starpower joint venture in Washington and RCN's arrangements to lease unbundled local loop and T-1 facilities from the serving LEC. See "Strategic Relationships and Facilities Agreement" above and "Voice Services Advanced Fiber Optic Networks" immediately following. Any disruption of these arrangements and relationships could have a material adverse effect on the Company.

Voice Services

Advanced Fiber Optic Networks. The Company's advanced fiber optic networks in all existing markets utilize a voice network that supports both switched and non-switched (private line) services. In metropolitan areas, individual buildings are connected to the network backbone via fiber extensions that are generally terminated in SONET equipment, which provides redundant and fail-safe interconnection between the building and the RCN central switch location. In situations where fiber extensions are not yet available, interim facility connections can be provided by leasing special access facilities through an arrangement with MCI WorldCom or the incumbent LEC. In this regard, RCN has in place agreements which allow it to lease certain facilities owned by the incumbent LECs (unbundled local loops and T-1 facilities) to provide voice services. This enables RCN to provide voice services to subscribers who are not directly connected to RCN's advanced fiber optic network. As RCN's network expands to reach more areas within a target market, subscribers served by these temporary connections will be migrated to RCN's advanced fiber optic network. Within large MDU buildings in metropolitan areas, a voice service hub is established by installing Integrated Digital Loop Carrier ("IDLC") equipment, which acts as the point of interface between the SONET backbone facility and the intra-building wiring. Each IDLC is installed with a standby power system and is capable of serving between 672 and 2048 lines, depending on the specific type of equipment utilized. The IDLC is capable of supporting a wide range of both non-switched services (DS-1, digital data) and switched voice services and features including ISDN, Centrex, Custom Calling and CLASS features. At the time of initial wiring, RCN generally installs wiring in excess of its initial requirements, in order to meet future subscriber demand.

In residential overbuild situations, RCN provides a fiber-rich local distribution architecture for the delivery of voice services to the residential or commercial subscriber. Fiber optic backbone facilities using SONET transport electronics provide interconnection from the telephony distribution electronics to the RCN 5ESS-2000 local telephony switch. Fiber optic facilities are utilized to transport the telephony signals to a residential service area node, a point typically within 900 feet from the furthest subscriber, typically serving 150 homes. The distribution facilities between the node and the subscriber are either coaxial cable or fiber optic cable.

Video Programming

Advanced Fiber Optic Networks. There are presently seven video head-end locations within RCN's advanced fiber optic networks (i.e., New York City; Boston, MA; Lehigh Valley, PA; Washington, D.C.; Philadelphia, PA; Queens, NY; and San Francisco, CA). The video head-ends consist of optical transmitters, optical receivers, satellite receivers, signal processors, modulators, encoding equipment, digital video transport equipment and network status monitoring and automated tape distribution equipment. From the head-end, the video signals are transported to secondary hub sites in either digital or analog signal format. Once the signal is received at the secondary hub site, the signal is conditioned, processed and interconnected to the local fiber optic transport facilities for distribution to the video subscribers. The video signals are distributed to individual fiber nodes or receivers via the same fiber optic cable used to deliver the voice and data service. The fiber cable terminates in a fiber optic receiver within an individual building or video service area. From the fiber node, coaxial cable and related distribution equipment is used to distribute the video signals to the customer premises. The bandwidth of the video distribution is a minimum of 860 MHz, which is capable of supporting between 90 and 110 analog video channels and a substantial number of digital video channels. This distribution plant is specifically designed to be predominantly fiber-based, which increases the reliability and improves the quality of the services delivered as compared to traditional cable television distribution architectures.

Wireless Video. RCN also owns and operates a "wireless video" television system (which was formerly operated as Liberty Cable Television of New York and acquired by RCN in 1996) using point-to-point 18GHz microwave technology. RCN is utilizing this system in New York City as an alternate platform for delivering television programming to buildings that are not yet connected to the advanced fiber optic network. RCN expects that the majority of the buildings currently served by the wireless service will ultimately be connected to the network to the extent that connection is feasible. As buildings are connected to the RCN network, RCN will reuse the microwave equipment to provide service to other customers in off-network premises.

Hybrid Fiber/Coaxial Cable Systems. RCN owns and operates Hybrid Fiber Coaxial cable television networks in Pennsylvania, New Jersey and New York State (outside of New York City). These networks offer expanded bandwidth and a platform for two-way services, and have an aggregate of 696 route miles of fiber optic cable. The network in Pennsylvania includes a separate high capacity fiber optic ring with a minimum 84 fibers (covering approximately 100 route miles), which is designed and constructed to support a competitive telephony network. The Pennsylvania system consists of 1,865 miles of coaxial cable and 340 route miles of fiber cable. The Pennsylvania system serves 150 nodes from one headend, and operates at 550 - 750 MHz with approximately 80 active channels. The New York system includes 211 route miles of fiber optic cable serving approximately 128 nodes from one head-end. Approximately 70% of the New York system is two-way active 750 MHz plant and is equipped to support both telephony and cable modem services. The New Jersey system includes 145 route miles of fiber optic cable and the bandwidth of the plant is 400/450 MHz. The New Jersey system is planned to be upgraded to 750 MHz and will provide an expanded channel line-up and digital video service by the end of year 2000. All of the Company's Hybrid Fiber Coax cable systems are 100% one-way addressable.

Data Services. RCN's Internet access and data transmission services are currently provided over the advanced fiber optic network via dial-up modems facilitated through the RCN voice network in on-net subscriber applications. In off-net situations, subscribers use conventional dial-up modems through the incumbent LEC network to access RCN's Internet transmission network. RCN also offers Internet and data transmission services via cable modems over the advanced fiber network. Cable modems, which utilize the broadband coaxial plant, offer higher speed access for data transmission than the speeds achieved by conventional telephone dial-up technology.

RCN is presently developing a long haul, high-bandwidth fiber optic transport facility that will traverse from Boston to Washington D.C. This facility will utilize fiber that RCN recently acquired in an arrangement with Qwest and be used to provide high-speed connectivity between each of RCN's points of presence along the Northeast Corridor. It will initially provide long distance telephone and Internet connectivity along this corridor for RCN's customers.

RCN provides high quality Internet access services to businesses by utilizing high-speed access via ISDN, frame relay, fractional T-1, T-1 and T-3 circuits. RCN's network infrastructure currently supports modems with dial-access speeds of up to 56 KBPS. RCN provides new dial-access subscribers with an easy-to-install proprietary access software package, which incorporates a telephone dialer, an e-mail platform, a Web browser (Microsoft Corp.'s Microsoft Internet Explorer) and SurfWatch™ software for parental control over Internet content access. This software package permits simplified access to the Internet through a "point and click" graphical user interface. After installation, the subscriber has a direct connection to the Internet using Point-to-Point Protocol and access to all of the Internet's resources, including e-mail, the World Wide Web, Usenet News service and Internet Relay Chat. Access software automatically displays the RCN World Wide Web site each time a subscriber logs on, providing RCN with the opportunity to communicate with its subscribers at the start of each session. RCN maintains "24 x 7" subscriber and technical support 365 days a year.

RCN services currently rely on the widespread commercial use of Transmission Control Protocol/Internet Protocol ("TCP/IP"). Alternative open and proprietary protocol standards that compete with TCP/IP, including proprietary protocols developed by International Business Machines Corporation ("IBM") and Novell, Inc. have been or are being developed. The adoption of such new industry standards could render the Company's existing services obsolete and unmarketable or require reduction in the fees charged therefore.

RCN relies on a combination of copyright, trademark and trade secret laws and contractual restrictions to establish and protect its proprietary technology. However, there can be no assurance that RCN's technology will not be misappropriated or that equivalent or superior technologies will not be developed. In addition, there can be no assurance that third parties will not assert that RCN's services or its users' content infringe their proprietary rights. The Company has obtained authorization, typically in the form of a license, to distribute third-party software incorporated in the RCN access software product for Windows 3.1, Windows 95, Windows NT and Macintosh platforms. The Company plans to maintain or negotiate renewals of existing software licenses and authorizations. The Company may desire or need to license other applications in the future.

We own various corporate office facilities in Dallas, PA and technical sites used for storage of hub and headend facilities.

We also lease corporate office facilities in Princeton, NJ and in all of our major markets under various noncancelable leases with terms ranging from 1 to 15 years.

We believe that all of our owned and leased facilities are in good condition

ITEM 3. LEGAL PROCEEDINGS

RCN has filed suit in the U.S. Court of Appeals for the D.C. Circuit seeking the Court's review of a decision of the FCC which requires RCN, where it operates as an OVS provider, to share certain OVS system and corporate data with in-region cable competitors if such competitors are not franchised within RCN's technically integrated service area. RCN believes the FCC's decision, as well as two related decisions of the Cable Services Bureau, are contrary to law, arbitrary and capricious. The FCC has asked the Court to hold the case in abeyance pending its resolution of a petition for reconsideration filed by Time Warner. RCN has not opposed this request and the Court has granted the Motion.

In the normal course of business, there are various legal proceedings outstanding. In the opinion of management, these proceedings will not have a material adverse effect on the results of operations or financial condition of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Registrant during the fourth quarter of the Registrant's 1999 fiscal year.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an un-numbered Item in Part I of this Report in lieu of being included in the definitive proxy statement relating to the Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14(A) of the Securities Exchange Act of 1934 (the "1934 Act").

Executive Officers of the Registrant

David C. McCourt, 43 has been President and Chief Executive Officer of the Company as well as a Director since September 1997. Mr. McCourt has served as a Director and Chairman and Chief Executive Officer of Cable Michigan from September, 1997 to November 1998. In addition, he is a Director and Chairman of Commonwealth Telephone Enterprises, Inc. ("CTE"), positions he has held since October 1993. Mr. McCourt was Chief Executive Officer of CTE from October 1993 to November 1998. Mr. McCourt has also been President and Chief Executive Officer, as well as a Director of Level 3 Telecom Holdings, Inc. formerly Kiewit Telecom Holdings, Inc. He was also Chairman and Chief Executive Officer as well as a Director of Mercom, S.A. de C.V. from October 1993 to November 1998. He was a Director of MFS Communications Company, Inc. from July, 1990 to December, 1996, President and a Director of Metropolitan Fiber Systems/McCourt, Inc. a subsidiary of MFS Telecom, Inc., since 1988, and has been a Director of Cable Satellite Public Affairs Network ("C-SPAN") since June, 1995. He was a Director of WorldCom, Inc. from December 1996 to March 1998 and has been a Director of Level 3 since March 1998.

Michael A. Adams, 42 has been President and Chief Operating Officer of the Company since October, 1999. Previously, he was President of the Technology and Network Development Group since 1997. Prior to that he served as Vice President of Technology with C-TEC Corporation from November, 1996 to September, 1997. Prior to that he served as Executive Vice President of Commonwealth Communications, Inc. from August, 1996 to November, 1996.

Timothy J. Stoklosa, 39 has been Executive Vice President and Chief Financial Officer of the Company since January, 2000. Previously, he was Senior Vice President and Treasurer of the Company, since September 1997. Prior to that he served as Executive Vice President and Chief Financial Officer and was a Director of Mercom, Inc. from 1997 to 1998. Mr. Stoklosa was Treasurer of CTE from 1994 to 1997, and has been a Director of CTE since December 1999.

John J. Jones, 33, has been Executive Vice President, General Counsel and Corporate Secretary of the Company and CTE since July 1998. Mr. Jones served as Vice President, General Counsel and Corporate Secretary of Designer Holdings, Ltd. from January 1996 to December 1997. Prior to that time, Mr. Jones was engaged in the private practice of law at the law firm of Skadden, Arps, Slate, Meagher & Flom beginning in September 1991 to August 1995.

Ralph S. Hromisin, CPA, 39, has been Senior Vice President and Chief Accounting Officer of the Company since August 1998. He was Vice President and Chief Accounting Officer from September 1997 to August 1998. He was Vice President and Chief Accounting Officer of CTE from September 1997 to January 1998. He served as Vice President and Corporate Controller of CTE from August 1994 to September 1997. Mr. Hromisin was Director of Corporate Accounting for CTE from March 1992 to August 1994.

PART II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The Company's Common Stock is traded on the NASDAQ stock exchange. There were approximately 2,705 holders of Registrant's Common Stock on February 29, 1999. The Company maintains a no cash dividend policy. The Company does not intend to alter this policy in the foreseeable future. Other information required under Item 5 of Part II is set forth in Note 18 to the consolidated financial statements included in Part IV Item 14(a)(1) of this Form 10-K.

Item 6. Selected Financial Data

Information required under Item 6 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information required under Item 7 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

Item 7a. Quantitative and Qualitative Disclosures about Market Risk.

Information required under Item 7 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements and supplementary data required under Item 8 of Part II are set forth in Part IV Item 14(a)(1) of this Form 10-K.

Item 9. Disagreements on Accounting and Financial Disclosure.

During the two years preceding December 31, 1999, there has been neither a change of accountants of the Registrant nor any disagreement on any matter of accounting principles, practices or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required under Item 10 of Part III with respect to the Directors of Registrant is set forth in the definitive proxy statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14(a) of the 1934 Act and is hereby specifically incorporated herein by reference thereto.

The information required under Item 10 of Part III with respect to the executive officers of the Registrant is set forth at the end of Part I hereof.

Item 11. Executive Compensation

The information required under Item 11 of Part III is set forth in the definitive Proxy Statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14(a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required under Item 12 of Part III is included in the definitive Proxy Statement relating to Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14(a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

Item 13. Certain Relationships and Related Transactions

The information required under Item 13 of Part III is included in the definitive Proxy Statement relating to Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14 (a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Report on form 8-K.

Item 14 (a) (1) Financial Statements:

Consolidated Statements of Operations for the Years Ended December 31, 1999, 1998 and 1997.

Consolidated Statements of Cash Flows for Years Ended December 31, 1999, 1998 and 1997.

Consolidated Balance Sheets - December 31, 1999 and 1998.

Consolidated Statements of Changes in Common Shareholders' Equity for Years Ended December 31, 1999, 1998 and 1997.

Notes to Consolidated Financial Statements

Report of Independent Accountants

Item 14 (a) (2) Financial Statement Schedules:

Description
Condensed Financial Information of Registrant for the Year Ended December 31, 1999. (Schedule I)

Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1999, 1998 and 1997 (Schedule II)

All other financial statement schedules not listed have been omitted since the required information is included in the consolidated financial statements or the notes thereto, or are not applicable or required.

Item 14 (a) (3) Exhibits:

Exhibits marked with an asterisk are filed herewith and are listed in the index to exhibits of this Form 10-K. The remainder of the exhibits have been filed with the Commission and are incorporated herein by reference.

(2) Plan of acquisition, reorganization, arrangement and Report on Form 8-K

(a) Form of Distribution Agreement among C-TEC Corporation, Cable Michigan, Inc. and the Registrant is incorporated herein by reference to Exhibit 2.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(3) Articles of Incorporation and By-laws

(a) Form of Amended and Restated Articles of Incorporation of the Registrant are incorporated herein by reference to Exhibit 3.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(b) Certificate of Amendment to the amended and restated Articles of Incorporation Certificate of Amendment to the amended and restated of the Registrant are incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed on August 11, 1998. (Commission File No. 333-61223.)

(c) Certificate of Designations, Preferences and Rights of Series A 7% Senior Convertible Preferred Stock dated April 7, 1999 (incorporated herein by reference to Exhibit 3.1 to RCN's Registration Statement on Form S-3 (filed February 1, 1999) (Commission File No. 333-71525) ("1999 Form S-3"))

(d) Certificate of Designations, Preferences, and Rights of Series B 7% Senior Convertible Preferred Stock (incorporated by reference to Exhibit A of Exhibit 10.01 to RCN's current report on Form 8-K (filed October 1, 1999) (Commission File No. 0-22825))

(e) Form of Amended and Restated Bylaws of the Registrant are incorporated herein by reference to Exhibit 3.2 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(4) Instruments defining the rights of security holders, including indentures

- (a) Credit Agreement dated as of June 3, 1999 among RCN, the borrowers named therein, the lenders party thereto, The Chase Manhattan Bank, as Agent, Chase Securities Inc., as Lead Arranger and Book Manager, and Deutsche Bank A.G., Merrill Lynch Capital Corp. and Morgan Stanley Senior Funding, as Documentation Agents (incorporated herein by reference to Exhibit 10.01 to RCN's Current Report on Form 8-K dated August 17, 1999 (filed August 17, 1999) (Commission File No. 000-22825)
- (b) Form of Indenture between RCN, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 10 1/8% Senior Notes due 2010 (incorporated herein by reference to Exhibit 4.11 to RCN's 1999 Form S-3)
- (c) Indenture dated June 24, 1998 between RCN, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 11% Senior Discount Notes due 2008 (incorporated herein by reference to Exhibit 4.8 to RCN's Registration Statement on Form S-1 (filed June 1, 1998) (Commission File No. 333-55673) ("1998 Form S-1"))
- (d) Form of 11% Senior Discount Note due 2008 (included in Exhibit 4.3) (incorporated herein by reference to Exhibit 4.9 to RCN's 1998 Form S-1)
- (e) Indenture dated as of February 6, 1998 between RCN, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 9.80% Senior Discount Notes due 2008 (incorporated herein by reference to Exhibit 4.1 to RCN's Registration Statement on Form S-4 (filed March 23, 1998) (Commission File No. 333-48487) ("1998 Form S-4"))
- (f) Form of the 9.80% Senior Discount Notes due 2008, Series B (included in Exhibit 4.5) (incorporated herein by reference to Exhibit 4.2 to RCN's 1998 Form S-4)
- (g) Indenture dated as of October 17, 1997 between RCN, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 10% Senior Notes due 2007 (incorporated herein by reference to Exhibit 4.1 to RCN's Registration Statement on Form S-4 (filed November 26, 1997) (Commission File No. 333-41081) ("1997 Form S-4"))
- (h) Form of the 10% Senior Exchange Notes due 2007 (included in Exhibit 4.7) (incorporated herein by reference to Exhibit 4.2 to RCN's 1997 Form S-4)
- (i) Indenture dated as of October 17, 1997 between RCN, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 11 1/8% Senior Discount Notes due 2007 (incorporated herein by reference to Exhibit 4.3 to RCN's 1997 Form S-4)
- (j) Form of the 11 1/8% Senior Discount Exchange Notes due 2007 (included in Exhibit 4.9) (incorporated herein by reference to Exhibit 4.4 to RCN's 1997 Form S-4)
- (k) Escrow Agreement dated as of October 17, 1997 among The Chase Manhattan Bank, as escrow agent, The Chase Manhattan Bank, as Trustee under the Indenture (as defined therein), and RCN (incorporated herein by reference to Exhibit 4.6 to RCN's 1997 Form S-4)

- (l) Credit Agreement dated as of July 1, 1997 among C-TEC Cable Systems, Inc., ComVideo Systems, Inc., C-TEC Cable Systems of New York, Inc. and First Union National Bank, as agent (incorporated herein by reference to Exhibit 4.1 to RCN's Information Statement on Form 10/A (filed July 10, 1997) (Commission File No. 000-22825))
- (m) First amendment, dated as of December 3, 1999, to the Credit Agreement, dated as of June 3, 1999 among RCN, the borrowers named therein, the lenders party thereto, The Chase Manhattan Bank, as Agent, Chase Securities Inc., as Lead Arranger and Book Manager, and Deutsche Bank A.G., Merrill Lynch Capital Corp. and Morgan Stanley Senior Funding, as Documentation Agents (incorporated herein by reference to Exhibit 10.01 to RCN's Current Report on Form 8-K dated August 17, 1999 (filed August 17, 1999) (Commission File No. 000-22825))
- (n) Indenture, dated as of December 22, 1999, between RCN, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 10 1/8% Senior Discount Notes due 2010. (incorporated herein by reference to Exhibit 4.11 to RCN's Registration Statement on Form S-3/A (filed October 6, 1999) (Commission File No. 333-71525) ("1999 Form S-3/A"))
- (o) Form of the 10 1/8% Senior Discount Notes due 2010 (included in Exhibit 4.11 (incorporated herein by reference to exhibit 4.11 to RCN's 1999 Form S-3/A).
- (p) Stock Purchase Agreement dated as of October 1, 1999 between Vulcan Ventures Incorporated (incorporated by reference to RCN's Form 8-K dated October 1, 1999, Commission file No. 0-22825).
- (q) Voting Agreement dated as of October 1, 1999 among RCN, Vulcan Ventures Incorporated and Level 3 Telecom Holdings, Inc. (incorporated by reference to RCN's Form 8-K dated October 1, 1999, Commission File No. 0-22825)

(10) Material Contracts

- (a) Tax Sharing Agreement by and among C-TEC Corporation, Cable Michigan, Inc. and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (b) Dark Fiber IRU Agreement dated as of May 8, 1997 among Metropolitan Fiber Systems/McCourt, Inc. and RCN Telecom Services of Massachusetts, Inc. is incorporated herein by reference to Exhibit 10.2 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (c) Dark Fiber IRU Agreement dated as of May 8, 1997 among Metropolitan Fiber Systems of New York, Inc. and RCN Telecom Services of New York, Inc. is incorporated herein by reference to Exhibit 10.3 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (d) Joint Venture Agreement dated as of December 23, 1996 between RCN Telecom Services, Inc. and Boston Energy Technology Group, Inc. is incorporated herein by reference to Exhibit 10.7 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (e) Amended and Restated Operating Agreement of RCN-BecoCom, LLC dated as of June 17, 1997 is incorporated herein by reference to Exhibit 10.8 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (f) Management Agreement dated as of June 17, 1997 among RCN Operating Services, Inc. and BecoCom, Inc. is incorporated herein by reference to Exhibit 10.9 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (g) Construction and Indefeasible Right of Use Agreement dated as of June 17, 1997 between BecoCom, Inc. and RCN-BecoCom, LLC is incorporated herein by reference to Exhibit 10.10 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (h) License Agreement dated as of June 17, 1997 between Boston Edison Company and BecoCom, Inc. is incorporated herein by reference to Exhibit 10.11 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (i) Joint Investment and Non-Competition Agreement dated as of June 17, 1997 among RCN Telecom Services of Massachusetts, Inc., BecoCom, Inc. and RCN-BecoCom, LLC is incorporated herein by reference to Exhibit 10.12 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (j) Amended and restated Operating Agreement of Starpower Communications, L.L.C. by and between Pepco Communications, L.L.C. and RCN Telecom Services of Washington, D.C. Inc. dated October 28, 1997 is incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (Commission File No. 0-22825.)

21* Subsidiaries of Registrant

23* Consent of PricewaterhouseCoopers LLP with respect to RCN Corporation

24* Power of Attorney

27* Financial Data Schedule

- 99 (b) Report on Form 11-k with respect to the RCN Savings and Stock Ownership Plan will be filed as an amendment to this Report on Form 10-K.

Item 14.(b) Reports on Form 8-K

On December 17, 1999, The Company announced that it has entered into a definitive agreement with respect to the acquisition of 21st Century Telecom Group, Inc. Pro forma financial statements of RCN Corporation and financial statements for 21st Century Telecom Group, Inc. are filed as Exhibit 99.1 hereto.

On December 12, 1999, The Company entered into an Agreement and Plan of Merger with 21st Century Telecom Group, Inc. providing for the acquisition of 21st Century by the Company.

On October 4, 1999, the Company announced that Vulcan Ventures Incorporated ("Vulcan"), the investment organization of Paul G. Allen, has agreed to make a \$1.65 billion investment in the Company. The investment is in the form of mandatorily convertible preferred stock (the "Preferred Stock"), which will be converted into the Registrant's Common Stock, par value \$1.00 per share ("Common Stock"), no later than seven years after it is issued. Vulcan has agreed to purchase 1,650,000 shares of the Preferred Stock. The Preferred Stock has a liquidation preference of \$1,000 per share and is convertible into Common Stock at a price of \$62 per share.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 30, 2000

RCN Corporation

By: \s\ David C. McCourt

David C. McCourt
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
-----	-----	----

PRINCIPAL EXECUTIVE AND ACCOUNTING OFFICERS:

\s\ David C. McCourt ----- David C. McCourt	Chairman and Chief Executive Officer	March 30, 2000
\s\ Michael A. Adams ----- Michael A. Adams	President and Chief Operating Officer	March 30, 2000
\s\ Timothy J. Stoklosa ----- Timothy J. Stoklosa	Executive Vice President and Chief Financial Officer	March 30, 2000
\s\ Ralph S. Hromisin ----- Ralph S. Hromisin	Senior Vice President and Chief Accounting Officer	March 30, 2000

DIRECTORS:

\s\ David C. McCourt ----- David C. McCourt	March 30, 2000
\s\ James Q. Crowe ----- James Q. Crowe	March 30, 2000
\s\ Walter E. Scott, Jr. ----- Walter E. Scott, Jr.	March 30, 2000
\s\ Richard R. Jaros ----- Richard R. Jaros	March 30, 2000
\s\ Thomas May ----- Thomas May	March 30, 2000
\s\ Alfred Fasola ----- Alfred Fasola	March 30, 2000
\s\ Thomas P. O'Neill, III ----- Thomas P. O'Neill, III	March 30, 2000
\s\ Eugene Roth ----- Eugene Roth	March 30, 2000
\s\ Stuart E. Graham ----- Stuart E. Graham	March 30, 2000
\s\ Michael B. Yanney ----- Michael B. Yanney	March 30, 2000
\s\ Edward S. Harris ----- Edward S. Harris	March 30, 2000
\s\ Michael J. Levitt ----- Michael J. Levitt	March 30, 2000
\s\ William D. Savoy ----- William D. Savoy	March 30, 2000
\s\ Michael A. Adams ----- Michael A. Adams	March 30, 2000
\s\ Timothy J. Stoklosa ----- Timothy J. Stoklosa	March 30, 2000

SCHEDULE I

RCN CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF OPERATIONS
(THOUSANDS OF DOLLARS)

	For the Years Ended December 31,	
	1999	1998
Sales	\$ 13	\$ 177
Other income (expense)	7,795	(18,293)
Costs and expenses	23	177
Operating income (loss)	7,785	(18,293)
Interest income	3,103	2,834
Interest expense	(161,466)	(106,161)
(Loss) before income taxes	(150,578)	(121,620)
(Benefit) for income taxes	(59,592)	(36,164)
Equity in (loss) of consolidated entities	(264,042)	(119,989)
Net (loss)	(355,028)	(205,442)
Preferred stock dividend and accretion requirements	13,542	-
Net (loss) to common shareholders	\$ (368,570)	\$ (205,442)
(Loss) per average common share:		
Net (loss)	\$ (5.12)	\$ (3.36)
Weighted average common shares outstanding	71,966,301	61,187,354

SCHEDULE I

RCN CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
(THOUSANDS OF DOLLARS)

	December 31,	
	1999	1998
ASSETS		
Current assets		
Cash and temporary cash investments	\$ 3,703	\$ 15
Accounts receivable from related parties	-	99
Accounts receivable from affiliates	409,514	13,172
Accounts receivable	6	4
Prepayments & other	93,912	25,120
Investments restricted for debt service	22,128	22,500
	-----	-----
Total current assets	529,263	60,910
Investments restricted for debt service	-	19,869
Investments in subsidiaries	2,273,075	1,444,450
Unamortized debt issuance cost	60,639	26,640
Deferred charges and other assets	25,844	9,525
	-----	-----
Total assets	\$ 2,888,821	\$ 1,561,394
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable to affiliates	87,797	20,368
Accrued interest	12,928	4,813
Accrued expenses	838	152
	-----	-----
Total current liabilities	101,563	25,333
Long-term debt	2,141,516	1,164,615
Preferred Stock	253,438	
Shareholders' Equity		
Common stock	77,724	65,477
Deficit	(591,128)	(222,558)
Additional paid in capital	923,341	539,770
Cumulative translation adjustment	(2,014)	(3,055)
Unrealized appreciation on investments	(6,228)	1,113
Treasury stock	(9,391)	(9,301)
	-----	-----
Total common shareholders' equity	392,304	371,446
Total liabilities and shareholders' equity	\$ 2,888,821	\$ 1,561,394
	=====	=====

SCHEDULE I

RCN CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

	For the years Ended December 31,	
	1999	1998
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	\$ (355,028)	\$ (205,442)
Realized (gain)/loss on disposal of Lancit	(8,621)	-
Deferred income taxes and investment tax credits	(15,175)	(7,728)
Working capital	(390,852)	(19,009)
Equity in loss of consolidated entity	244,045	119,986
Equity in loss of unconsolidated entity	19,997	-
Noncash accretion of discounted senior notes	101,901	80,925
Amortization of financing costs	5,492	2,733
Noncash unrealized appreciation/depreciation on TCI	(7,341)	-
Noncash write-off of acquired R&D	-	18,293
Other	(1,145)	1,080
	-----	-----
Net cash (used in) operating activities	(406,727)	(9,162)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(53,322)	(47,028)
Other	(990,843)	(562,106)
	-----	-----
Net cash (used in) investing activities	(1,044,165)	(609,134)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock	344,342	112,866
Proceeds from the issuance of preferred stock	239,897	-
Issuance of long-term debt	875,000	500,587
Interest paid on Senior Notes	22,500	22,375
Financing costs	(39,491)	(10,185)
Proceeds from the exercise of stock options	12,422	1,969
Purchase of treasury stock	(90)	(9,301)
	-----	-----
Net cash provided by financing activities	1,454,580	618,311
	-----	-----
Net increase/(decrease) in cash and temporary cash investments	3,688	15
Beginning cash & temporary cash investments	15	0
	-----	-----
Ending cash & temporary cash investments	\$ 3,703	\$ 15
	=====	=====

SCHEDULE II

RCN CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998, AND 1997
(THOUSANDS OF DOLLARS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSE	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
ALLOWANCE FOR DOUBTFUL ACCOUNTS- DEDUCTED FROM ACCOUNTS RECEIVABLE IN THE CONSOLIDATED BALANCE SHEETS					
1999	\$5,766	\$7,691	\$ 510	\$1,709	\$12,258
1998	\$2,134	\$4,096	\$1,215	\$1,679	\$ 5,766
1997	\$ 861	\$2,732	\$ 997	\$2,456	\$ 2,134
ALLOWANCE FOR DEFERRED TAX ASSETS- DEDUCTED FROM DEFERRED TAX ASSETS IN THE CONSOLIDATED BALANCE SHEETS					
1999	\$82,068	\$163,144	\$ 363	\$10,200	\$235,375
1998	\$ 8,404	\$ 64,498	\$12,963	\$ 3,797	\$ 82,068
1997	\$ 3,691	\$ 5,777	\$ -	\$ 1,064	\$ 8,404

RCN CORPORATION
 SELECTED FINANCIAL DATA
 Thousands of Dollars Except Per Share Amounts
 For the Years Ended December 31,

	1999	1998	1997	1996	1995
Sales	\$ 275,993	\$ 210,940	\$ 127,297	\$ 104,910	\$ 91,997
(Loss) income before extraordinary charge and cumulative effect of change in accounting principle	\$ (354,604)	\$ (204,801)	\$ (49,181)	\$ (5,989)	\$ 2,114
Basic and diluted (loss) income per average common share before extraordinary charge and cumulative effect of change in accounting principle	\$ (5.11)	\$ (3.35)	\$ (0.89)	\$ (0.11)	\$ 0.04
Dividends per share	-	-	-	-	-
Total assets	\$3,192,114	\$1,907,615	\$1,150,992	\$ 628,085	\$ 649,610
Long-term debt, net of current maturities	\$2,143,096	\$1,263,036	\$ 686,103	\$ 131,250	\$ 135,250
Redeemable preferred stock	\$ 253,438	-	-	-	-

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands, except per share data)

Certain statements contained in this annual report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are thus prospective. Such forward-looking statements include, in particular, statements made as to plans to develop networks and upgrade facilities, the market opportunity presented by markets targeted by the Company, the Company's intention to connect certain wireless video resale telephone and Internet service customers to its advanced fiber optic networks, the development of the Company's businesses, the markets for the Company's services and products, the Company's anticipated capital expenditures, the Company's anticipated sources of capital and effects of regulatory reform and competitive and technological developments. No assurance can be given that the future results covered by the forward-looking statements will be achieved. Such statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

The following discussion should be read in conjunction with the Company's historical Consolidated Financial Statements and Notes thereto:

GENERAL

RCN Corporation (the "Company" or "RCN") is the nation's first and largest single-source facilities-based provider of bundled local and long distance phone, cable television and high-speed Internet services to the densest residential markets in the country. The Company is currently delivering broadband services over its Megaband Network or designing and building its network on both the East and West coasts as well as in Chicago. In addition, the Company is a leading Internet Service Provider in its markets. RCN offers individual or bundled service options, superior customer service and competitive prices. The Company is also constructing our networks with significant excess capacity in order to accommodate expanded services in the future. The Company intends to expand the services provided to its customers through strategic alliances and opportunistic development of complementary products. In addition, the Company will use the excess capacity in its fiber optic networks to provide services to commercial customers located on or near its networks.

RCN's Megaband Network is a unique broadband fiber-optic platform capable of offering a full suite of communications services including fully featured voice, video and high-speed Internet to residential customers. The network employs SONET ring backbone architecture, and localized nodes built to ensure its state-of-the-art fiber optics travel to within 900 feet of the Company's customers, with fewer electronics and lower maintenance costs than existing local networks. The Company's high-capacity local fiber-optic networks target densely populated areas comprising 44% of the US residential communications market spread over just 6% of its geography. Additional information can be found at www.RCN.com.

The Company expects that the operating and net losses from its business will rise in the future as it expands and develops its network and customer base.

There can be no assurance that RCN will achieve or sustain profitability or positive operating income in the future as it develops its advanced fiber optic network.

The operating losses have resulted primarily from expenditures associated with the development of the Company's operational infrastructure and marketing expenses. The Company expects it will continue to experience negative operating income while it continues to invest in its networks and until such time as revenue growth is sufficient to fund operating expenses. The Company expects to achieve positive operating margins over time by (i) increasing the number of customers it serves, (ii) increasing the number of connections per customer by cross marketing its services and promoting bundled service options and therefore increasing the revenue per customer, (iii) lowering the costs associated with new subscriber additions and (iv) reducing the cost of providing services by capturing economies of scale. The Company expects its operating revenues will increase in future periods through internal growth of its current advanced fiber optic networks, increases in penetration, and increases in the number of services per customer; however, the Company also expects that operating losses will increase for some period of time as the Company initiates network development in new markets and expands its current networks. When the Company makes its initial investment in a new market, the operating losses typically increase as the network and sales force are expanded to facilitate growth. The Company's ability to generate positive cash flow in the future will depend on the extent of capital expenditures in current and additional markets, the ability of the Company to generate revenues and cash flow, competition in the Company's markets and any potential adverse regulatory developments. The Company will be dependent on various financing sources to fund its growth as well as continued losses from operations. There can be no assurance that such funding will be available, or available on terms acceptable to the Company. See - "Liquidity and Capital Resources."

The terms of the Company's joint ventures require the mutual consent of the Company and its joint venture partner to distribute or advance funds to the Company. The Company's debt agreements allow subsidiaries and joint ventures to incur indebtedness for network buildout costs, which indebtedness may contain limitations on the subsidiaries' and the joint ventures' ability to pay dividends and distributions to the Company. Cash flows available to the Company in future periods will be affected by the extent to which operations are conducted through joint ventures. Due to the degree of control that the Company has in the joint ventures, RCN accounts for the BECO joint venture on a consolidated basis and Starpower, Megacable and JuniorNet under the equity method of accounting.

Prior to September 30, 1997, RCN Corporation was operated as part of C-TEC Corporation ("C-TEC"). On September 30, 1997, C-TEC distributed 100 percent of the outstanding shares of common stock of its wholly owned subsidiaries, RCN and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's common stock and C-TEC's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution"). C-TEC's corporate services group and corporate financial services company both became subsidiaries of RCN immediately coincident with the Distribution.

C-TEC, RCN and Cable Michigan have entered into certain agreements, including a distribution agreement and a tax-sharing agreement, providing for the Distribution, and governing various ongoing relationships, including the provision of support services, between the three companies.

Management believes that the Company operates as one reportable operating segment which contains many shared expenses generated by the Company's various revenue streams and that any segment allocation of shared expenses incurred on a single network to multiple revenue streams would be impractical and arbitrary; furthermore, the Company currently does not make such allocations internally. The Company's chief decision makers do, however, monitor financial performance in a way which is different from that depicted in the historical general purpose financial statements in that such measurement includes the consolidation of all joint ventures, including Starpower which is not consolidated under generally accepted principles. Such information, however, does not represent a separate segment under generally accepted accounting principles and therefore it is not separately disclosed.

Results of Operations

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

For the year ended December 31, 1999, sales increased 30.8% to \$275,993 from \$210,940 for the same period in 1998. Operating losses before depreciation, amortization and acquired in-process technology was \$(131,967) as compared to \$(51,412) for the same period in 1998.

Sales

Video sales are comprised primarily of subscription fees for basic, premium and pay-per-view cable television services; All of RCN's networks can support these services. A digital tier of cable service is being deployed in selected markets.

Voice sales include local telephone service fees consisting primarily of monthly line charges, local toll and special features and long-distance telephone service fees based on minutes of traffic and tariffed rates or contracted fees. Voice sales include both resold services and traffic over the Company's own switches.

Data sales represent Internet access fees billed at contracted rates, as well as, related revenues including web hosting and dedicated access. The Company offers both dial-up and high speed cable modem services.

Total sales increased \$65,053, or 30.8% to \$275,993 for the year ended December 31, 1999 from \$210,940 for the year ended December 31, 1998. The increase was fueled by higher average service connections which increased 32.4% to approximately 909,000 for the year ended December 31, 1999 (including connections of the Starpower joint venture) from approximately 687,000 for the year ended December 31, 1998. The increase in average service connections resulted principally from growth in dial-up Internet connections and growth in average on-net connections, which increased 245.5% from approximately 49,000 for the year ended December 31, 1998 to approximately 170,000 for the year ended December 31, 1999. Total advanced fiber connections increased 80.7% from 123,393 at December 31, 1998 to 222,964 at December 31, 1999. Advanced fiber units passed increased 134.4% to 713,823 units at December 31, 1999 from 304,505 units at December 31, 1998.

Voice sales increased \$19,506, or 55.9%, to \$54,426 for the year ended December 31, 1999 from \$34,920 for the year ended December 31, 1998. Approximately \$22,000 of the increase in voice sales is attributable to higher average connections. Average advanced fiber voice connections increased approximately 292.1% to approximately 47,500 for the year ended December 31, 1999 (including connections of the Starpower joint venture) from approximately 12,000 for the year ended December 31, 1998. Average off-net voice connections increased approximately 12.2% to approximately 55,700 for the year ended December 31, 1999 from approximately 49,700 for the year ended December 31, 1998. The increase in voice sales due to higher average connections was partially offset by lower average revenue per connection of 2.0%. Although minutes, calls and average length increased, revenue per minute declined.

Video sales increased \$12,207, or 10.8% to \$125,285 for the year ended December 31, 1999 from \$113,078 for the year ended December 31, 1998. The increase was primarily due to approximately 27,400 additional average video connections for the year ended December 31, 1999 as compared to the year ended December 31, 1998. Average on-net video connections grew 73,600 or 209.1% to approximately 108,800 for the year ended December 31, 1999 (including connections of the Starpower joint venture) from approximately 35,200 for the year ended December 31, 1998. Average off-net video connections were approximately 168,000 and 214,200 for the year ended December 31, 1999 and 1998, respectively. Overall higher average service connections contributed approximately \$8,673 to the increase in video sales and higher average revenue per connection of 1% principally contributed the remainder.

Data sales increased \$27,426, or 68% to \$67,750 for the year ended December 31, 1999 from \$40,324 for the year ended December 31, 1998. The increase was primarily due to approximately 154,000 additional average data connections for the year ended December 31, 1999 as compared to the year ended December 31, 1998.

For the year ended December 31, 1999, the Company had approximately 515,700 average off-net data connections and approximately 13,600 average advanced fiber data connections, including connections of the Starpower joint venture. For the year ended December 31, 1998, the Company had approximately 373,400 average off-net data connections and approximately 1,900 advanced fiber data connections, including connections of the Starpower joint venture. Overall higher average service connections contributed approximately \$16,500 to the increase in data sales and higher average revenue per connection of 19.2% contributed the remainder.

Other sales increased \$5,913 or 26.1% to \$28,532 for the year ended December 31, 1999 from \$22,619 for the year ended December 31, 1998. The increase was due primarily to higher reciprocal compensation.

The Company recognizes that managing customer turnover is an important factor in maximizing revenues and cash flow. For the year ended December 31, 1999, the Company's average monthly churn rate was approximately 2.3%.

Costs and expenses, excluding depreciation and amortization

Costs and expenses, excluding depreciation and amortization are comprised of direct costs, and operating, selling and general and administrative expenses.

Direct expenses include direct costs of providing services, primarily video programming, franchise costs and network access fees.

Direct expenses increased \$38,139, or 37.3% to \$140,448 for the year ended December 31, 1999 from \$102,309 for the year ended December 31, 1998. The increase was principally the result of higher sales, a lower margin on video sales due to higher franchise fees and programming rates, and a lower margin on data sales due to transitional costs associated with the conversion of existing circuits to certain technology upgrades.

Operating, selling, general and administrative expenses primarily include customer service costs, advertising, sales, marketing, order processing, telecommunications network maintenance and repair ("technical expenses") general and administrative expenses, installation and provisioning expenses, and other corporate overhead.

Operating, selling, general and administrative costs increased \$107,469, or 67.2% to \$267,512 for the year ended December 31, 1999 from \$160,043 for the year ended December 31, 1998.

Customer services costs, including order processing, increased approximately \$9,700, or 32.3%, for the year ended December 31, 1999 as compared to the year ended December 31, 1998. The increase is primarily personnel related to support the 32.4% increase in average connections over the comparable period in 1998 and to increase the level of service. Customer service costs per average connection per month increased .8% in 1999 over 1998.

Technical expense, including installation and provisioning, increased approximately \$23,817, or 77.8%, for the year ended December 31, 1999 as compared to the year ended December 31, 1998. Technical expense increases of approximately \$29,600 were due to engineering and construction headcount and contract labor additions made to plan and execute network expansion and network operations control center monitoring. Rental and utility expense, primarily for material storage and hub sites, increased approximately \$5,500, partially offset by an increase of approximately \$12,100 in technical costs capitalized as part of the cost basis of the telecommunications network.

Sales and marketing costs increased approximately \$8,000, or 27.6%, for the year ended December 31, 1999 as compared to the year ended December 31, 1998. The increase resulted principally from additional staff and related commissions and benefits, to cover increases in marketable homes, to increase penetration in the Company's existing markets and to increase the number of services per customer.

Advertising costs increased approximately \$10,900, or 45.5% for the year ended December 31, 1999 as compared to the year ended December 31, 1998. The increase is primarily related to costs incurred to begin to develop brand awareness in the California market as well as continued expansion of existing markets.

General and administrative expenses increased approximately \$55,000, or 118.8%, for the year ended December 31, 1999 as compared to the year ended December 31, 1998. Information technology expenses increased approximately \$15,700. The Company is in the process of developing information technology systems which will provide a sophisticated customer care infrastructure as well as other administrative support systems. The expense increases represent staff additions to both support this effort and maintain the systems as well as consulting expenses associated with the planning and analysis stages of such systems development. The Company expects that such charges may increase in future periods until the planning and analysis stages of its IT systems development projects are complete.

Operating taxes, primarily property taxes, increased approximately \$2,800 as a result of expanded operations. External legal expense increased approximately \$4,000 primarily associated with the procurement of regulatory approvals for potential future markets. Approximately \$19,500 of the increase in general and administrative expense is attributable to acquisitions in 1998, which were included for a full twelve months in 1999, the June 1998 acquisition of Lancit Media, which was disposed of in April 1999, and the 1999 acquisitions of DNAI and Brainstorm. Rent and utility expense increased approximately \$4,800 primarily related to additional space required to support the increase in headcount. Higher bad debt expense of approximately \$3,700 was associated with the increase in sales. The remaining increase primarily represents additional development and support expenses associated with expanding operations and new markets.

Depreciation and amortization

Depreciation and amortization was \$146,043 for the year ended December 31, 1999 and \$89,088 for the year ended December 31, 1998. The increase of \$56,955, or 63.9% was the result of a higher depreciable basis of plant resulting primarily from expansion of the Company's advanced fiber network, and amortization of intangible assets arising from the acquisitions in 1998. The cost basis of property, plant and equipment at December 31, 1999 and 1998 was \$1,123,760 and \$601,679, respectively. The basis of intangible assets was \$296,875 and \$267,031 at December 31, 1999 and 1998, respectively.

In future periods, depreciation and amortization are expected to exceed amounts recorded in 1999 due to depreciation with respect to expansion of the Company's advanced fiber optic network.

Interest income

Interest income was \$76,786 and \$58,679 for the year ended December 31, 1999 and 1998, respectively. The increase of \$18,107, or 30.9%, results from higher average cash, temporary cash investments and short-term investments as compared to the same period in 1998. Cash, temporary cash investments and short-term investments were approximately \$1,793,000 at December 31, 1999 and approximately \$1,013,000 at December 31, 1998. During 1999, proceeds from the following significant financing transactions increased cash, temporary cash investments and short-term investments: (1) the issuance of 250,000 shares of a new issue of the Company's Series A Preferred Stock in April 1999, which yielded net proceeds of approximately \$240,000, (2) the issuance of 9,200,000 shares of the Company's common stock, in May 1999, which yielded net proceeds of approximately \$344,000 and (3) \$875,000 from new borrowings, partially offset by the repayment of the Company's \$100,000 term loan (Note 10). These increases were partially offset by capital expenditures of approximately \$526,000 and working capital requirements.

Interest expense

For the year ended December 31, 1999, interest expense was \$158,139 as compared to \$112,239 for the year ended December 31, 1998. The increase resulted primarily from higher interest and commitment fees of \$30,275 relating to the Company's Credit Facility which the Company entered into with Chase Manhattan Bank in June 1999 (Note 10), of which \$500,000 of the Term Loan B was borrowed in June 1999. The remaining increase is due to higher accretion on the 11.125%, 9.8% and 11% senior discount notes issued in October 1997, February 1998 and June 1998, respectively, of \$20,976 and to higher amortization of debt issuance costs of approximately \$2,700. These increases were partially offset primarily by lower interest of approximately \$4,300 relating to the prepayment of the \$100,000 term loan (Note 10) and higher capitalized interest aggregating approximately \$5,100.

Gain on the sale of Lancit

In April 1999, the Company sold its investment in Lancit to JuniorNet, a commercial-free online learning service for children, for approximately \$24,600 in cash. Concurrent with the sale, the Company acquired an ownership interest in JuniorNet of approximately 47.54%. The Company recognized a \$8,930 gain on the sale. The Company also deferred \$8,201 representing the portion of the gain attributable to the Company's ownership interest in JuniorNet immediately after the acquisition.

Income tax

 The Company's effective income tax rate was a benefit of 1.4% and 2.3% for the year ended December 31, 1999 and December 31, 1998, respectively. The primary reason for the difference is that the tax effect of the Company's cumulative losses has exceeded the tax effect of accelerated deductions, primarily depreciation, which the Company has taken for federal income tax purposes. As a result, generally accepted accounting principles do not permit the recognition of such excess losses in the financial statements. This accounting treatment does not impact cash flows for taxes or the amounts or expiration periods of actual net operating loss carryovers. For additional analysis of the changes in income taxes, see the reconciliation of the effective income tax rate in Note 11 to the consolidated financial statements.

Minority interest

 For the year ended December 31, 1999 and 1998 minority interest of \$28,262 and \$17,162, respectively, primarily represents the interest of Boston Edison Company ("BECO") in the loss of RCN-BECOCOM.

Equity in the loss of unconsolidated entities

 For the year ended December 31, 1999, equity in the loss of unconsolidated entities primarily represents the Company's share of the losses and amortization of excess cost over net assets of Megacable of \$1,763, Starpower of \$12,200 and JuniorNet of \$19,997. For the year ended December 31, 1998, equity in the loss of unconsolidated entities primarily represents the Company's share of the losses and amortization of excess cost over net assets of Megacable of \$2,384 and Starpower of \$10,335.

Extraordinary Item - prepayment of debt

 In June 1999, the Company prepaid a term loan with the proceeds of the Credit Facility (Note 10). The early extinguishment of the debt resulted in the write off of the applicable unamortized debt issuance cost which is reflected as an extraordinary charge of (\$424).

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997:

Sales were \$210,940 for the year ended December 31, 1998 as compared to \$127,297 for the year ended December 31, 1997.

Operating income before depreciation, amortization, non-recurring charge and acquired research and development was (\$51,412) for the year ended December 31, 1998 as compared to (\$7,670) for the year ended December 31, 1997.

Net loss was (\$205,442), or (\$3.36) per average common share for 1998 and (\$52,391) or (\$0.95) per average common share for 1997.

Sales

For the year ended December 31, 1998 total sales were \$210,940, an increase of \$83,643 or 65.7%, from \$127,297 for the year ended December 31, 1997. The increase resulted from higher total service connections which increased 219.6% to approximately 855,000 at December 31, 1998 from approximately 268,000 at December 31, 1997. The increase in total service connections resulted principally from dial-up internet connections from the acquisitions of Erols Internet, Inc. ("Erols") and UltraNet Communications ("UltraNet") in February 1998, and growth in advanced fiber connections, which increased 714.6% from approximately 15,000 in 1997 to approximately 123,000 at December 31, 1998. The service connections at December 31, 1998 include connections of the Starpower joint venture which is accounted for under the equity method of accounting. The Starpower service connections resulted primarily from customers in the joint venture market acquired from Erols Internet, Inc. in February 1998.

Voice revenues increased \$21,424 or 534.7% to \$25,431 for the year ended December 31, 1998 from \$4,007 for the year ended December 31, 1997, primarily due to higher average connections. Advanced fiber voice connections increased approximately 860.4% to approximately 31,000 at December 31, 1998 from approximately 3,000 at December 31, 1997. Off-net voice connections increased approximately 161.1% to approximately 65,000 at December 31, 1998 from approximately 25,000 at December 31, 1997. Contributing to the increase in off-net voice connections was the launch of telephony service in the Lehigh Valley, Pennsylvania market in the fourth quarter of 1997.

Overall, higher service connections contributed approximately \$20,500 to the increase in voice revenues and higher revenue per connection contributed approximately \$1,000.

During the fourth quarter of 1998, the Company ceased marketing new customers for resale of its competitors' local phone service. The Company expects that the effect of this decision will be lower revenue growth than would result if such resale continued; however, this decision is also expected to have a positive impact on the Company's overall gross margin percentage and a neutral effect on operating income before depreciation and amortization ("EBITDA").

Video revenues increased \$9,707 or 9.4% to \$113,078 for the year ended December 31, 1998 from \$103,371 for the year ended December 31, 1997. Video revenues for 1997 included one time launch incentive revenue of approximately \$1,000 related to the launch of certain new channels. The increase in 1998 was primarily due to increases of approximately 22,000 additional video connections and the conversion of approximately 50,000 off-net connections to the advanced fiber network at December 31, 1998 as compared to December 31, 1997.

On-net video connections grew 74,565 or 632.8% to 86,349 at December 31, 1998 from 11,784 at December 31, 1997. Off-net video connections were 175,313 and 227,619 at December 31, 1998 and 1997, respectively.

Overall, higher service connections contributed approximately \$6,000 to the increase in video revenues and higher average revenue per connection contributed approximately \$5,000 offset by the one time launch incentive revenue of approximately \$1,000 received in 1997.

Data revenues increased \$40,280 to \$40,321 for the year ended December 31, 1998 from \$41 for the year ended December 31, 1997 primarily due to the acquisitions of Erols and UltraNet in February 1998, Interport in June 1998 and Javanet in July 1998. At December 31, 1998, the Company had approximately 492,000 off-net data connections and approximately 6,000 advanced fiber data connections, including connections of the Starpower joint venture.

During the fourth quarter of 1998, dial-up Internet access replaced resold local phone service as the Company's initial product offering in areas in which RCN's fiber optic network is still under construction. The Company expects that its advanced fiber networks will eventually be extended to reach most of its dial-up Internet connections.

Commercial and other revenues increased \$12,232 or 61.5% to \$32,110 for the year ended December 31, 1998 from \$19,878 for the year ended December 31, 1997. The increase was due primarily to an increase in average commercial main access lines of approximately 9,800 in 1998 over 1997, which contributed approximately \$5,000 to the increase. Higher revenue per commercial main access line contributed approximately \$3,000. Additionally, contributing approximately \$6,000 to the increase was higher wholesale long distance revenue from Commonwealth Telecom Services, Inc. ("CTSI"), a wholly-owned subsidiary of Commonwealth Telephone Enterprises, Inc. (formerly C-TEC Corporation). CTSI is a Competitive Local Exchange Carrier ("CLEC") which operates in areas adjacent to the traditional service area of Commonwealth Telephone Company (also a wholly-owned subsidiary of Commonwealth Telephone Enterprises, Inc.)

The Company recognizes that managing customer turnover is an important factor in maximizing revenues and cash flow. For the quarter ended December 31, 1998, the Company's average monthly churn rate was approximately 2.8%.

Costs and Expenses, excluding depreciation and amortization

Direct expenses increased \$50,553 or 97.7% to \$102,310 for the year ended December 31, 1998 from \$51,757 for the year ended December 31, 1997. The increase was primarily due to higher voice connections, primarily resold voice, which contributed approximately \$27,500 to the increase. Higher video programming costs of approximately \$8,000 resulted from higher programming rates, new channels and increased video connections. The remaining increase primarily represents Internet access costs associated with the increase in data revenues.

Operating, selling, general and administrative costs increased \$76,832 or 92.3%, to \$160,042 for the year ended December 31, 1998 from \$83,210 for the year ended December 31, 1997.

Advertising costs increased approximately \$14,000 or 136.9% for the year ended December 31, 1998 as compared to the year ended December 31, 1997. Costs associated with an extensive high visibility multi-media campaign primarily in New York City and Boston, which commenced in June 1997, increased approximately \$4,400 over 1997. Internet advertising, primarily associated with the acquisition of Erols, increased approximately \$5,300. Promotional materials expense increased approximately \$1,000. Ad agency fees and costs to promote the commencement of telephony product offerings, in Lehigh Valley, Pennsylvania are the significant contributions to the remaining increase in advertising expense.

Customer service costs, including order processing, increased approximately \$19,500 or 182.1% for the year ended December 31, 1998 as compared to the year ended December 31, 1997. Increases of approximately \$7,500, primarily personnel related, were due to customer base support for Internet acquisitions. Other staff and temporary labor increases to support expanding operations in New York City, Boston, and Lehigh Valley, Pennsylvania contributed approximately \$9,000 to the increase. Higher billing costs of approximately \$3,000 for increased customers comprises the remainder of the increase in customer service costs.

Technical expense, including installation and provisioning, increased approximately \$11,000 or 58.1% for the year ended December 31, 1998 as compared to the year ended December 31, 1997.

Technical expense increases of approximately \$8,500 were due to engineering and construction headcount and contract labor additions made to plan and execute network expansion and network operations center control monitoring. Resale telephony installation costs contributed approximately \$1,700 to the increase. Retail expense primarily for materials and hub sites increased approximately \$1,500. Technical expense increases associated with Internet acquisitions in 1998 were approximately \$3,500. These increases were partially offset by approximately \$5,200 of technical costs capitalized as part of the cost basis of the telecommunications network. The remaining increase in technical expenses is primarily due to higher right of way use fees.

Sales and marketing costs increased approximately \$13,000 or 84.6% for the year ended December 31, 1998 as compared to the year ended December 31, 1997. The increase resulted from additional staff, contract labor and related commissions and benefits, aggregating approximately \$4,900 to cover increases in marketable homes, to increase penetration in the Company's existing markets and to increase the number of services per customer. Telemarketing expense increased approximately \$1,200 due to increased campaigns. Sales and marketing increases associated with Internet acquisitions in 1998, primarily Erols, were approximately \$5,400.

General and Administrative expenses increased approximately \$19,000 or 69.5%. Internet and Lancit acquisitions in 1998 contributed approximately \$6,800. Legal expense increased approximately \$1,500 primarily as a result of various start-up regulatory expenses related to the procurement of franchise and OVS agreements. Higher bad debt expense of approximately \$1,500 was associated with the increase in sales. Higher salaries and benefits of approximately \$3,800 were due to staff additions, primarily to support the expansion, maintenance and upgrade of the Company's management information systems, new product development and integration of acquisitions. In addition, the Company met certain quarterly performance targets established for 1998 relative to the determination of a potential contribution to its ESOP plan and accrued the related amounts aggregating approximately \$1,000. Expenditures in 1998 relative to Year 2000 planning and remediation were approximately \$400. The Company is in the process of developing information technology systems which will provide a sophisticated customer care infrastructure. Expenses associated with the planning and analysis stages of such systems development were approximately \$5,000 in 1998. The Company expects that such charges may increase in future periods during 1999 until the planning and analysis stages of its IT systems development projects are complete. The above increases were partially offset by a one-time credit of approximately \$2,400 related to the reversal of an accrual for damages related to contract termination which was settled between the Company and the counterparty.

Depreciation and amortization

Depreciation and amortization was \$89,088 for the year ended December 31, 1998 and \$53,205 for the year ended December 31, 1997. The increase of \$35,883, or 67.4% was the result of both a higher depreciable basis of plant, resulting primarily from expansion of the Company's advanced fiber network, and amortization of intangible assets arising from the acquisitions of Erols and UltraNet in February 1998. The cost basis of property, plant and equipment at December 31, 1998 and 1997 was \$601,679 and \$307,759, respectively. The basis of intangible assets was \$267,031 and \$149,935 at December 31, 1998 and 1997, respectively.

Acquired in-process research and development

In connection with the acquisitions of Erols and UltraNet, RCN has allocated \$13,228 for Erols and \$5,065 for UltraNet to in-process research and development ("IPR&D"). Specifically, four projects were identified which qualified as IPR&D by definition of not having achieved technological feasibility and representing technology which at the point of acquisition offered no alternative use than the defined project. The fair value of the IPR&D projects associated with these acquisitions is based upon a discounted cash flow analysis modified to represent only that portion of the project associated with completed research and development efforts at the date of acquisition. The IPR&D valuation charge was measured by the stage of completion method. The expected completion percentages are estimated based on the available financial information at the date of acquisition and were established on a project by project basis primarily calculated by dividing the costs incurred to date by the total expected R&D expenses specific to the project. The significant assumptions utilized by management were as follows:

Cash flow projections, utilizing risk adjusted discount rates of between 35% and 40% for Erols projects, commenced in 1998, and were expected to grow significantly in 1999 and 2000. Cash flow projections, utilizing risk adjusted discount rates of between 30% and 33% for UltraNet projects, were expected to commence in 1999, growing significantly in 2000 and 2001. The IPR&D projections are founded on significant assumptions with regard to timing of market entrance, levels of penetration, and costs of provisioning.

RCN is constructing new telecommunications networks. The margins on products expected to result from acquired in-process technologies in some cases represent higher margins than RCN's margins on existing products primarily due to the efficiencies in delivering multiple products, including bundled-service offerings, over a single state of the art high capacity fiber optic network.

Interest income

Interest income was \$58,679 and \$22,824 for the years ended December 31, 1998, and 1997, respectively. The increase of \$35,855, or 157.1% results from higher cash, temporary cash investments and short-term investments as compared to the same period in 1997. Cash, temporary cash investments and short-term investments were approximately \$1,013,000 at December 31, 1998 and approximately \$639,000 at December 31, 1997. Included in the cash, temporary cash investments and short-term investments balance at December 31, 1997 were proceeds from 10% Senior Notes, issued in October 1997, which generated gross proceeds of \$225,000 and yielded net proceeds of \$218,250; and 11 1/8% Senior Discount Notes, issued in October 1997, which generated gross proceeds of \$350,001 and yielded net proceeds of \$337,751. Additionally, during 1998, proceeds from the following increased cash, temporary cash investments and short-term investments: 9.8% Senior Discount Notes, issued in February 1998, which generated gross proceeds of \$350,587 and yielded net proceeds of \$344,855; 11% Senior Discount Notes, issued in June 1998, which generated gross proceeds of \$149,999 and yielded net proceeds of \$147,187 and the issuance of 6,098,355 shares of the Company's Common Stock, issued in June 1998, which yielded net proceeds of \$112,866.

Interest expense

For the year ended December 31, 1998, interest expense was \$112,239 as compared to \$25,602 for the year ended December 31, 1997. The increase resulted from the debt financings referred to above, offset by a reduction due to the prepayment in September 1997 of \$131,250 of 9.65% Senior Secured Notes.

Other (expense) income

Other (expense) income was (\$1,889) and \$131 for the years ended December 31, 1998 and 1997, respectively. The 1998 expense primarily represents the write down of certain of the Company's information technology assets which the Company upgraded with higher capacity state of the art products in connection with an overall internal technology upgrade.

Income tax

The Company's effective income tax rate was a benefit of 2.3% and 29.8% for the years ended December 31, 1998 and 1997, respectively. The primary reasons for the difference include the charge for in-process technology which is not deductible for tax purposes and for which a tax benefit was correspondingly not recorded. Additionally, during 1998, the tax effect of the Company's cumulative losses has exceeded the tax effect of accelerated deductions, primarily depreciation, which the Company has taken for federal income tax purposes. Except in unusual cases, generally accepted accounting principles do not permit the recognition of tax benefits of such excess losses in the financial statements. This accounting treatment does not impact the amount or expiration periods of actual Net Operating Loss carryovers or cash flows for taxes. For an analysis of the changes in income taxes, see the reconciliation of the effective income tax rate in Note 11 to the consolidated financial statements.

Minority interest

For the year ended December 31, 1998, minority interest of \$17,162 primarily represents the 49% interest of BECO in the loss of RCN-BECOCOM. For the year ended December 31, 1997, minority interest primarily represents the 49% interest of BECO in the loss of RCN-BECOCOM of \$6,563 and the 19.9% minority interest in the loss of Freedom of \$966. The Company purchased the remaining 19.9% ownership interest in Freedom on March 21, 1997.

Equity in loss of unconsolidated entities

For the year ended December 31, 1998, equity in the loss of unconsolidated entities primarily represents the Company's 50% interest in the loss of Starpower of \$10,335 and the Company's share of the losses and amortization of excess cost over net assets of Megacable of \$2,384. In January 1995, the Company purchased a forty percent equity position in Megacable, a Mexican cable television provider, for cash of \$84,115. The Company is exposed to foreign currency translation adjustments resulting from translation into U.S. dollars of the financial statements of Megacable, which through December 1996 utilized the peso as the local and functional currency. Such adjustments have historically been included as a separate component of shareholders' equity. Effective January 1, 1997, since the three year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico was being treated for accounting purposes under Statement of Financial Accounting Standards No. 52 - "Foreign Currency Translation" as having a highly inflationary economy through December 31, 1998. As a result, the financial statements of Megacable are remeasured as if the functional currency was the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. The Company is also exposed to foreign currency transaction losses resulting from transactions of Megacable which are made in currencies different from Megacable's own. The Company's proportionate share of transaction gains (losses) are included in income as they occur. The Company does not hedge its foreign currency exchange risk and it is not possible to determine what effect future currency fluctuations will have on the Company's operating results. Exchange gains (losses) of (\$768) and (\$12) 1998 and 1997, respectively, including translation losses in 1998 and 1997, are included in the respective statements of operations through the Company's proportionate share of losses of Megacable.

In 1997, Megacable had sales of \$37,480, operating income before depreciation and amortization of \$13,409 and net income of \$9,739. In 1997, Megacable had sales of \$30,441, operating income before depreciation and amortization of \$10,504 and net income of \$6,653. The Company's investment in Megacable exceed its underlying equity in the net assets of Megacable when acquired by approximately \$94,000, which goodwill is being amortized on a straight-line basis over 15 years. In 1998 and 1997 amortization of the Company's excess purchase price over the net assets of Megacable when acquired was \$6,280 in each year. For the year ended December 31, 1997, equity in the loss of unconsolidated entities primarily represents the Company's share of the losses and amortization of excess cost over net assets of Megacable.

LIQUIDITY AND CAPITAL RESOURCES

Because our network development plan involves relatively low fixed costs, we are able to schedule capital expenditures to meet expected subscriber growth in each major market. Our principal fixed costs in each such market are incurred in connection with the establishment of a video transmission and telephone switching facility. To make each market economically viable, it is then necessary to construct infrastructure to connect a minimum number of subscribers to the transmission and switching facility. We phase our market entry projects to ensure that we have sufficient cash on hand to fund this construction.

Based on its current growth plan, the Company expects that it will require a substantial amount of capital to expand the development of its network and operations into new areas within its larger target markets. The Company needs capital to fund the construction of its advanced fiber optic networks, upgrade its Hybrid Fiber/Coaxial plant, fund operating losses and repay its debts. The Company currently estimates that its capital requirements for the period from January 1, 2000 through 2001 will be approximately \$3.6 billion, which include capital expenditures of approximately \$1.4 billion in 2000 and approximately \$1.6 billion in 2001. These capital expenditures will be used principally to fund additional construction to the Company's fiber optic network in high density areas in the Boston, New York, Washington, D.C. and San Francisco Bay markets as well as to expand into new markets including Chicago and Philadelphia, and to develop its information technology systems. These estimates are forward-looking statements that may change if circumstances related to construction, timing or receipt of regulatory approvals and opportunities to accelerate the deployment of the Company's networks do not occur as expected. In addition to the Company's own capital requirements, its joint venture partners are expected to contribute approximately \$350 million, of which approximately \$265 million has been contributed, to the joint ventures through 1999 in connection with development of the Boston and Washington, D.C. markets.

The Company expects to supplement its existing available credit facilities and operating cash flow by continuing to seek to raise capital to increase its network coverage and pay for other capital expenditures, working capital, debt service requirements, anticipated future operating losses and acquisitions.

The Company's current joint venture agreements reduce the amount of expenditures required by RCN to develop the network due both to access to the joint venture partners' existing facilities and to the anticipated joint venture partners' equity contributions. However, the joint venture arrangements will also reduce the potential cash flows to be realized from operation of the networks in the markets in which the joint ventures operate and restrict the Company's access to cash flow generated by the joint ventures (which will be paid in the form of dividends). The Company may enter into additional joint ventures in the future as the Company begins to develop new markets.

Pursuant to an exchange agreement between BECO and RCN, BECO has the right, from time to time, to convert portions of its ownership interest in RCN-BECOCOM into shares of our common stock, based on an appraised value of such interest. Shares issued upon such exchanges are issued to NSTAR Communications Securities Corporation ("NSTAR Securities"). In 1999, BECO and the Company entered into two exchange transactions pursuant to which BECO converted a portion of its ownership interest into RCN common stock which was issued to NSTAR Securities. Prior to such exchange transactions, BECO owned a 49% interest in the joint venture. On February 19, 1999, BECO exchanged a portion of its interest for 1,107,539 shares of RCN common stock. Such portion of the interest was valued as of January 15, 1998. On December 31, 1999, BECO exchanged a further portion of its interest for 2,989,543 shares of RCN common stock. (Note 19). Such portion of the interest was valued as of May 27, 1999. Following such exchanges, BECO retains a 23.14% sharing ratio in the joint venture, and the right to invest as if it owned a 49% interest. Such investment percentage will decrease to the extent NSTAR Securities disposes of such RCN common stock.

Sources of funding for the Company's further financing requirements may include vendor financing, public offerings or private placements of equity and/or debt securities, and bank loans. There can be no assurance that sufficient additional financing will continue to be available to the Company or, if available, that it can be obtained on a timely basis and on acceptable terms. Failure to obtain such financing could result in the delay or curtailment of the Company's development and expansion plans and expenditures. Any of these events could impair the Company's ability to meet its debt service requirements and could have a material adverse effect on its business.

The Company has completed the following debt and equity offerings:

Date	Description	Proceeds	Maturity
October 1997	10% Senior Notes	\$225,000	October 5, 2007
October 1997	11.125% Senior Discount Notes	\$601,045	October 5, 2007
February 1998	9.8% Senior Discount Notes	\$350,587	February 15, 2008
June 1998	11% Senior Discount Notes	\$149,999	June 1, 2008
December 1999	10.125% Senior Notes	\$375,000	January 15, 2010

Date	Description/Price	Proceeds	Number of Shares
June 1998	Equity Offering \$19.50/share	\$112,866	6,098,355
April 1999	Equity Offering \$39/share	\$239,897	250,000
June 1999	Equity Offering \$39/share	\$344,342	9,200,000

The Indentures for the Notes referred to above all contain similar provisions. The Chase Manhattan Bank acts as Trustee for each of the Indentures. All the aforementioned Notes are general senior unsecured obligations of RCN. The Senior Discount Notes do not bear cash interest for the first three years from the offering. Thereafter, cash interest on the notes will accrue at the respective interest rate per annum and will be payable semi-annually in arrears every six months.

The Senior Discount Notes are not callable for five years, and are redeemable in whole or in part, at any time on or after the fifth year, at the option of RCN. The Senior Notes are not callable for five years, and are redeemable in whole or in part, at any time on or after the fifth year, at the option of RCN. Both the Senior Discount Notes and the Senior Notes may be redeemed after year five at redemption prices starting at approximately 105% of the principal amount and declining to 100% of the principal amount, plus any accrued and unpaid interest.

RCN may, at its option, use the net proceeds of certain offerings of RCN Common Stock to redeem up to an aggregate of 35% of the aggregate principal amount at maturity of the debt securities issued under the Indentures at a certain premium. Upon the occurrence of a change of control, RCN must make an offer to purchase all of the debt securities issued under the Indentures then outstanding at a premium.

The Indentures contain certain covenants that, among other things, limit the ability of RCN and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

On April 7, 1999, Hicks, Muse, Tate & Furst, through Hicks Muse Fund IV purchased 250,000 shares of Series A Preferred Stock, par value \$1 per share, for gross proceeds of \$250,000. The Series A Preferred Stock is cumulative and has an annual dividend rate of 7% payable quarterly in cash or additional shares of Series A Preferred Stock and has a initial conversion price of \$39.00 per share. The Series A Preferred Stock is convertible into common stock at any time. The Series A Preferred Stock is subject to a mandatory redemption on March 31, 2014 at \$1,000 per share, plus accrued and unpaid dividends, but may be called by the Company after four years. At December 31, 1999 the Company paid dividends in the amount of \$13,053 in the form of additional shares of Series A Preferred Stock. At December 31, 1999 the number of common shares that would be issued upon conversion of the Series A Preferred Stock was 6,744,949. The Company incurred \$10,000 of issuance cost in connection with the sale of the Series A Preferred Stock.

The Company and certain of its subsidiaries together, (the "Borrowers") entered into a \$1,000,000 Senior Secured Credit Facility (the "Credit Facility") with the Chase Manhattan Bank and certain other lenders. The collateralized facilities are comprised of a \$250,000 seven-year revolving credit facility (the "Revolver"), a \$250,000 seven-year multi-draw term loan facility (the "Term Loan A") and a \$500,000 eight-year term loan facility (the "Term Loan B"). All three facilities are governed by a single credit agreement dated as of June 3, 1999 (the "Credit Agreement").

The Revolver may be borrowed and repaid from time to time. Up to \$150,000 of the Revolver may be used to fund working capital needs and for general corporate purposes. The remaining \$100,000 of the Revolver as well as the term loans may be used solely to finance telecommunications assets. The amount of the commitments under the Revolver automatically reduces to \$175,000 on June 3, 2005 and the remaining commitments are reduced quarterly in equal installments through to maturity at June 3, 2006. The Revolver can also be utilized for letters of credit up to a maximum of \$15,000. As of December 31, 1999 approximately \$4,914 in the form of letters of credit had been drawn under the Revolver.

The Term Loan A is available for drawing until December 3, 2001, at which time any undrawn commitments expire. At December 31, 1999 there were no outstanding loans under the Term Loan A. Any outstanding borrowings under the Term Loan A at September 3, 2002 will be repaid in quarterly installments based on percentage increments of the Term Loan A that start at 3.75% per quarter on September 3, 2002 and increase in steps to a maximum of 10% per quarter on September 3, 2005 through to maturity at June 3, 2006.

As of December 31, 1999, \$500,000 of the Term Loan B was outstanding. The Term Loan B was fully drawn at closing. Amortization of the Term Loan B starts on September 3, 2002 with quarterly installments of \$1,000 per quarter until September 3, 2006 when the quarterly installments increase to \$121,000 per quarter through to maturity at June 3, 2007.

The interest rate on the Credit Facility is, at the election of the Borrowers, based on either a LIBOR or an alternate base rate. For a Revolver or Term Loan A borrowing, the interest rate will be LIBOR plus a spread of up to 300 basis points or the base rate plus a spread of 200 basis points, depending upon financial covenant calculations. In the case of the Revolver and the Term Loan A, a fee of 125 basis points on the unused commitment accrues until the Company's EBITDA has become positive and thereafter at up to 125 basis points depending upon the Company's utilization of the commitments. For all Term Loan B borrowings the interest includes a spread that is fixed at 350 basis points over the LIBOR or 250 basis points over the alternate base rate.

The Credit Agreement contains conditions precedent to borrowing, events of default (including change of control) and covenants customary for facilities of this nature. The Credit Facility is secured by substantially all of the assets of the Company and its subsidiaries.

Prepayments of the eight-year term loan require payment of a fee of 2% of the amount of such prepayment if made on or prior to June 3, 2000 and 1% of such prepayment if made thereafter but on or prior to June 3, 2001.

The foregoing summary of certain provisions of the Credit Agreement does not purport to be complete and is subject to, and qualified in its entirety by reference to, the Credit Agreement.

The Company has indebtedness that is substantial in relation to its shareholders' equity and cash flow. At December 31, 1999 the Company had an aggregate of approximately \$2,144,000 of indebtedness outstanding, and the ability to borrow up to an additional \$500,000 under the Credit Agreement. The Company also has cash, temporary cash investments and short-term investments aggregating approximately \$1,793,000 and a current ratio of approximately 7.24:1.

As a result of the substantial indebtedness of the Company, the Company's fixed charges are expected to exceed its earnings for the foreseeable future. Based on its current plans, the Company will require substantial additional capital particularly in connection with the buildout of the Company's networks and the introduction of its telecommunications services to new markets. The leveraged nature of the Company could limit its ability to effect future financing or may otherwise restrict the Company's business activities.

The extent of the Company's leverage may have the following consequences: (i) limit the ability of the Company to obtain necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (ii) require that a substantial portion of the Company's cash flows from operations be dedicated to the payment of principal and interest on its indebtedness and therefore not be available for other purposes; (iii) limit the Company's flexibility in planning for, or reacting to, changes in its business; (iv) place the Company at a competitive disadvantage as compared with less leveraged competitors; and (v) render the Company more vulnerable in the event of a downturn in its business.

The objective of the Company's "other than trading portfolio" is to invest in high quality securities, to preserve principal, meet liquidity needs, and deliver a suitable return in relationship to these guidelines.

For the year ended December 31, 1999, the Company's net cash used in operating activities was \$83,721 comprised primarily of a net loss of (\$355,028) adjusted by non-cash depreciation and amortization of \$146,043, other non-cash items totaling \$98,599 and working capital changes of \$35,898. Net cash used in investing activities of \$1,088,552 consisted primarily of additions to property, plant and equipment of \$526,240, purchase of short-term investments of \$4,230,149, investment in unconsolidated joint venture of \$25,439 and acquisitions of \$53,322, partially offset by net sales and maturities of short-term investments of \$3,724,495. Net cash provided by financing activities of \$1,443,559 included the issuance of long-term debt of \$875,000, proceeds from the issuance of stock of \$584,239, proceeds from the issuance of stock options of \$12,422, contribution from minority interest partner of \$91,140 and decrease in investments restricted for debt service of \$22,500, partially offset by the repayment of long-term debt and capital leases of \$101,622, and payments made for debt financing costs of \$39,484.

For the year ended December 31, 1998, the Company's net cash provided by operating activities was \$35,110 comprised primarily of a net loss of (\$205,442) adjusted by non-cash depreciation and amortization of \$89,088, other non-cash items totaling \$95,569 and working capital changes of \$58,133. Net cash used in investing activities of \$828,176 consisted primarily of additions to property, plant and equipment of \$285,867, purchase of short-term investments of \$936,401, investment in unconsolidated joint venture of \$20,000 and acquisitions of \$47,361 (primarily the Erols, UltraNet and JavaNet acquisitions), partially offset by net sales and maturities of short-term investments of \$461,795. Net cash provided by financing activities of \$690,282 included the issuance of long-term debt of \$502,587, proceeds from the issuance of stock of \$112,866, contribution from minority interest partner of \$77,849 and decrease in investments restricted for debt service of \$22,375, partially offset by the repayment of long-term debt of \$7,770, purchase of treasury stock of \$9,301 and payments made for debt financing costs of \$10,185.

IMPACT OF THE YEAR 2000 ISSUE

The Company has completed its assessment of and has taken corrective action to mitigate any potential adverse effects that the year 2000 issue may have had on its operations. Costs in connection with any modifications made to make our systems compliant have not been and are not expected to be material. We are not currently aware of any operational or technical problems as a result of the year 2000 issue, however there can be no assurance that the year 2000 issue will not have a material adverse impact on our financial condition or our results of operations in the future.

Item 7a. Quantitative & qualitative disclosures about market risk.

The Company has adopted Item 305 of Regulation S-K "Quantitative & qualitative disclosures about market risk" which is effective in financial statements for fiscal years ending after June 15, 1998. The Company currently has no items that relate to "trading portfolios". Under the "other than trading portfolios" the Company does have four short-term investment portfolios categorized as available for sale securities that are stated at cost, which approximates market, and which are re-evaluated at each balance sheet date and one portfolio that is categorized as held to maturity which is an escrow account against a defined number of future interest payments related to the Company's 10% Senior Discount Notes. These portfolios consist of Federal Agency notes, Commercial Paper, Corporate Debt Securities, Certificates of Deposit, U.S. Treasury notes, and Asset Backed Securities (see note 5). The Company believes there is limited exposure to market risk due primarily to the small amount of market sensitive investments that have the potential to create material market risk. Furthermore, the Company's internal investment policies have set maturity limits, concentration limits, and credit quality limits to minimize risk and promote liquidity. The Company did not include trade accounts payable and trade accounts receivable in the "other than trading portfolio" because their carrying amounts approximate fair value.

The objective of the company's "other than trading portfolio" is to invest in high quality securities, to preserve principal, meet liquidity needs, and deliver a suitable return in relationship to these guidelines. RCN may from time to time enter into interest rate protection agreements. See note 10 to the consolidated financial statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE DATA)

	For the Years Ended December 31,		
	1999	1998	1997
Sales	\$ 275,993	\$ 210,940	\$ 127,297
Costs and expenses, excluding depreciation and amortization	407,960	262,352	134,967
Depreciation and amortization	146,043	89,088	53,205
Acquired in-process research and development	-	18,293	-
Nonrecurring charges	-	-	10,000
Operating (loss)	(278,010)	(158,793)	(70,875)
Interest income	76,786	58,679	22,824
Interest expense	(158,139)	(112,239)	(25,602)
Gain on sale of subsidiary	8,930	-	-
Other (expense) income, net	(3,567)	(1,889)	131
(Loss) before income taxes	(354,000)	(214,242)	(73,522)
(Benefit) for income taxes	(5,094)	(4,998)	(20,849)
(Loss) before minority interest and equity in unconsolidated entities	(348,906)	(209,244)	(52,673)
Minority interest in loss of consolidated entities	28,262	17,162	7,296
Equity in (loss) of unconsolidated entities	(33,960)	(12,719)	(3,804)
(Loss) before extraordinary item and cumulative effect of change in accounting principle	(354,604)	(204,801)	(49,181)
Extraordinary item - debt prepayment costs, net of tax	(424)	-	(3,210)
Cumulative effect of change in accounting for start-up costs, net of tax	-	(641)	-
Net (loss)	(355,028)	(205,442)	(52,391)
Preferred stock dividend and accretion requirements	13,542	-	-
Net (loss) to common shareholders	\$ (368,570)	\$ (205,442)	\$ (52,391)
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Basic and diluted earnings per average common share:			
(Loss) before extraordinary item and cumulative effect of change in accounting principle	\$ (5.11)	\$ (3.35)	\$ (0.89)
Extraordinary item - debt prepayment costs	\$ (0.01)	\$ -	\$ (0.06)
Cumulative effect of change in accounting for start-up costs	\$ -	\$ (0.01)	\$ -
Net (loss)	\$ (5.12)	\$ (3.36)	\$ (0.95)
Weighted average shares outstanding	71,966,301	61,187,354	54,965,716

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE DATA)

	December 31,	
	1999	1998
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ASSETS		
Current assets		
Cash and temporary cash investments	\$ 391,412	\$ 120,126
Short-term investments	1,401,877	892,448
Accounts receivable from related parties	8,015	6,919
Accounts receivable, net of reserve for doubtful accounts of \$12,258 in 1999 and \$5,766 in 1998	43,483	27,261
Unbilled revenues	2,124	2,727
Material and supply inventory	21,064	3,870
Prepayments and other	13,853	15,368
Deferred income taxes	-	712
Investments restricted for debt service	23,111	23,437
Total current assets	1,904,939	1,092,868
Property, plant and equipment, net of accumulated depreciation of \$230,581 in 1999 and \$153,304 in 1998	893,179	448,375
Investments restricted for debt service	48	19,869
Investments	190,571	129,529
Intangible assets, net of accumulated amortization of \$158,384 in 1999 and \$97,313 in 1998	138,491	169,718
Deferred charges and other assets	64,886	47,256
Total assets	\$3,192,114	\$1,907,615
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LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	\$ 1,225	\$ 4,097
Accounts payable to related parties	35,809	7,153
Accounts payable	92,785	65,623
Advance billings and customer deposits	16,901	21,679
Accrued interest	13,090	5,267
Accrued cost of sales	18,296	12,000
Deferred income taxes	1,464	-
Accrued expenses	69,875	62,250
Total current liabilities	249,445	178,069
Long-term debt	2,143,096	1,263,036
Deferred income taxes	-	3,281
Other deferred credits	24,598	14,667
Minority interest	129,234	77,116
Commitments and contingencies (Note 14)		
Preferred stock, par value \$1 per share: Authorized 25,000,000 shares: Issued 263,053 shares at December 31, 1999	253,438	-
Common shareholders' equity:		
Common stock, par value \$1 per share: Authorized 200,000,000 shares: Issued 77,724,070 and 65,477,493 shares at December 31, 1999 and 1998, respectively	77,724	65,477
Class B common stock, par value \$1 per share: Authorized 400,000,000 shares: none issued		
Additional paid-in capital	923,340	539,770
Cumulative translation adjustments	(2,014)	(3,055)
Unrealized (depreciation) appreciation on investments	(6,228)	1,113
Treasury stock, 562,000 shares and 557,000 shares at cost at December 31, 1999 and 1998, respectively	(9,391)	(9,301)
Accumulated deficit	(591,128)	(222,558)
Total common shareholders' equity	392,303	371,446
Total liabilities and shareholders' equity	\$3,192,114	\$1,907,615
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See accompanying notes to Consolidated Financial Statements.		

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

	For the Years Ended December 31,		
	1999	1998	1997
<hr/>			
Cash flows from operating activities			
Net (loss)	\$ (355,028)	\$ (205,442)	\$ (52,391)
Accretion of discounted debt	101,901	80,925	8,103
Accretion on short-term investments	(6,318)	(2,010)	-
Amortization of debt issuance costs	5,534	2,816	408
Acquired in-process research and development	-	18,293	-
Unrealized (depreciation) appreciation on short-term investments	(7,341)	-	-
Gain on sale of subsidiary	(8,621)	-	(661)
Extraordinary item - debt prepayment penalty	424	-	3,210
Depreciation and amortization	146,043	89,088	53,205
Deferred income taxes and investment tax credits, net	(9,270)	(6,147)	(10,503)
Provision for losses on accounts receivable	7,691	4,125	2,732
Equity in loss of unconsolidated entities	33,960	12,719	3,804
Minority interest	(28,262)	(17,162)	(7,296)
Net change in certain assets and liabilities, net of business acquisitions:			
Accounts receivable and unbilled revenues	(22,353)	3,500	(14,979)
Material and supply inventory	(17,124)	(1,109)	(1,605)
Accounts payable	59,950	28,456	11,193
Accrued expenses	25,943	37,446	3,353
Accounts receivable from related parties	(1,096)	2,910	3,180
Accounts payable to related parties	2,179	3,405	(1,132)
Unearned revenue	(2,659)	(17,629)	-
Other	(9,274)	926	1,448
Net cash (used in) provided by operating activities	(83,721)	35,110	2,069
<hr/>			
Cash flows from investing activities:			
Additions to property, plant and equipment	(526,240)	(285,867)	(79,042)
Purchase of short-term investments	(4,230,149)	(936,401)	(445,137)
Sales and maturities of short-term investments	3,724,495	461,795	76,923
Acquisitions and investments	(54,822)	(47,361)	(30,490)
Investment in unconsolidated joint venture	(25,439)	(20,000)	-
Proceeds from sale of subsidiary	23,711	-	1,900
Other	(108)	(342)	(14)
Net cash (used in) investing activities	(1,088,552)	(828,176)	(475,860)
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RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

Cash flows from financing activities			
Repayment of long-term debt and capital leases	(101,622)	(7,770)	(141,250)
Issuance of long-term debt	875,000	502,587	688,000
Proceeds from the issuance of common stock	344,342	112,866	-
Proceeds from the issuance of preferred stock	239,897	112,866	-
Purchase of treasury stock	(90)	(9,301)	-
Contribution to minority interest partner	(122)	(108)	-
Change in affiliate notes, net	-	-	97,624
Extraordinary item - debt prepayment penalty	(424)	-	(3,210)
Payments made for debt financing costs	(39,484)	(10,185)	(20,151)
Cash contribution from minority interest partner	91,140	77,849	9,016
Decrease (increase) related to investments restricted for debt service	22,500	22,375	(61,250)
Proceeds from the exercise of stock options	12,422	1,969	230
Transfers from C-TEC	-	-	89,323
Transfers (to) C-TEC	-	-	(23,474)
Net cash provided by financing activities	1,443,559	690,282	634,858
Net increase (decrease) in cash and temporary cash investments	271,286	(102,784)	161,067
Cash and temporary cash investments at beginning of year	120,126	222,910	61,843
Cash and temporary cash investments at end of year	\$ 391,412	\$ 120,126	\$222,910
Supplemental disclosures of cash flow information			
Cash paid during the periods for:			
Income taxes	\$ 1,897	\$ 1,047	\$ 1,090
Interest (net of \$5,126 and \$1,636 capitalized in 1999 and 1998, respectively)	\$ 42,880	\$ 28,781	\$ 16,536

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

Supplemental Schedule of Non-Cash Investing and Financing Activities

In July 1999, RCN completed the acquisition of Brainstorm Networks, Inc. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 15,785
Less:	
Fair value of RCN stock issued	11,619
Liabilities assumed	1,850

Net cash paid	\$ 2,316

In August 1999, RCN completed the acquisition of Direct Network Access, Ltd. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 11,416
Less:	
Fair value of RCN stock issued	6,844
Liabilities assumed	1,107

Net cash paid	\$ 3,465

Preferred stock dividends in the form of additional shares of preferred stock aggregated \$13,053 in 1999.

Non-cash accretion of preferred stock was \$489 in 1999.

In February 1999, BECO exchanged a portion of its ownership interest in RCN-BECOCOM for 1,107,539 shares of RCN Common Stock, with a fair value of approximately \$19,520.

In February 1998, RCN completed the acquisition of Erols Internet, Inc. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 147,000
Less:	
Fair value of RCN stock issued	(45,000)
Fair value of stock options exchanged	(11,000)
Liabilities assumed	(55,000)

Net cash paid (including out of pocket expenses of approximately \$1,400 and repayment of debt of approximately \$5,100)	\$ 36,000

RCN contributed to Starpower approximately 60% of the subscribers and related unearned revenue acquired in the acquisition of Erols.

In February 1998, RCN completed the acquisition of UltraNet. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 41,500
Less:	
Fair value of RCN stock issued	(26,200)
Fair value of stock options exchanged	(1,900)
Liabilities assumed	(5,700)

Net cash paid	\$ 7,700

In June 1998, RCN completed the acquisition of Interport Communications, Corp. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 11,000
Less:	
Fair value of RCN stock issued	(8,500)
Liabilities assumed	(1,200)

Net cash paid	\$ 1,300

In June 1998, RCN completed the acquisition of Lancit Media Entertainment, Ltd. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 14,800
Less:	
Fair value of RCN stock issued	(7,400)
Liabilities assumed	(7,000)

Net cash paid	\$ 400

In July 1998, RCN completed the acquisition of JavaNet, Inc. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 21,800
Less:	
Fair value of RCN stock issued	(13,400)
Liabilities assumed	(4,700)

Net cash paid	\$ 3,700
	=====

In 1997, certain intercompany accounts receivable and payable and intercompany note balances were transferred to Shareholders' Net Investment in connection with the Distribution.

BECO's contribution of the IRU to the RCN-BECOCOM joint venture (Note 7) is included in "Telecommunications Network" at its fair value.

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE DATA)

	Common Stock	Additional Paid in Capital	Accumulated Deficit
	-----	-----	-----
Balance, December 31, 1996	\$ 1	\$ -	\$ -
Net loss from 1/1/97 through 9/30/97			
Net loss from 10/1/97 through 12/31/97			(17,116)
Transfers from C-TEC			
Common stock issued in connection with the distribution	54,968	321,556	
Stock plan transactions	20	210	
	-----	-----	-----
Balance, December 31, 1997	54,989	321,766	(17,116)
Net loss			(205,442)
Common stock offering	6,099	106,767	
Stock plan transactions	436	2,001	
Common Stock and stock options issued in connection with acquisitions	3,953	109,258	
Purchase of treasury stock			
Unrealized appreciation on investments			
Other		(22)	
	-----	-----	-----
Balance, December 31, 1998	\$ 65,477	\$ 539,770	\$ (222,558)
Net loss to common shareholders			(368,570)
Common stock offering	9,200	335,142	
Stock plan transactions	1,466	10,956	
Conversion of joint venture ownership interest	1,108	18,413	
Common stock and stock options issued in connection with acquisitions	467	18,852	
Purchase of treasury stock			
Unrealized depreciation on investments			
Cumulative translation adjustments			
Other	6	207	
	-----	-----	-----
Balance, December 31, 1999	\$ 77,724	\$ 923,340	\$ (591,128)
	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE DATA)

	Treasury Stock	Shareholders Net Investment	Cumulative Translation Adjustment	Unrealized Appreciation/ Depreciation on Investments	Total Shareholders Equity
Balance, December 31, 1996	\$ -	\$ 393,819	\$ (3,055)	\$ -	\$ 390,765
Net loss from 1/1/97 through 9/30/97		(35,275)			(35,275)
Net loss from 10/1/97 through 12/31/97					(17,116)
Transfers from C-TEC		17,980			17,980
Common stock issued in connection with the distribution		(376,524)		-	
Stock plan transactions					230
Balance, December 31, 1997	-	-	(3,055)	-	356,584
Net loss					(205,442)
Common stock offering					112,866
Stock plan transactions					2,437
Stock and stock options issued in connection with acquisitions					113,211
Purchase of treasury stock	(9,301)				(9,301)
Unrealized appreciation on investments				1,113	1,113
Other					(22)
Balance, December 31, 1998	\$ (9,301)	\$ -	\$ (3,055)	\$ 1,113	\$ 371,446
Net Loss to common shareholders					(368,570)
Common stock offering					344,342
Stock plan transactions					12,422
Conversion of joint venture ownership interest					19,521
Common stock issued in connection with acquisitions					19,319
Purchase of treasury stock	(90)				(90)
Unrealized depreciation on investments				(7,341)	(7,341)
Cumulative translation adjustments			1,041		1,041
Other					213
Balance, December 31, 1999	\$ (9,391)	\$ -	\$ (2,014)	\$ (6,228)	\$ 392,303

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 1998 AND 1997
(THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE DATA)

	Common Shares Issued	Treasury Stock	Shares Outstanding
	-----	-----	-----
Balance, December 31, 1996	1,400	-	1,400
Common stock issued in connection with the distribution	54,967,952		54,967,952
Stock plan transactions	20,518		20,518
	-----	-----	-----
Balance, December 31, 1997	54,989,870	-	54,989,870
Common stock offering	6,098,355		6,098,355
Stock plan transactions	436,342		436,342
Common Stock issued in connection with acquisitions	3,952,926		3,952,926
Purchase of treasury stock		(557,000)	(557,000)
	-----	-----	-----
Balance, December 31, 1998	65,477,493	(557,000)	64,920,493
Preferred stock offering			
Preferred stock dividend			
Common stock offering	9,200,000		9,200,000
Stock plan transactions	1,518,897		1,518,897
Conversion of joint venture ownership interest	1,107,539		1,107,539
Common Stock issued in connection with acquisitions	420,141		420,141
Purchase of treasury stock		(5,000)	(5,000)
	-----	-----	-----
Balance, December 31, 1999	77,724,070	(562,000)	77,162,070
	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THOUSANDS OF DOLLARS EXCEPT SHARE AND PER SHARE DATA)

1. BACKGROUND AND BASIS OF PRESENTATION

RCN Corporation (the "Company" or "RCN") provides a wide range of telecommunications services through high speed, high capacity advanced fiber optic networks. RCN currently offers individual or bundled local and long distance telephone, video and data services, including high speed Internet access. We provide our services primarily to residential customers in selected markets with high levels of population density and favorable demographics. RCN's advanced fiber optic networks have been established in selected markets in the Boston to Washington D.C. corridor and in the San Francisco to San Diego corridor, and has begun development in the Chicago market.

Prior to September 30, 1997, RCN Corporation was operated as part of C-TEC Corporation ("C-TEC"). On September 30, 1997, C-TEC distributed 100 percent of the outstanding shares of common stock of its wholly owned subsidiaries, RCN and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's common stock and C-TEC's Class B common stock as of the close of business on September 19, 1997 (the "Distribution"). C-TEC's corporate services group and corporate financial services company both became subsidiaries of RCN immediately coincident with the Distribution.

C-TEC's corporate services group had historically provided substantial support services such as finance, cash management, legal, human resources, insurance and risk management and its financial statements are included in the consolidated financial statements of the Company. Prior to the Distribution, the corporate office allocated the cost for these services pro rata among the business units supported. In the opinion of management, the method of allocating these costs is reasonable; however, the costs of these services remaining with the Company after allocation to C-TEC's other business units are not necessarily indicative of the costs that would have been incurred by the Company on a stand-alone basis. The historical expense levels for these services after allocation to CTE and Cable Michigan was approximately \$8,000 for the nine months ending September 30, 1997.

C-TEC, RCN and Cable Michigan have entered into certain agreements providing for the Distribution, and governing various ongoing relationships, including the provision of support services, between the three companies.

The consolidated financial statements have been prepared using the historical basis of assets and liabilities and historical results of operations of all wholly and majority owned subsidiaries. However, the historical financial information for 1997 presented herein reflects periods during which the Company did not operate as an independent company and accordingly, certain assumptions were made in preparing such financial information. Such information, therefore, may not necessarily reflect what the results of operations, financial condition or cash flows of the Company would have been had the Company been an independent, public company during all of 1997.

The consolidated financial statements include the accounts of all wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated. The Company has a 48.96% interest in Megacable, a Mexican cable television system operator, and accounts for its investment by the equity method. The RCN-BECOCOM joint venture which the Company controls and in which the minority investors do not possess significant veto rights is consolidated. The Starpower and JuniorNet joint ventures are accounted for by the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Temporary Cash Investments -

For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be temporary cash investments.

Short-Term Investments and Investments Restricted for Debt Service -

Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determination at each balance sheet date in accordance with Statement of Financial Accounting Standards No. 115 - "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1999 and 1998, marketable debt and equity securities have been categorized as available for sale. The Company states its short-term investments at market. Investments restricted for debt service have been categorized as held to maturity since management has the positive intent and ability to hold such securities to maturity. At December 31, 1999, investments restricted for debt service are comprised of U.S. Treasury notes and Federal Agency notes and are stated at cost, which approximates market.

Material and Supply Inventory -

Material and supply inventory includes telecommunications equipment for use in construction of the Company's services network. Inventories are stated at average cost.

Property, Plant and Equipment and Depreciation -

Property, plant and equipment reflects the original cost of acquisition or construction, including related payroll and costs such as taxes, fringe benefits, and certain general administrative costs.

Depreciation is provided on the straight-line method based on the useful lives of the various classes of depreciable property. The average estimated lives of depreciable property, plant and equipment are:

	Lives

Telecommunications network	5-22.5 years
Computer equipment	3-10 years
Buildings and leasehold improvements	5-45 years
Furniture, fixtures and vehicles	3-10 years
Other	5-10 years

Repairs of all property, plant and equipment and minor replacements and renewals are charged to expense as incurred. Major replacements and betterments are capitalized. Gain or loss is recognized on major retirements and dispositions.

Intangible Assets -

Intangible assets are valued at cost and are amortized on a straight-line basis over the expected period of benefit ranging from 1 to 15 years. The average estimated lives of intangible assets are:

	Lives

Franchises and subscriber lists	3-11 years
Acquired current products/technologies	4 years
Noncompete agreements	5-8 years
Goodwill	3-10 years
Building access rights	3-4 years
Other intangible assets	1-15 years

Accounting for Impairments -

The Company follows the provisions of Statement of Financial Accounting Standards No. 121 - "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). The Company has not recognized any material impairment losses pursuant to SFAS 121.

Revenue Recognition -

Local telephone service revenue is recognized as earned based on tariffed rates. Long distance telephone service revenue is recognized based on minutes of traffic processed and tariffed rates or contracted fees. Reciprocal compensation, the fee local exchange carriers pay to terminate calls on each others networks, is recognized on a cash basis due to the uncertain regulatory environment. Revenues from cable programming services are recognized in the month the service is provided. Internet access web page and server hosting and private line point to point data transmission service revenues are recognized based on contracted fees.

Advertising Expense -

Advertising costs are expensed as incurred. Advertising expense charged to operations was \$34,865, \$28,841 and \$12,203 in 1999, 1998 and 1997, respectively.

Debt Issuance Costs -

Debt issuance costs are amortized over the life of the note. Debt Issuance costs charged to operations were \$5,534, \$2,816 and \$408 in 1999, 1998, and 1997, respectively.

Stock Based Compensation -

The Company applies Accounting Principles Board Opinion No. 25 - "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its stock plans. The Company has adopted the disclosure - only provisions of Statement of Financial Accounting Standards No. 123 - "Accounting for Stock-Based Compensation" ("SFAS 123").

Income Taxes -

The Company and its subsidiaries report income for federal tax purposes on a consolidated basis. Income tax expense is allocated to subsidiaries on a separate return basis except that the Company's subsidiaries receive benefits for the utilization of net operating losses and investment tax credits included in the consolidated return even if such losses and credits could not have been used on a separate return basis. Prior to the Distribution, the Company and its subsidiaries were included in the consolidated federal income tax return of C-TEC. The Company accounts for income taxes using the asset and liability method.

Foreign Currency Translation -

The Company has a 48.96% interest in Megacable. For 1997 and 1998, the Company considered Megacable to operate in a highly inflationary economy due to the three-year cumulative rate of inflation at December 31, 1996 exceeding 100%. As a result, the financial statements of Megacable were remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which were included in net income. Beginning January 1, 1999, the Company discontinued highly inflationary accounting for our Megacable investment and resumed using the Mexican Peso as the functional currency. As a result the Company's equity is effected by the translation from the Mexican Peso. The Company's proportionate share of such adjustments were gains of \$1,041 for the year ended December 31, 1999.

The Company's proportionate share of gains and losses resulting from transactions of Megacable, which are made in currencies different from its own, are included in income as they occurred. For purposes of determining its equity in the earnings of Megacable, the Company translates the revenues and expenses of Megacable into U.S. dollars at the average exchange rates that prevailed during the period. Assets and liabilities are translated into U.S. dollars at the rates in effect at the end of the fiscal period.

Comprehensive Income -

The Company primarily has two components of comprehensive income, cumulative translation adjustments and unrealized appreciation (depreciation) on investments. The cumulative foreign currency translation adjustment was \$1,041 for 1999; the unrealized appreciation (depreciation) on investments was (\$7,341) for 1999 and \$1,113 for 1998. The amount of other comprehensive loss for the years ended December 31, 1999 and 1998 was (\$361,328) and (\$204,329), respectively.

Segment Disclosure -

Management believes that the Company operates as one reportable operating segment which contains many shared expenses generated by the Company's various revenue streams and that any segment allocation of shared expenses incurred on a single network to multiple revenue streams would be impractical and arbitrary; furthermore, the Company currently does not make such allocations internally. The Company's chief decision makers do, however, monitor financial performance in a way which is different from that depicted in the historical general purpose financial statements in that such measurement includes the consolidation of all joint ventures, including Starpower which is not consolidated under generally accepted accounting principles. Such information, however, does not represent a separate segment under generally accepted accounting principles and therefore it is not separately disclosed.

3. EARNINGS PER SHARE

Basic loss per share is computed based on net (loss) after preferred stock dividend and accretion requirements divided by the weighted average number of shares of common stock outstanding during the period.

Diluted loss per share is computed based on net (loss) after preferred stock dividend and accretion requirements divided by the weighted average number of shares of common stock outstanding during the period after giving effect to convertible securities considered to be dilutive common stock equivalents. The conversion of preferred stock and stock options during the periods in which the Company incurs a loss from continuing operations is not assumed since the effect is anti-dilutive. The number of shares of preferred stock and stock options which would have been assumed to be converted in the year ended December 31, 1999, 1998, and 1997 and have a dilutive effect if the Company had income from continuing operations is 10,008,239, 3,198,493 and 517,506, respectively.

The following table is a reconciliation of the numerators and denominators of the basic and diluted per share computations:

Years Ended December 31,	1999	1998	1997
	-----	-----	-----
(Loss) before extraordinary item and cumulative effect of change in accounting principle	\$ (354,604)	\$ (204,801)	\$ (49,181)
Preferred stock dividend and accretion requirements	(13,542)	-	-
	-----	-----	-----
Basic (loss) per average common share:	\$ (368,146)	\$ (204,801)	\$ (49,181)
Weighted average shares outstanding	71,996,301	61,187,354	54,965,716
	=====	=====	=====
(Loss) per average common share before extraordinary item and cumulative effect of change in accounting principle	\$ (5.11)	\$ (3.35)	\$ (0.89)
Diluted (loss) per average common share:			
Weighted average shares outstanding	71,996,301	61,187,354	54,965,716
Dilutive shares resulting from stock options	-	-	-
	-----	-----	-----
	71,996,301	61,187,354	54,965,716
	=====	=====	=====
(Loss) per average common share before extraordinary item and cumulative effect of change in accounting principle	\$ (5.11)	\$ (3.35)	\$ (0.89)

4. BUSINESS COMBINATIONS

In August 1999, the Company acquired Direct Network Access, Ltd. ("DNAI"), one of the Bay Area's largest independent ISPs. The Company acquired DNAI for approximately \$3,454 in cash and RCN common stock with a fair value at the time of issuance of approximately \$6,844.

In July 1999, the Company acquired Brainstorm Networks, Inc. ("Brainstorm"), a leading independent Internet Service Provider ("ISP") that provides dedicated and DSL services. The Company purchased Brainstorm for approximately \$2,897 in cash and RCN common stock with a fair value at the time of issuance of approximately \$11,619.

Both of these transactions were accounted for under the purchase method of accounting. Approximately \$25,015 has been allocated to goodwill which is being amortized over approximately 4 years. The Company does not expect these acquisitions to have a material Proforma effect on its financial position or results of operations.

In July 1998, the Company acquired Javanet, Inc. ("Javanet"). The consideration was \$3,700 in cash and RCN Common Stock with a fair value of approximately \$13,400 at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$14,800 has been allocated to goodwill. Such goodwill is being amortized over approximately three years.

In June 1998, the Company acquired Interport Communications Corp. ("Interport"). The total approximate consideration for the transaction was \$1,300 in cash and RCN Common Stock with a fair value of approximately \$8,500 at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$7,200 has been allocated to goodwill. Such goodwill is being amortized over approximately four years.

In June 1998, the Company acquired Lancit Media Entertainment, Ltd. ("Lancit"), a producer of high quality children's programming. The total approximate consideration for the transaction was \$400 in cash and RCN Common Stock with a fair value of approximately \$7,400 at the time of issuance. The transaction was accounted for by the purchase method of accounting. In April 1999, the Company disposed of its Lancit Media subsidiary (Note 7 (d)).

In February 1998, the Company acquired Erols Internet, Inc. ("Erols"). The total approximate consideration was \$36,000 in cash including out of pocket costs of approximately \$1,400 and the assumption and repayment of debt of approximately \$5,100 and RCN Common Stock with a fair value of approximately \$45,000 at the time of issuance. Additionally, the purchase price includes approximately \$11,000 representing the fair value of Erols stock options which were converted to RCN stock options in connection with the acquisition. The transaction was accounted for by the purchase method of accounting.

RCN contributed to Starpower approximately 60% of the subscribers and related unearned revenue acquired in the acquisition of Erols. (Note 7)

Goodwill and the value assigned to certain acquired current products and technologies, primarily residential dial-up and dedicated Internet access, and Internet advertising of approximately \$35,000 was recorded in connection with the acquisition of Erols and contribution to Starpower. These intangible assets are being amortized over approximately four years.

In February 1998, the Company acquired Ultranet Communications, Inc. ("Ultranet"). The total approximate consideration was \$7,700 in cash including cash payments aggregating approximately \$503 to certain holders of Ultranet stock options and RCN Common Stock with a fair value of approximately \$26,200 at the time of issuance. Additionally, the purchase price includes approximately \$1,900 representing the fair value of UltraNet stock options which were converted to RCN stock options in connection with the acquisition. The transaction was accounted for by the purchase method of accounting.

RCN contributed to RCN-BECOCOM approximately 30% of the subscribers acquired in the acquisition of Ultranet.

Goodwill and the value assigned to certain acquired current products and technologies, primarily residential dial-up and dedicated Internet access of approximately \$31,100 was recorded in connection with the acquisition of UltraNet and contribution to RCN-BECOCOM. These intangible assets are being amortized over approximately four years.

In connection with the acquisitions of Erols and UltraNet, RCN has allocated \$13,228 for Erols and \$5,065 for UltraNet to in-process research and development ("IPR&D"). Specifically, four projects were identified which qualified as IPR&D by definition of not having achieved technological feasibility and representing technology which at the point of acquisition offered no alternative use than the defined project. The fair value of the IPR&D projects associated with these acquisitions is based upon a discounted cash flow analysis modified to represent only that portion of the project associated with completed research and development efforts at the date of acquisition. The IPR&D valuation charge was measured by the stage of completion method. The expected completion percentages are estimated based on the available financial information at the date of acquisition and were established on a project by project basis primarily calculated by dividing the costs incurred to date by the total expected R&D expenses specific to the project. The significant assumptions utilized by management were as follows:

Cash flow projections, utilizing risk adjusted discount rates of between 35% and 40% for Erols projects. Cash flow projections, utilizing risk adjusted discount rates of between 30% and 33% for UltraNet projects. The IPR&D projections are founded on significant assumptions with regard to timing of market entrance, levels of penetration, and costs of provisioning.

RCN is constructing new telecommunications networks. The margins on products expected to result from acquired in-process technologies in some cases represent higher margins than RCN's margins on existing products primarily due to the efficiencies in delivering multiple products, including bundled-service offerings, over a single state of the art high capacity fiber optic network. For both the Erols and the UltraNet acquisitions, RCN identified the R&D development projects to include:

- Cable Modem Internet access for subscribers, consisting of projects to develop the hardware, systems and software to permit subscribers to be offered high-speed Internet access through direct cable connection.
- Internet Telephony, representing projects to develop the potential for dial-up telephone service through the Internet.
- E-Commerce Systems, consisting of the companies' efforts to develop a suitable system that would permit subscribers to conduct commercial activities over the Internet.
- High-speed shared office Internet access, representing a blending of fiber optic and Internet networking technologies, which was under development as a package to be offered to commercial clients.

Relative to the qualification of these projects as IPR&D projects under the meaning within Statement of Financial Accounting Standards No. 2 ("SFAS 2"), each represented at the date of acquisition a development project associated with new and uncertain technology that was incomplete and had not reached technical feasibility. Further, the technology under development in each of these areas was not seen to present opportunities for alternative future use should the contemplated development project fail to achieve completion. In each of the above projects, the uncertainty associated with each, in the absence of a successful product introduction, may result in the possible abandonment of the project and the loss of both invested development funds and the profit contributions that such projects were expected to bring to the business as a whole.

In March 1997, the Company paid \$15,000 in full satisfaction of contingent consideration from its 1996 acquisition of Freedom New York LLC ("Freedom"). The Company also paid \$10,000 to terminate a marketing services agreement between Freedom and an entity controlled by Freedom's former minority owners; which the Company charged to operations for the quarter ended March 31, 1997.

The following unaudited pro forma summary presents information as if the acquisitions of Erols, Ultraset, Interport, Javanet and Lancit had occurred at the beginning of 1997. Results of operations for DNAI and Brainstorm are not material. The pro forma information is based on historical information and is provided for information purposes only and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the consolidated entities.

December 31,	Years Ended	
	1998	1997
	-----	-----
(Unaudited)		
Proforma Data:		
Sales	\$ 226,272	\$ 159,611
(Loss) from continuing operations before extraordinary items	\$ (220,271)	\$ (106,338)
Net (loss)	\$ (220,912)	\$ (109,548)
	=====	=====
Earnings Per Share:		
(Loss) from continuing operations before extraordinary items	\$ (3.53)	\$ (1.80)
Net (loss)	\$ (3.54)	\$ (1.86)

5. SHORT-TERM INVESTMENTS

Short-term investments, stated at market, include the following at December 31, 1999 and 1998:

	1999	1998
	-----	-----
Federal agency notes	\$ 178,524	\$126,580
Commercial Paper	219,318	85,234
Corporate debt securities	289,898	417,378
Certificates of deposit	-	14,997
U.S. Treasury notes	434,500	84,399
Asset backed securities	279,637	163,860
	-----	-----
Total	\$1,401,877	\$892,448
	=====	=====

At December 31, 1999, short-term investments with a market value of \$856,401 have contractual maturities of one to three years. All remaining short term investments have contractual maturities under one year.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at December 31,

	1999	1998
Telecommunications plant	\$ 580,544	\$398,746
Computer equipment and software	132,074	43,439
Buildings, leasehold improvements and land	42,959	22,653
Furniture, fixtures and vehicles	51,123	31,430
Construction in process	311,093	104,161
Other	5,967	1,250
Total property, plant and equipment	1,123,760	601,679
Less accumulated depreciation	(230,581)	(153,304)
Property, plant and equipment, net	\$ 893,179	\$448,375
	=====	=====

Depreciation expense was \$81,930, \$39,000 and \$24,257 for the years ended December 31, 1999, 1998 and 1997, respectively.

7. INVESTMENTS AND JOINT VENTURES

Investments at December 31, are as follows:

	1999	1998
Megacable	\$ 86,191	\$ 67,978
Starpower Communications, LLC	74,733	61,495
JuniorNet Corporation	27,581	-
Other	2,066	56
Total Investments	\$190,571	\$129,529
	=====	=====

At December 31, 1999, the Company has a 50% interest in Starpower, a 48.96% interest in Megacable and a 47.5% interest in JuniorNet. At December 31, 1998, the Company has a 50% interest in Starpower and a 40% interest in Megacable. The Company accounts for these investments on the equity method.

a. RCN-BECOCOM

In 1996 RCN and the Boston Edison Company ("BECO"), through wholly-owned subsidiaries, formed a joint venture to use 126 fiber miles of BECO's fiber optic network to deliver our comprehensive communications package in Greater Boston. A joint venture agreement provided for the organization and operation of RCN-BECOCOM, LLC, an unregulated entity with a term expiring in the year 2060. RCN-BECOCOM is a Massachusetts limited liability company organized to own and operate an advanced fiber optic telecommunications network and to provide, in the market in and around Boston, Massachusetts, voice, video and data services. At December 31, 1999 we owned 53.88% of the equity interest in RCN-BECOCOM and BECO owned the remaining 46.12% interest. At December 31, 1998 we owned 51.00% of the equity interest in RCN-BECOCOM and BECO owned the remaining 49.00% interest.

This joint venture with BECO is reflected in our financial statements on a consolidated basis.

RCN manages the business of RCN-BECOCOM pursuant to the terms of a management agreement with an initial term expiring on December 31, 2001.

BECO has transferred to RCN-BECOCOM, an indefeasible right of use of certain of its network facilities through the year 2060.

During 1998, the Company contributed to RCN-BECOCOM the Internet business in the RCN-BECOCOM market, acquired in the acquisition of UltraNet, including approximately 30% of the subscribers acquired from UltraNet. The total value of the Internet business contributed to the joint venture was agreed to in arms-length negotiations between the joint venture partners, based on the proportion of subscribers contributed to RCN-BECOCOM to total subscribers acquired from UltraNet.

BECO has the right to convert its ownership interest in RCN-BECOCOM into RCN Common Stock pursuant to specific terms and conditions. On February 19, 1999, BECO exchanged a portion of its interest for 1,107,539 shares of RCN common stock. Such portion of the interest was valued as of January 15, 1998.

b. Starpower

The Company and PEPCO are each 50% partners in Starpower, a joint venture with a perpetual term.

Starpower was formed to construct, own, lease, operate and market a network for the selling of voice, video, data and other telecommunications services to commercial and residential customers in the greater Washington, D.C., Virginia and Maryland area.

A subsidiary of RCN provides support services including customer service, billing, marketing and certain administrative, accounting and technical support services, each of which is provided at cost.

During 1998, the Company contributed to Starpower the Internet business in the Starpower market, acquired in the acquisition of Erols, including approximately 60% of the subscribers acquired from Erols, and related unearned revenue. The total value of the Internet business contributed to the joint venture was agreed to in arms-length negotiations between the joint venture partners, based on the proportion of subscribers contributed to Starpower to total subscribers acquired from Erols.

The Company recorded its proportionate share of (losses) of (\$12,200), and (\$10,335) in 1999 and 1998, respectively.

c. Megacable

The basis of the Company's investment in Megacable exceeded its underlying equity in the net assets of Megacable when acquired in 1995 by approximately \$94,000.

As of July 31, 1999, the Company executed on a pledge of an 8.96% equity interest in Megacable made by Mazon Corporativo, S.A. de. C.V. ("Mazon") to collateralize Mazon's indebtedness to the Company, which had a book value of \$18,373. As a result, the indebtedness was cancelled, and the Company's underlying equity in the net assets of Megacable was increased by approximately \$7,000. The amortization of the excess equity is done on a straight-line basis over a 15 year period. At December 31, 1999, the unamortized excess over the underlying equity in the net assets was \$73,932. The Company recorded its proportionate share of (losses) and amortization of excess cost over net assets of (\$1,763), (\$2,385) and (\$3,869) in 1999, 1998 and 1997, respectively.

d. JuniorNet

The basis of the Company's investment in JuniorNet Corporation ("JuniorNet") exceeded its underlying equity in the net assets of JuniorNet when acquired in 1999 by approximately \$50,000.

In April 1999, the Company acquired a 47.5% stake in JuniorNet. The Company purchased the ownership stake for approximately \$47,000 in cash. Concurrent with that transaction, JuniorNet purchased the Company's Lancit Media subsidiary for approximately \$25,000 in cash. The Company acquired Lancit in June 1998 for approximately \$400 in cash and shares of its common stock with a fair value at the time of issuance of approximately \$7,400. The Company recorded its proportionate share of (losses) and amortization of excess cost over net assets of (\$19,997) in 1999.

8. INTANGIBLE ASSETS

Intangible assets consist of the following at December 31,

	1999	1998
	-----	-----
Franchises and subscriber lists	\$ 87,796	\$ 85,984
Acquired current products/technologies	72,629	72,629
Noncompete agreements	11,100	11,100
Goodwill	103,785	57,447
Building access rights	15,295	15,295
Other intangible assets	6,270	24,576
	-----	-----
Total intangible assets	296,875	267,031
Less accumulated amortization	(158,384)	(97,313)
	-----	-----
Intangible assets, net	\$138,491	\$169,718
	=====	=====

Amortization expense charged to operations in 1999, 1998 and 1997 was \$64,113, \$50,088 and \$28,948, respectively.

9. DEFERRED CHARGES

Deferred charges and other assets consist of the following at December 31:

	1999	1998
	-----	-----
Note and interest receivable - Mazon Corporativo, S.A. de C.V.	\$ -	\$18,373
Debt issuance costs	60,639	27,112
Other	4,247	1,771
	-----	-----
Total	\$64,886	\$47,256
	=====	=====

10. DEBT

a. Long-term debt

Long-term debt outstanding at December 31 is as follows:

	1999	1998
	-----	-----
Term Credit Agreement	\$ -	\$ 100,000
Term Loans	500,059	-
Senior Notes 10% due 2007	225,000	225,000
Senior Discount Notes 11 1/8% due 2007	444,430	398,827
Senior Discount Notes 9.8% due 2008	420,591	382,216
Senior Discount Notes 11% due 2008	176,495	158,573
Senior Notes 10.125% due 2010	375,000	-
Capital Leases	2,746	2,517
	-----	-----
Total	2,144,321	1,267,133
Due within one year	1,225	4,097
	-----	-----
Total Long-Term Debt	\$2,143,096	\$1,263,036
	=====	=====

In December 1999, the Company completed an offering of 10.125% Senior Notes with an aggregate principal amount of \$375,000. (the "10.125% Indenture").

The 10.125% Senior Notes are general senior obligations of the Company which mature in January 2010.

The 10.125% Senior Notes are redeemable, in whole or in part, at any time on or after January 15, 2005 at the option of the Company and have redemption prices starting at 105% of the principal amount and declining to 100% of the principal amount, plus any accrued interest.

In June 1999, the Company and certain of its subsidiaries together, (the "Borrowers") entered into a \$1,000,000 Senior Secured Credit Facility (the "Credit Facility"). The collateralized facilities are comprised of a \$250,000 seven-year revolving credit facility (the "Revolver"), a \$250,000 seven-year multi-draw term loan facility (the "Term Loan A") and a \$500,000 eight-year term loan facility (the "Term Loan B"). All three facilities are governed by a single credit agreement (the "Credit Agreement").

Also in June 1999, the Company prepaid its previous eight-year term credit facility in the amount of \$100,000 with the proceeds of the Credit Facility. The early extinguishment of the previous term credit facility required the write off of the applicable unamortized debt issuance cost resulting in an extraordinary item of approximately (\$424).

The Revolver may be borrowed and repaid from time to time. At December 31, 1999 there were no outstanding loans under the Revolver. Up to \$150,000 of the Revolver may be used to fund working capital needs and for general corporate purposes. The remaining \$100,000 of the Revolver as well as the term loans may be used solely to finance telecommunications assets. The amount of the commitments under the Revolver automatically reduces to \$175,000 on June 3, 2005 and the remaining commitments are reduced quarterly in equal installments through to maturity at June 3, 2006. The Revolver can also be utilized for letters of credit up to a maximum of \$15,000. As of December 31, 1999 approximately \$4,914 in the form of letters of credit had been drawn under the Revolver.

The Term Loan A is available for drawing amounts until December 3, 2001. Principle payments under Term Loan A commenced on September 2002. The Term Loan A matures in June 2006. At December 31, 1999 there were no outstanding loans under the Term Loan A.

Principle payments under Term Loan B commenced on September 2002. The Term Loan B matures in June 2007. As of December 31, 1999, \$500,000 of the Term Loan B was outstanding.

The interest rate on the Credit Facility is, at the election of the Borrowers, based on either a LIBOR or an alternate base rate option, plus a spread that is variable for the Revolver and Term Loan A borrowing based on the Company's earnings before interest, income taxes, depreciation and amortization ("EBITDA") and fixed for Term Loan B.

The Credit Agreement contains covenants customary for facilities of this nature, including financial covenants and covenants limiting debt, liens, investments, consolidation, mergers, acquisitions, asset sales, sale and leaseback transactions, payments of dividends and other distributions, making of capital expenditures and transactions with affiliates. The Borrowers must apply 50% of excess cash flow, as defined in the Credit Agreement, for each fiscal year commencing with the fiscal year ending on December 31, 2003 and certain cash proceeds realized from certain asset sales, certain payments under insurance policies and certain incurrences of additional debt to repay the Credit Facility.

The Credit Facility is collateralized by substantially all of the assets of the Company and its subsidiaries.

The 11% Senior Discount Notes (the "11% Indenture") are general senior obligations of the Company, limited to \$256,755 aggregate principal amount at maturity and will mature on July 1, 2008. The 11% Senior Discount Notes were issued at a discount to yield gross proceeds of \$150,000. The 11% Senior Discount Notes will not bear cash interest prior to January 1, 2003.

The 11% Senior Discount Notes are redeemable, in whole or in part, at any time on or after July 1, 2003. The 11% Senior Discount Notes have redemption prices starting at 105.5% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

The 9.8% Senior Discount Notes (the "9.8% Indenture") are general senior obligations of the Company, limited to \$567,000 aggregate principal amount at maturity and will mature on February 15, 2008. The 9.8% Senior Discount Notes were issued at a discount to yield gross proceeds of \$350,588. The 9.8% Senior Discount Notes will not bear cash interest prior to February 15, 2003.

The 9.8% Senior Discount Notes are redeemable, in whole or in part, at any time on or after February 15, 2003 at the option of the Company. The 9.8% Senior Discount Notes have redemption prices starting at 104.9% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

In October 1997, the Company issued 10% Senior Notes with an aggregate principal amount of \$225,000 and 11 1/8% Senior Discount Notes with an aggregate principal amount at maturity of \$601,045, both due 2007. The Senior Discount Notes were issued at a discount and generated gross proceeds to the Company of \$350,000. In January 1998 the Company exchanged its 10% Senior Notes due 2007, Series B for any and all outstanding 10% Senior Notes due 2007, Series A and its 11 1/8% Senior Discount Notes due 2007, Series B for any and all outstanding 11 1/8% Senior Discount Notes due 2007 Series A.

The 10% Senior Notes were issued under an indenture dated October 17, 1997 (the "10% Indenture"). The 10% Senior Notes are general senior obligations of the Company which mature on October 15, 2007 and are collateralized by a pledge of the Escrow Account representing funds that, together with the future proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments.

The 10% Senior Notes are redeemable, in whole or in part, at any time on or after October 15, 2002 at the option of the Company. The 10% Senior Notes have redemption prices starting at 105% of the principal amount and declining to 100% of the principal amount, plus any accrued interest.

The 11 1/8% Senior Discount Notes were issued under an indenture dated October 17, 1997 (the "11 1/8% Indenture"). The 11 1/8% Senior Discount Notes are general senior obligations of the Company, limited to \$601,045 aggregate principal amount at maturity and will mature on October 15, 2007. The 11 1/8% Senior Discount Notes were issued at a discount to yield gross proceeds of \$350,000. The 11 1/8% Senior Discount Notes will not bear cash interest prior to October 15, 2002.

The 11 1/8% Senior Discount Notes are redeemable, in whole or in part, at any time on or after October 15, 2002 at the option of the Company. The 11 1/8% Senior Discount Notes have redemption prices starting at 105.562% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

The 9.8% Senior Discount Notes, the 11% Senior Discount Notes, the 10% Senior Notes and the 11 1/8% Senior Discount Notes contain certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations. At December 31, the Company was restricted from making any dividend payments under the terms of the Indentures.

Contractual maturities of long-term debt are as follows:

Year Ending December 31,	Aggregate Amounts
2000	\$ -
2001	\$ -
2002	\$ 2,000
2003	\$ 4,000
2004	\$ 4,000

In July 1999, the Company entered into \$250,000 of two-year interest rate protection agreements with various counterparties. These agreements convert \$250,000 of the Company's floating rate debt under the Credit Facility to a fixed rate of approximately 6.08%. At December 31, 1999, the Company's reported interest expense was approximately \$432 higher due to these agreements.

11. INCOME TAXES

The (benefit) for income taxes is reflected in the Consolidated Statements of Operations as follows:

	1999	1998	1997
Current:			
Federal	\$ -	\$ -	\$ (11,795)
State	659	1,149	1,449
Total Current	659	1,149	(10,346)
Deferred:			
Federal	(3,169)	(4,410)	(10,161)
State	(2,584)	(1,737)	(342)
Total Deferred	(5,753)	(6,147)	(10,503)
(Benefit) for income taxes:			
Before extraordinary item	(5,094)	(4,998)	(20,849)
Extraordinary item	-	-	(1,728)
Total (benefit) provision for income taxes	\$ (5,094)	\$ (4,998)	\$ (22,577)
	=====	=====	=====

At December 31, 1998, the Company had tax related balances due to affiliates \$150 respectively.

Temporary differences that give rise to a significant portion of deferred tax assets and liabilities at December 31, are as follows:

	1999	1998
Net operating loss carryforwards	\$ 213,961	\$ 78,963
Alternative minimum tax credits	-	85
Employee benefit plans	2,076	746
Reserve for bad debt	4,097	1,794
Start-up costs	3,980	825
Investment in unconsolidated entity	24,503	6,265
Accruals for nonrecurring charges and contract settlements	1,332	909
Deferred revenue	1,256	10,401
Intangible assets	1,912	-
Other, net	5,203	6,734
Total deferred tax assets	258,320	106,722
Property, plant and equipment	(24,409)	(18,177)
Intangible assets	-	(6,618)
All other	-	(2,428)
Total deferred liabilities	(24,409)	(27,223)
Subtotal	233,911	79,499
Valuation allowance	(235,375)	(82,068)
Total deferred taxes	\$ (1,464)	\$ (2,569)
	=====	=====

During 1999, the Company generated federal net operating losses in the amount of \$314,708 and acquired separate return limitation year (SRLY) net operating losses from the 1999 acquisitions of \$1,018 which results in a deferred tax asset totaling \$110,504. In the opinion of management, realization of the Company's deferred tax assets is not assured. A valuation allowance has therefore been established for the federal and state deferred tax assets. A valuation allowance has also been provided, as in past years, against the state net operating losses which, in the opinion of management, are also uncertain as to their realization.

The net change in the valuation allowance for deferred tax assets during 1999 was an increase of \$153,307.

Net operating losses will expire as follows:

	Federal	State
2000-2019	\$ 437,720	\$ 491,019
2017-2018	21,205	203,176
	-----	-----
Total	\$ 458,925	\$ 694,195
	=====	=====

The (benefit) for income taxes is different from the amounts computed by applying the U.S. statutory federal tax rate of 35%. The differences are as follows:

	For the Years Ended December 31,		
	1999	1998	1997
	-----	-----	-----
(Loss) before (benefit) for income taxes and extraordinary item	\$(359,698)	\$(210,440)	\$(70,030)
	=====	=====	=====
Federal income tax benefit at statutory rate	\$(125,895)	\$(73,654)	\$(24,511)
State income taxes net of federal income tax benefit	(1,042)	(382)	719
Federal valuation allowance	115,382	45,035	-
Write down of acquired R&D costs	-	6,403	-
Amortization of goodwill	8,610	5,580	830
Contribution to subsidiary - Goodwill	-	3,744	-
Estimated nondeductible expenses	(3,000)	10,472	1,913
Adjustment to prior year accrual	132	(25)	(197)
Other, net	719	(2,171)	397
	-----	-----	-----
Total (benefit) for income taxes	\$ (5,094)	\$ (4,998)	\$(20,849)
	=====	=====	=====

12. Stockholders' Equity and Stock Plans

In June 1999 the Company completed a public offering of 9,200,000 shares of Common Stock at a price of \$39.00 per share. The net proceeds to the Company were approximately \$344,342 after deducting issuance costs.

On April 7, 1999, Hicks, Muse, Tate & Furst, through Hicks Muse Fund IV purchased 250,000 shares of Series A Preferred Stock, par value \$1 per share, for gross proceeds of \$250,000. The Series A Preferred Stock is cumulative, has an annual dividend rate of 7% payable quarterly in cash or additional shares of Series A Preferred Stock and has a initial conversion price of \$39.00 per share. The Series A Preferred Stock is convertible into common stock at any time. The Series A Preferred Stock is subject to a mandatory redemption on March 31, 2014 at \$1,000 per share, plus accrued and unpaid dividends, but may be called by the Company after four years. At December 31, 1999 the Company paid dividends in the amount of \$13,053 in the form of additional shares of Series A Preferred Stock. At December 31, 1999 the number of common shares that would be issued upon conversion of the Series A Preferred Stock was 6,744,949. The Company incurred \$10,000 of issuance cost in connection with the sale of the Series A Preferred Stock.

In June 1998, the Company completed a public offering of 6,794,500 shares of Common Stock at a price of \$19.50 per share. Of the 6,794,500 shares offered, 6,098,355 were offered by the Company and 696,145 shares were offered by a Selling Stockholder. The net proceeds to the Company were approximately \$112,866 after deducting issuance costs.

In March 1998, the Company's Board of Directors approved a two-for-one stock split, payable in the form of a 100% stock dividend. All share and per share data, stock option data, and market prices of the Company's common stock have been restated to reflect this stock dividend.

The 1997 RCN Corporation Stock Option Plan ("the 1997 Plan") contemplates the issuance of incentive stock options, as well as stock options that are not designated as incentive stock options, performance-based stock options, stock appreciation rights, performance share units, restricted stock, phantom stock units and other stock-based awards (collectively, "Awards"). Up to 10,000,000 shares of Common Stock, plus 3,040,100 shares of Common Stock issuable in connection with the Distribution related option adjustments, may be issued pursuant to Awards granted under the 1997 Plan.

Unless earlier terminated by the Company Board, the 1997 Plan will expire on the tenth anniversary of the Distribution.

Prior to the Distribution, certain employees of RCN were granted stock option awards under C-TEC's stock option plans. In connection with the Distribution, 3,040,100 options for Common Stock were issued. Each C-TEC option was adjusted so that each holder would currently hold options to purchase shares of CTE Common Stock, RCN Common Stock and Cable Michigan Common Stock. The number of shares subject to, and the exercise price of, such options were adjusted to take into account the Distribution and to ensure that the aggregate intrinsic value of the resulting RCN, Cable Michigan and CTE options immediately after the Distribution was equal to the aggregate intrinsic value of the C-TEC options immediately prior to the Distribution.

Information relating to stock options is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding December 31, 1996	2,268,000	\$ 7.10
Granted	4,862,100	\$14.31
Exercised	20,000	\$ 8.07
Canceled	3,000	\$ 8.36
Outstanding December 31, 1997	7,107,100	\$11.95
Granted	2,527,424	\$14.81
Exercised	408,389	\$ 4.82
Canceled	373,993	\$15.22
Outstanding December 31, 1998	8,852,142	\$12.96
Granted	3,393,071	\$41.63
Exercised	1,507,119	\$ 8.26
Canceled	1,153,222	\$23.72
Outstanding December 31, 1999	9,584,872	\$22.34
Shares exercisable December 31, 1999	3,066,517	\$10.84

The following table summarizes stock options outstanding and exercisable at December 31, 1999:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
1.30-6.50	116,628	7.4	\$ 3.89	104,061	\$ 3.74
6.51-8.40	2,042,820	5.4	\$ 7.28	1,570,960	\$ 7.11
8.41-19.25	3,980,451	8.0	\$ 15.29	1,322,923	\$ 15.15
19.26-29.81	701,273	7.2	\$ 24.62	68,573	\$ 23.87
29.82-49.13	2,743,700	6.6	\$ 44.02	-	-
	9,584,872	7.0		3,066,517	

No compensation expense related to employee stock option grants was recorded in 1999, 1998 or 1997 as the option exercise prices were equal to fair market value on the date granted.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black Scholes option pricing model with weighted average assumptions for dividend yield of 0% for 1999, 1998 and 1997; expected volatility of 59.9% for 1999, 78.9% for 1998, and 47.4% for 1997; risk-free interest rate of 5.62%, 4.72% and 6.52% for 1999, 1998 and 1997, respectively; and expected lives of 3 years for 1999, and 5 years for 1998 and 1997.

The weighted-average fair value of options granted during 1999 was \$18.48.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net earnings and earnings per share were as follows:

	1999	1998	1997
	-----	-----	-----
Net earnings - as reported	\$(368,570)	\$(205,442)	\$(52,391)
Net earnings - pro forma	\$(384,941)	\$(214,586)	\$(54,419)
Basic and diluted earnings per share - as reported	\$ (5.12)	\$ (3.36)	\$ (0.95)
Basic and diluted earnings per share - pro forma	\$ (5.34)	\$ (3.51)	\$ (0.99)

The Company has an Executive Stock Purchase Plan ("ESPP"). Under the ESPP, participants may purchase shares of RCN Common Stock in an amount of between 1% and 20% of their annual base compensation and between 1% and 100% of their annual bonus compensation provided, however, that in no event shall the participant's total contribution exceed 20% of the sum of their annual compensation, as defined by the ESPP. The share units credited to a participant's account do not give such participant any rights as a shareholder.

Following the crediting of each share unit to a participant's account, a matching share of Common Stock is issued in the participant's name. Each matching share is subject to forfeiture as provided in the ESPP. The issuance of matching shares will be subject to the participant's execution of an escrow agreement.

Amounts contributed under the ESPP will be subject to the claims of the Company's creditors and creditors of certain affiliates of the Company.

The number of shares which may be distributed under the RCN ESPP as matching shares or in payment of share units is 500,000. At December 31, 1999, there were 170,385 RCN ESPP shares arising from participants' contributions and 170,385 matching shares. The Company recognizes the cost of the matching shares over the vesting period. At December 31, 1999, deferred compensation cost relating to matching shares was \$1,030. Expense recognized in 1999 and 1998 was \$656 and \$615, respectively. Matching shares are included in weighted average shares outstanding for purposes of computing earnings per share.

13. PENSIONS AND EMPLOYEE BENEFITS

C-TEC sponsors a 401(k) savings plan which, prior to the Distribution, covered substantially all employees of the Company who were not covered by collective bargaining agreements. Contributions made by the Company to the 401(k) plan were based on a specific percentage of employees contributions. Contributions charged to expense in 1997 prior to the Distribution were \$515.

In connection with the Distribution, RCN established a 401(k) savings plan that will also qualify as an ESOP (the "ESOP"). Contributions charged to expense in 1999, 1998 and 1997 for these plans were \$1,948, \$1,255 and \$306, respectively.

The Company provides certain postemployment benefits to former or inactive employees of the Company who are not retirees. These benefits are primarily short-term disability salary continuance. The Company accrues the cost of postemployment benefits over employees' service lives. The Company uses the services of an enrolled actuary to calculate the expense. Prior to the Distribution, C-TEC allocated the cost of these benefits to the Company based on the Company's proportionate share of consolidated annualized salaries. The Company reimbursed C-TEC for its allocable share of the consolidated postemployment benefit cost. The net periodic postemployment benefit cost was approximately \$302, \$543 and \$458 in 1999, 1998 and 1997, respectively.

14. COMMITMENTS AND CONTINGENCIES

a. The Company had various purchase commitments at December 31, 1999 related to its 2000 construction budget.

b. Total rental expense, primarily for office space and equipment, was \$18,321, \$10,475 and \$3,505 for 1999, 1998 and 1997, respectively. At December 31, 1999, rental commitments under noncancelable leases, excluding annual pole rental commitments of approximately \$915 that are expected to continue indefinitely, are as follows:

Year	Aggregate Amounts
2000	\$21,388
2001	\$19,098
2002	\$18,658
2003	\$13,758
2004	\$12,906
Thereafter	\$64,342

c. The Company has outstanding letters of credit aggregating \$4,914 at December 31, 1999.

d. The Company has entered into various noncancelable contracts for network services. Future obligations under these agreements are as follows:

Year	Network Services
2000	\$ 3,000
2001	\$ 2,750

e. In the normal course of business, there are various legal proceedings outstanding. In the opinion of management, these proceedings will not have a material adverse effect on the financial position or results of operations or liquidity of the Company.

f. The Company has agreed to indemnify Cable Michigan and CTE and their respective subsidiaries against any and all liabilities which arise primarily from or relate primarily to the management or conduct of the business of the Company prior to the effective time of the Distribution. The Company has also agreed to indemnify Cable Michigan and CTE and their respective subsidiaries against 30% of any liability which arises from or relates to the management or conduct prior to the effective time of the Distribution of the businesses of C-TEC and its subsidiaries and which is not a true CTE liability, a true Cable Michigan liability or a true Company liability.

The Tax Sharing Agreement, by and among the Company, Cable Michigan and CTE (the "Tax Sharing Agreement"), governs contingent tax liabilities and benefits, tax contests and other tax matters with respect to tax returns filed with respect to tax periods, in the case of the Company, ending or deemed to end on or before the Distribution Date. Under the Tax Sharing Agreement, Adjustments (as defined in the Tax Sharing Agreement) to taxes that are clearly attributable to the Company Group, the Cable Michigan Group, or the CTE Group will be borne solely by such group. Adjustments to all other tax liabilities will be borne 50% by CTE, 30% by the Company and 20% by Cable Michigan.

Notwithstanding the above, if as a result of the acquisition of all or a portion of the Capital stock or assets of the Company, the Distribution fails to qualify as a tax-free distribution under Section 355 of the Code, then the Company will be liable for any and all increases in tax attributable thereto.

g. Under the Starpower Amended and Restated Operating Agreement, the Company is committed to make quarterly capital contributions aggregating the following in the years ended December 31:

2000	\$43,619
2001	\$ 9,005

h. If, within five years after the Distribution, the ESOP portion of the 401(k) Plan does not hold shares representing 3% of the number of shares of Company Common Stock outstanding immediately after the Distribution as increased by the number of shares issuable to BECO pursuant to the Exchange Agreement (collectively, "Outstanding Company Common Stock") with a market value at such time of not less than \$24,000, RCN will issue to the ESOP, in exchange for a note from the ESOP (the "ESOP Note"), the amount of Company Common Stock necessary to increase the ESOP's holdings of Company Common Stock to that level, provided, however, that RCN is not obligated to issue shares to the ESOP in excess of 5% of the number of shares of Outstanding Company Common Stock.

As of December 31, 1999, the ESOP holds 29,746 shares of outstanding Company Common Stock.

15. RELATED PARTY TRANSACTIONS

The Company had the following transactions with related parties during the years ended December 31, 1999, 1998 and 1997:

	1999	1998	1997
	-----	-----	-----
Corporate office costs allocated to related parties	\$ 5,235	\$ 9,946	\$12,091
Interest income on affiliate notes	-	-	8,688
Interest expense on affiliate notes	-	-	537
Long-distance terminating access charge expense from related party	732	1,556	1,312
Royalty fees charged by related party	-	-	669
Expenses allocated to unconsolidated joint venture partner	21,466	14,681	-
Related party expenses for network construction	48,878	-	-
Related party expenses for utility service	2,236	-	-
Terminating revenues from related party	8,216	13,322	1,576
Other related party expenses	274	1,598	2,199

At December 31, 1999 and 1998, the Company has accounts receivable from related parties of \$8,015 and \$6,919, respectively, for these transactions. At December 31, 1999 and 1998, the Company has accounts payable to related parties of \$35,809 and \$7,153, respectively, for these transactions.

16. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables, cash and temporary cash investments, and short-term investments.

The Company places its cash, temporary cash investments and short-term investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The Company also periodically evaluates the creditworthiness of the institutions with which it invests. The Company does, however, maintain invested balances in excess of federally insured limits.

The Company's trade receivables reflect a customer base primarily centered in the Boston to Washington, D.C. corridor of the United States. The Company routinely assesses the financial strength of its customers. As a consequence, concentrations of credit risk are limited.

The Company is a 50% partner in the Starpower joint venture, which is not consolidated in the Company's financial statements under generally accepted accounting principles.

17. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Cash and temporary cash investments

The carrying amount approximates fair value because of the short maturity of these investments.

b. Short-term investments

Short-term investments consist of commercial paper, U.S. Treasury Notes, asset-backed securities, corporate debt securities, certificates of deposit and federal agency notes. Short-term investments are carried at market value.

c. Long-term investments

Long-term investments consist of investments accounted for under the equity method for which disclosure of fair value is not required. The note and interest receivable was carried at cost plus accrued interest which management believes approximates fair value.

d. Investments restricted for debt service

Investments restricted for debt service consist of funds placed in escrow from the proceeds of the 10% Senior Notes which, together with the proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments. Investments restricted for debt service are carried at amortized cost. The fair value of investments restricted for debt service is based on quoted market prices.

e. Long-term debt

The fair value of fixed rate long-term debt was estimated based on the Company's current incremental borrowing rate for debt of the same remaining maturities. The fair value of floating rate debt is considered to be equal to the carrying value since the debt reprices at least every six months and the Company believes that its credit risk has not changed from the time the floating rate debt was borrowed and therefore, it would obtain similar rates in the current market.

f. Letters of credit

The contract amount of letters of credit represents a reasonable estimate of their value since such instruments reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

The estimated carrying fair value of the Company's financial instruments is as follows at December 31:

	1999		1998	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and temporary cash investments	\$ 391,412	\$ 391,412	\$120,126	\$120,126
Short-term investments	\$1,401,877	\$1,401,877	\$892,448	\$892,448
Note and interest receivable	\$ -	\$ -	\$ 18,373	\$ 18,373
Investments restricted for debt service	\$ 23,159	\$ 21,684	\$ 43,306	\$ 43,072
Financial Liabilities:				
Fixed rate long-term debt:				
Senior Notes 10.125%	\$ 375,000	\$ 375,000	\$ -	\$ -
Senior Notes 10%	\$ 225,000	\$ 223,875	\$225,000	\$216,000
Senior Discount Notes 11.125%	\$ 444,430	\$ 426,742	\$398,827	\$351,611
Senior Discount Notes 9.8%	\$ 420,591	\$ 371,385	\$382,216	\$306,180
Senior Discount Notes 11.0%	\$ 176,495	\$ 166,891	\$158,573	\$138,750
Floating rate long-term debt:				
Term Loan B	\$ 500,000	\$ 500,000	\$ -	\$ -
Term Credit Agreement	\$ -	\$ -	\$100,000	\$100,000
Unrecognized financial instruments:				
Letters of credit	\$ 4,914	\$ 4,914	\$ 3,810	\$ 3,810

18. QUARTERLY INFORMATION (Unaudited)

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	\$ 67,388	\$ 66,929	\$ 69,622	\$ 72,054
Operating (loss) before depreciation, amortization and nonrecurring charges	\$(21,449)	\$(25,406)	\$(32,587)	\$(52,525)
Operating (loss)	\$(53,723)	\$(55,947)	\$(68,720)	\$(99,620)
Loss before extraordinary item	\$(67,754)	\$(63,358)	\$(91,774)	\$(131,718)
Loss before extraordinary item common share	\$(1.03)	\$(0.97)	\$(1.26)	\$(1.78)
Net (loss)	\$(67,754)	\$(63,782)	\$(91,774)	\$(131,718)
Common Stock				
High	\$ 39.75	\$ 54.50	\$ 51.50	\$ 54.25
Low	\$ 17.75	\$ 33.75	\$ 32.25	\$ 37.31
1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	\$ 40,138	\$ 49,808	\$ 58,172	\$ 62,822
Operating (loss) before depreciation, amortization and nonrecurring charges	\$(8,317)	\$(9,619)	\$(16,578)	\$(16,898)
Operating (loss)	\$(44,741)	\$(28,319)	\$(40,724)	\$(45,009)
Loss before cumulative effect of change in accounting principle	\$(41,785)	\$(43,795)	\$(54,430)	\$(64,791)
Loss before cumulative effect of change in accounting principle per average common share	\$(0.74)	\$(0.75)	\$(0.84)	\$(1.00)
Net (loss)	\$(41,785)	\$(43,795)	\$(54,430)	\$(65,432)
Common Stock				
High	\$ 30.63	\$ 29.38	\$ 24.31	\$ 25.00
Low	\$ 15.88	\$ 19.25	\$ 12.38	\$ 8.75

19. SUBSEQUENT EVENTS

In December 1999, the Company has announced it has entered into a definitive agreement with respect to the acquisition of 21st Century Telecom Group, Inc. ("21st Century"). 21st Century is an integrated, facilities-based communications company, which seeks to be the first provider of bundled voice, video and high-speed Internet and data services in selected midwestern markets beginning in Chicago. The approximate consideration for the transaction is approximately \$500,000 payable in RCN stock and assumed debt. The transaction will be accounted for under the purchase method of accounting.

In February 2000, the Company made a \$5,000 loan to Juniornet in the form of a convertible bridge loan.

On October 4, 1999, the Company announced that Vulcan Ventures Incorporated ("Vulcan"), the investment organization of Paul G. Allen, agreed to make a \$1,650,000 investment in the Company. The investment, which closed on February 28, 2000, is in the form of mandatorily convertible preferred stock (the "Preferred Stock"), which will be converted into Common Stock no later than seven years after it is issued. Vulcan has agreed to purchase 1,650,000 shares of the Preferred Stock. The Preferred Stock has a liquidation preference of \$1,000 per share and is convertible into Common Stock at a price of \$62 per share.

In connection with the investment, Vulcan will generally be permitted to appoint two members to our Board of Directors. On February 28, Vulcan appointed William D. Savoy, President of Vulcan and Edward S. Harris, Investment Analyst with Vulcan. The Preferred Stock will automatically be converted to Common Stock or Class B Stock seven years after the transaction closes, if not previously called or converted. The Preferred Stock has a dividend rate of 7% per annum. All dividends will be paid in additional shares of Preferred Stock.

Pursuant to an exchange agreement between BECO and RCN, BECO has the right, from time to time, to convert portions of its ownership interest in RCN-BECOCOM into shares of our common stock, based on an appraised value of such interest. Shares issued upon such exchanges are issued to NSTAR Communications Securities Corporation ("NSTAR Securities"). In 1999, BECO and the Company entered into two exchange transactions pursuant to which BECO converted a portion of its ownership interest into RCN common stock which was issued to NSTAR Securities. Prior to such exchange transactions, BECO owned a 49% interest in the joint venture. At the close of business on December 31, 1999, BECO exchanged a further portion of its interest for 2,989,543 shares of RCN Common Stock. Such portion of the interest was valued as of May 27, 1999. Following such exchanges, BECO retains a 23.14% sharing ratio in the joint venture, and the right to invest as if it owned a 49% interest. Such investment percentage will decrease to the extent NSTAR Securities disposes of such RCN common stock.

20. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

In December 1998 the American Institute of Certified Public Accountants issued Statement of Position 98-5 - "Reporting on the Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 requires that all start-up costs, including amounts previously capitalized as start-up and organization costs, be expensed. The Company adopted SOP 98-5 in 1998 and expensed the amount of unamortized organization costs previously capitalized. The resulting charge of \$641 is reflected in the 1998 Statement of Operations as the cumulative effect of a change in accounting principle.

REPORT OF MANAGEMENT

The integrity and objectivity of the financial information presented in these financial statements is the responsibility of the management of RCN Corporation.

The financial statements report on management's accountability for Company operations and assets. To this end, management maintains a system of internal controls and procedures designed to provide reasonable assurance that the Company's assets are protected and that all transactions are accounted for in conformity with accounting principles generally accepted in the United States. The system includes documented policies and guidelines, augmented by a comprehensive program of internal and independent audits conducted to monitor overall accuracy of financial information and compliance with established procedures.

PRICEWATERHOUSECOOPERS LLP, independent accountants, conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements presented herein.

The Board of Directors meets its responsibility for the Company's financial statements through its Audit Committee which is comprised exclusively of directors who are not officers or employees of the Company. The Audit Committee recommends to the Board of Directors the independent auditors for election by the shareholders. The Committee also meets periodically with management and the independent and internal auditors to review accounting, auditing, internal accounting controls and financial reporting matters. As a matter of policy, the internal auditors and the independent auditors periodically meet alone with, and have access to, the Audit Committee.

\s\ Timothy J. Stoklosa

Timothy J. Stoklosa
Executive Vice President
Chief Financial Officer

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of
RCN Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 37 present fairly, in all material respects, the financial position of RCN Corporation and its Subsidiaries at December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 14 (a)(2) on page 37 present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States, which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

\s\ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
March 8, 2000

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FIRST AMENDMENT, dated as of December 3, 1999 (this "Amendment"), to the Credit Agreement, dated as of June 3, 1999 (as amended, supplemented or otherwise modified from time to time, the ("Credit Agreement")), among RCN CORPORATION, (the "Company") RCN TELECOM SERVICES OF PENNSYLVANIA, INC., RCN CABLE SYSTEMS, INC., JAVANET, INC., RCN FINANCIAL MANAGEMENT, INC., UNET HOLDING, INC., INTERPORT COMMUNICATIONS CORP. and ENET HOLDING, INC. (collectively, the "Borrowers"), the LENDERS party thereto, and THE CHASE MANHATTAN BANK, as Administrative Agent and Collateral Agent.

WHEREAS, pursuant to the credit Agreement, the Lenders have agreed to make certain loans to the Borrowers; and

WHEREAS the Company and the Borrowers have requested that certain provisions of the Credit Agreement be modified in the manner provided for in this Amendment, and the Lenders are willing to agree to such modifications as provided for in this Amendment.

NOW, THEREFORIE, the parties hereto hereby agree as follows:

1. Defined Terms. Capitalized terms used and not defined herein shall have the meanings given to them in the Credit Agreement, as amended hereby.

2. Amendments to the Credit Amendments.

(a) The definition of the term "Change in Control" in Section 1.01 of the Credit Agreement is hereby amended by deleting the word "and" immediately prior to the reference to "David McCourt" and inserting a comma in place thereof and by inserting, immediately after the reference to "David McCourt", the following: "or Paul G. Allen and his Controlled Affiliates (including, for so long as it is so Controlled, Vulcan Ventures Incorporated)".

(b) Section 6.12 of The Credit Agreement is hereby amended by deleting paragraphs (e), (f), (g), (h), W, W and (i) therefrom in their entirety and substituting for each such paragraph the following paragraph having the same designation:

"(e) Minimum Consolidated Revenue. Permit Consolidated Revenue for any period of four consecutive fiscal quarters ending on a date set forth below to be less than the amount set forth opposite such date:

Fiscal Quarter Ending	Minimum Consolidated Revenue
--------------------------	---------------------------------

December 31, 1999	\$270,000,000
March 31, 2000	300,000,000
June 30, 2000	320,000,000
September 30, 2000	340,000,000
December 31, 2000	365,000,000
March 31, 2001	385,000,000
June 30, 2001	410,000,000
September 30, 2001	450,000,000
December 31, 2001	495,000,000"

"(f) Minimum On-Net Connections. Permit On-Net Connections at the end of any fiscal quarter ending on a date set forth below to be less than the number set forth opposite such date;

Fiscal Quarter Ending	Minimum On-Net Connections
December 31, 1999	200,000
March 31, 2000	210,000
June 30, 2000	230,000
September 30, 2000	270,000
December 31, 2000	335,000
March 31, 2001	400,000
June 30, 2001	525,000
September 30, 2001	650,000
December 31, 2001	770,000"

"(g) Maximum Cumulative Negative EBITDA. Permit cumulative negative EBITDA from the period commencing with the first day of the first fiscal quarter ending on or after the date of this Agreement to the last day of each fiscal quarter ending during a period set forth below to exceed (i.e., be a greater negative number than) the amount set forth below for such period:

Period	Maximum Cumulative Negative EBITDA
June 30, 1999 through December 31, 1999	-\$150,000,000
January 1, 2000 through December 31, 2001	-\$320,000,000"

"(h) Minimum Annualized EBITDA. Permit Annualized EBITDA determined as of any date set forth below to be less than the amount set forth opposite such date below:

Date	Minimum Annualized EBITDA
March 31, 2002	\$15,000,000
June 30, 2002	\$40,000,000
September 30, 2002	\$100,000,000"

"(i) Maximum Senior Secured Debt to Annualized EBITDA. Permit the ratio of W Senior Secured Debt outstanding on any day from and including (A) the last day of any fiscal

quarter ending on the dates or during the periods set forth below through (B) the day immediately preceding the last day of the immediately following fiscal quarter to (ii) Annualized EBITDA determined as of the date referred to in clause (i) (A) above to exceed the ratio set forth below opposite such date or period:

Fiscal Quarter ENDING -----	Maximum Ratio -----
December 31, 2002	5.00 to 1
March 31, 2003	5.00 to 1
June 30, 2003	3.50 to 1
July 1, 2003 and thereafter	3.00 to 1"

"(k) Interest Coverage Ratio. Permit the ratio of (i) Annualized EBITDA determined as of the last day of any fiscal quarter ending on the dates or in the years set forth below to (ii) Annualized Cash Interest Expense determined as of the last day of such fiscal quarter to be less than the ratio set forth below opposite such date or period:

Fiscal Quarter Ending on or During -----	Minimum Ratio -----
June 30, 2002	1.25 to 1
September 30, 2002	1.25 to 1
December 31, 2002	1-25 to 1
Fiscal Year ending December 31, 2003	1.50 to 1
Fiscal Year ending December 31, 2004	1-75 to 1
Fiscal Year ending December 31, 2005	2-00 to 1
Fiscal Year ending December 31, 2006	2.00 to 1
Fiscal Year ending December 31, 2007	2.00 to 1"

"(l) Minimum Fixed Charge Coverage Ratio. Permit the ratio of (i) Annualized EBITDA determined as of the last day of any fiscal quarter ending on or after June 30, 2002 to (ii) Annualized Fixed Charges determined as of such date to be less than 1.00 to 1 in respect of any such fiscal quarter ending at any time from June 30, 2002 to and including September 30, 2002 and 1.20 to 1 in respect of any such fiscal quarter ending thereafter."

3. No Other Amendments; Confirmation. Except as expressly amended hereby, the provisions of the Credit Agreement are and shall remain in full force and effect.

4. Representations and Warranties. The Company and the Borrowers hereby represent and warrant to the Administrative Agent and the Lenders that, as of the date hereof:

(a) No Default or Event of Default has occurred and is continuing.

(b) The execution, delivery and performance by the Company and the Borrowers of this Amendment have been duly authorized by all necessary corporate and other action and do not and will not require any registration with, consent

or approval of, notice to or action by, any person (including any Governmental Authority) in order to be effective and enforceable. The Credit Agreement as amended by this Amendment constitutes the legal, valid and binding obligation of the Company and the Borrowers, enforceable against each in accordance with its terms, subject to applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(c) All representations and warranties of each Loan Party set forth in the Loan Documents are true and correct in all material respects-

5. Conditions Precedent to Effectiveness. This Amendment shall become effective when the Agent shall have received counterparts hereof duly executed and delivered by the Company, the Borrowers and the Required Lenders (the "Effective Date").

6. Conditions Subsequent to Continued Effectiveness. In the event that (i) the Company has not, prior to December 3, 2000, received cash proceeds of not less than \$1,650,000.00 from the issuance and sale to Paul Allen or his Controlled Affiliates, including, for so long as it is so controlled, Vulcan Ventures Incorporated ("Vulcan"), of shares of mandatorily convertible preferred stock of the Company (the "Vulcan Preferred") or (ii) the agreement between the Company and Vulcan for the issuance and sale of the Vulcan Preferred is terminated prior to the consummation of such issuance and sale, this Amendment shall cease to be effective for all purposes with the same effect as if it had never become effective.

7. Expenses. The Borrowers agree to reimburse the Agent for its out-of-pocket expenses in connection with this Amendment, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore, counsel for the Agent.

8. Governing Law; Counterparts. (a) This Amendment and the rights and obligations of the parties hereto shall be governed by, and construed and interpreted in accordance with, the laws of the State of New York.

(b) This Amendment may be executed by one or more of the parties to this Amendment on any number of separate counterparts, and all of said counterparts taken together shall be deemed to constitute one and the same instrument. This Amendment may be delivered by facsimile transmission of the relevant signature pages hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their duly authorized officers as of the day and year first above written.

RCN CORPORATION,

by /s/ Bruce C. Godfrey

Name: Bruce C. Godfrey
Title: Chief Financial Officer

RCN TELECOM SERVICES OF
PENNSYLVANIA, INC.

by /s/ Bruce C. Godfrey

Name: Bruce C. Godfrey
Title: Chief Financial Officer

RCN CABLE SYSTEMS, INC.,

by /s/ Bruce C. Godfrey

Name: Bruce C. Godfrey
Title: Chief Financial Officer

JAVA NET, INC.,

by /s/ Bruce C. Godfrey

Name: Bruce C. Godfrey
Title: Chief Financial Officer

RCN FINANCIAL MANAGEMENT, INC.,

by /s/ Bruce C. Godfrey

Name: Bruce C. Godfrey
Title: Chief Financial Officer

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RCN CORPORATION
LIST OF SUBSIDIARIES

Exhibit 21

Name	State of Incorporation	PERCENTAGE OWNED
RCN Corporation	DE	100%
RCN Services, Inc	PA	100%
TEC Air, Inc.	DE	100%
RCN Financial Management, Inc.	DE	100%
RCN Internet Services, Inc.	DE	100%
UNET Holding, Inc.	DE	100%
Interport Communications Corp	NY	100%
Port Telecom Corporation	DE	100%
Erde Network Systems Corporation	DE	100%
JMP Communications Corporation	DE	100%
JavaNet, Inc.	DE	100%
Brainstorm Networks, Inc.	CA	100%
C-TEC Financial Services, Inc.	NV	100%
RCN Cable Systems, Inc.	DE	100%
C-TEC Cable System Services, Inc.	PA	100%
RCN of New Jersey, Inc.	PA	100%
RCN of Southeast New York, Inc.	PA	100%
RCN Telecom Services, Inc.	PA	100%
RCN Telecom Services of Southeast New York, Inc.	NY	100%
Fiberfone of Pennsylvania, Inc	PA	100%
Fiberfone of New Jersey, Inc.	NJ	100%
Fiberfone of Michigan, Inc.	MI	100%
C-TEC Fiber Systems of New Jersey, Inc.	NJ	100%
RCN Long Distance Company	PA	100%
RCN International Holdings, Inc.	DE	100%
RCN Telecom Holding Company	DE	100%
RCN Operating Services, Inc.	NJ	100%
RCN Telecom Services of Illinois, Inc.	IL	100%
RCN Telecom Services of Maryland, Inc.	MD	100%
RCN Telecom Services of Massachusetts, Inc.	MA	100%
RCN Telecom Services of Michigan, Inc.	MI	100%
RCN Telecom Services of New York, Inc.	NY	100%
RCN Telecom Services of Washington, Inc.	WA	100%
RCN Telecom Services of Delaware, Inc.	DE	100%
RCN Telecom Services of California, Inc.	CA	100%
RCN Telecom Services of Philadelphia, Inc.	PA	100%
RCN Telecom Services of New Jersey, Inc.	NJ	100%
RCN Telecom Services of Virginia, Inc.	VA	100%
RCN Telecom Services of Washington, D.C., Inc.	DC	100%
RCN Telecom Services of Maine, Inc.	ME	100%
RCN Telecom Services of New Hampshire, Inc.	NH	100%
RCN Telecom Services of Vermont, Inc.	VT	100%
RCN Telecom Services of Rhode Island, Inc.	RI	100%
RCN Telecom Services of Connecticut, Inc.	CT	100%
RCN Telecom Service of Nevada, Inc.	NV	100%
RCN Telecom Services of Arizona, Inc.	AZ	100%
RCN Telecom Services of Oregon, Inc.	OR	100%
FNY Holding Company, Inc.	NY	100%
RCN Corporate Services, Inc.	NJ	100%
RCN Financial Services, Inc.	DE	100%
Freedom New York L.L.C.	DE	100%
RCN-BecoCom, LLC	MA	53.88%
Starpower Communications, LLC	DE	50%

Downloaded By: Renee Britt

Company: RCN CORP /DE/
Form Type: 10-K405 SEC File #: 000-22825
Document Type: EX-23
Description:
Received Date: 03/30/00
Received Time: 15:21:56

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EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statement on Form S-3 (No. 333-71525, 333-61223, 333-63889, and 333-48797) and on Form S-8 (No. 333-37959 and 333-38137) of RCN Corporation of our report dated March 8, 2000 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
March 31, 2000

Downloaded By: Renee Britt

Company: RCN CORP /DE/

Form Type: 10-K405 SEC File #: 000-22825

Document Type: EX-24

Description:

Received Date: 03/30/00

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or Visit Us on the World Wide Web at

<http://www.gsionline.com>

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Thomas P. O'Neill, III do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Thomas P. O'Neill, III (SEAL)

Thomas P. O'Neill, III

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, James Q. Crowe do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and

be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd of March, 2000

/s/ James Q. Crowe (SEAL)

James Q. Crowe

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, David C. McCourt do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ David C. McCourt (SEAL)

David C. McCourt

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Michael B. Yanney do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Michael B. Yanney (SEAL)

Michael B. Yanney

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Richard R. Jaros do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Richard R. Jaros (SEAL)

Richard R. Jaros

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Alfred Fasola do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd of March, 2000.

/s/ Alfred Fasola (SEAL)

Alfred Fasola

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Stuart E. Graham do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise

any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Stuart E. Graham (SEAL)

Stuart E. Graham

Witness:

/s/ Camille D'Alessandro

Camille D'Alessandro

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Eugene Roth do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Eugene Roth (SEAL)

Eugene Roth

Witness:

/s/ Pearl Morrell

Pearl Morrell

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Thomas J. May do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Thomas J. May (SEAL)

Thomas J. May

Witness:

/s/ Carol Batchelder

Carol Batchelder

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Walter Scott, Jr. do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended

December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Water Scott, Jr. (SEAL)

Walter Scott, Jr.

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Michael A. Adams do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Michael A. Adams (SEAL)

Michael A. Adams

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Edward S. Harris do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and oweres herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 7th day of March, 2000.

/s/ Edward S. Harris (SEAL)

Edward S. Harris

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Michael J. Levitt do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter

until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 3rd day of March, 2000.

/s/ Michael J. Levitt (SEAL)

Michael J. Levitt

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, William D. Savoy do make, constitute and appoint Timothy J. Stoklosa, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1999, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect on or about March 31, 2000, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 7th day of March, 2000.

/s/ William D. Savoy (SEAL)

William D. Savoy

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Company: RCN CORP /DE/
Form Type: 10-K405 SEC File #: 000-22825
Document Type: EX-27
Description:
Received Date: 03/30/00
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<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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1998

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1998

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File No. 0-22825

RCN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3498533
(I.R.S. Employer
Identification No.)

105 Carnegie Center, Princeton, New Jersey
(Address of principal executive offices)

08540
(Zip Code)

Registrant's telephone number including area code: 609-734-3700
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$1.00 per share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Number of shares of the Registrant's Stock (\$1.00 par value) outstanding at February 28, 1999

66,317,796 Common Stock

Aggregate market value of Registrant's voting stock held by non-affiliates at February 28, 1999 computed by reference to closing price as reported by NASDAQ for Common Stock (\$24.00 per share)

\$952,243,824 Common Stock

Documents Incorporated by Reference

1. Proxy Statement for 1999 Annual Meeting of Shareholders is incorporated by reference into Part I and Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

Overview

We are building high-speed, high-capacity advanced fiber optic networks in selected markets with high levels of population density. Our current services include local and long distance telephone, video programming and data services, including high speed Internet access. Our strategy is to become the leading single-source provider of voice, video and data services to residential customers in each of our markets by offering individual or bundled service options, superior customer service and competitive prices. We are also constructing our networks with significant excess capacity in order to accommodate expanded services in the future. We intend to expand the services provided to our customers through strategic alliances and opportunistic development of complementary products. In addition, we will use the excess capacity in our fiber optic networks to provide services to commercial customers located on or near our networks. As a result of recent acquisitions and internal growth, we are a leading regional Internet service provider in the Boston to Washington, D.C. corridor. Our Internet businesses have recently been integrated under the brand name "RCN.com."

Our initial advanced fiber optic networks have been established in selected markets in the Boston to Washington, D.C. corridor, including New York City, and the San Francisco Bay area. We are typically building the first true local network to compete with the aging infrastructure of the incumbent service providers in our markets. In the Boston market we operate our advanced fiber optic network through a joint venture with Boston Edison Company. We own and manage 51% of the venture and it is accounted for on a consolidated basis. In the Washington, D.C. market, we are developing an advanced fiber optic network through a joint venture named Starpower with Pepco Communications, L.L.C., an indirect wholly-owned subsidiary of Potomac Electric Power Company. We own 50% of Starpower and Pepco Communications owns 50% and it is accounted for under the equity method of accounting. We believe that these joint ventures provide us with a number of important advantages. For example, we are able to access rights of way of our joint venture partners and use their existing fiber optic facilities. This allows us to enter our target markets quickly and efficiently and to reduce our up-front costs of developing our networks. In addition, our joint venture partners provide us with additional assets, equity capital and established customer bases. We also benefit from our relationship with our largest shareholder, Level 3 Communications, Inc., and from the experience gained by certain of our key employees who participated in the operation and development of other telephone, cable television and business ventures, including MFS Communications Company, Inc.

Because we deliver a variety of services, we report the total number of our various service connections purchased for local telephone, video programming and Internet access rather than the number of customers. For example, a single customer who purchases local telephone, video programming and Internet access counts as three connections. Since we view long distance as a complementary product we do not currently include customers of our long distance service as connections. See "Connections." As of December 31, 1998, we had approximately 855,000 connections which were delivered through a variety of our owned and leased facilities including hybrid fiber/coaxial cable systems, a wireless video system and advanced fiber optic networks. As of that date, we had approximately 123,000 total connections attributable to customers connected to advanced fiber optic networks ("on-net" connections) and had approximately 732,000 connections attributable to customers served through other facilities ("off-net" connections). Approximately 370,000 of our 497,000 Internet service connections resulted from subscriber bases acquired through acquisitions in 1998 during 1998. See "--Recent Acquisition Transactions."

We have extensive operating experience in both the telephone and video industries and in the design and development of telecommunications

facilities. Our experience provides us with expertise in systems operation and development, and gives us an established infrastructure for customer service and billing for both voice and video services and established relationships with suppliers of equipment and video programming. In addition, our management team and board of directors benefit from experience gained when they managed C-TEC, which prior to September 30, 1997 owned and operated our company. C-TEC has over 100 years of experience in the telephone business and nearly 25 years of experience in the cable television business. Both C-TEC and certain members of management also have extensive experience in the design and development of advanced telecommunications facilities.

We seek to exploit competitive opportunities in selected markets where population density, favorable demographics and the aging infrastructure of the incumbent service providers' network facilities combine to create a particularly attractive opportunity to develop advanced fiber optic networks. We continue to construct network facilities within the Boston to Washington, D.C. corridor. We believe that our experience in the Northeast will provide us with a key strategic advantage as we enter markets in the San Francisco to San Diego corridor.

West Coast Expansion

We recently began to develop advanced fiber optic networks in selected high density markets outside of the Boston to Washington, D.C. corridor. Our initial west coast network is being developed in the San Francisco Bay Area, which is densely populated and has high per capita income and the highest per capita Internet usage in the United States. We have received competitive local exchange carrier ("CLEC") status in California. We have also obtained an "open video system" ("OVS") certification from the Federal Communications Commission for the City of San Francisco and surrounding counties and have begun to develop our network in the San Francisco Bay Area. We expect to expand into selected markets in or near Southern California. As is the case in our existing markets, we intend to focus on high density markets with favorable demographics, and to apply a subscriber-driven investment strategy. We expect to begin offering services in the San Francisco Bay Area in late 1999.

Business Strategy

Our goal is to become the leading provider of communications services to residential customers in our target markets by pursuing the following key strategies:

Exploit the "Last Mile" Bottleneck in Existing Local Networks: Existing local networks are typically low capacity, single service facilities without the bandwidth for multiple or new services and revenue streams. Investment in the local network or "last mile" has not generally kept pace with other industry and technological advances. In our target markets, we seek to be the first operator of an advanced fiber optic network offering advanced communications services to residential customers.

Continue Construction of Advanced Fiber Optic Networks: Our advanced fiber optic networks are designed with sufficient capacity to meet the growing demand for high speed, high capacity, voice, video and data services. Our networks also have a significant amount of excess capacity at relatively low incremental cost which will be available for the introduction of new products. We believe that our high capacity advanced fiber optic networks provide us with certain competitive advantages such as the ability to offer bundled services and the opportunity to recover the cost of our network through multiple revenue streams. In addition, our networks generally provide superior signal quality and network reliability relative to the typical networks of the incumbent service providers.

Leverage our Network and Customer Base: We are able to leverage our network by delivering a broad range of communications products and by focusing on high density residential markets. This bandwidth capacity and

home density allows us to maximize the revenue potential per mile of constructed network. We believe we can further exploit our network capacity and customer base by exploring opportunities to deliver new products and services in the future, including complementary commercial and wholesale products and services.

Offer Bundled Voice, Video and Data Services with Quality Customer Service: We offer our customers a single-source package of competitively priced voice, video and data services, individually or on a bundled basis, with quality customer service. By connecting customers to our own network, we improve our operating economics and have complete control over our customers' experience with us. We believe that the combination of bundled communications services and quality customer care that we provide is superior to services that are typically available from most incumbent telephone, cable or other service providers.

Continue to Use Strategic Alliances: We have been able to enter markets quickly and efficiently and to reduce the up-front capital investment required to deploy our networks by entering into strategic alliances with companies such as Boston Edison Company ("BECO"), Pepco Communications, Level 3, Qwest and MCI/WorldCom. By establishing relationships with these companies, we are able to take advantage of their existing extensive fiber optic networks and other assets, and our own existing cable television infrastructure, to expedite and reduce the cost of market entry and business development. We will continue to evaluate other strategic alliances in our existing markets and our developing markets.

Network Development and Financing Plan

Because our network development plan involves relatively low fixed costs, we are able to schedule capital expenditures to meet expected subscriber growth in each major market. Our principal fixed costs in each such market are incurred in connection with the establishment of a video transmission and telephone switching facility. To make each market economically viable, it is then necessary to construct infrastructure to connect a minimum number of subscribers to the transmission and switching facility. We phase our market entry projects to ensure that we have sufficient cash on hand to fund this construction.

Based on our current growth plan, we expect that we will require a substantial amount of capital to expand the development of our network and operations into new areas within our larger target markets. We need capital to fund the construction of our advanced fiber optic networks, upgrade our hybrid fiber/coaxial plant and fund operating losses and repay our debts. We currently estimate that our capital requirements for the period from January 1, 1999 through 2000 will be approximately \$1.8 billion, which include capital expenditures of approximately \$700 million in 1999 and approximately \$1 billion in 2000. These capital expenditures will be used principally to fund additional construction of our fiber optic network in high density areas in the Boston, New York City, Washington, D.C. and San Francisco Bay area markets as well as to expand into new markets (including selected markets in the western United States) and to develop our information technology systems. These estimates are forward-looking statements that may change if circumstances related to construction, timing of receipt of regulatory approvals and opportunities to accelerate the deployment of our networks do not occur as we expect. In addition to our own capital requirements, our joint venture partners are each expected to contribute approximately \$275 million, of which approximately \$120 million has been contributed, to the joint ventures through 2000 in connection with development of the Boston and Washington, D.C. markets.

In order to facilitate growth beyond 2000, we expect to supplement our existing available credit facilities and operating cash flow by continuing to seek to raise additional capital to increase our network coverage and pay for other capital expenditures, working capital, debt service requirements and anticipated further operating losses. We may seek sources of funding from vendor financing, public offerings or private placements of equity and/or debt securities, and bank loans.

In March 1999, we secured a \$1 billion bank facility and a \$250 million placement of convertible preferred securities (See Note 20).

RCN Services

We provide a wide range of local and long distance telephone, video programming and data services, both individually and in bundled service options.

We provide these services through a range of facilities including our advanced fiber optic networks in New York City, Boston and Washington D.C., a wireless video system in New York City, our hybrid fiber/coaxial cable systems in the states of New York (outside New York City), New Jersey and Pennsylvania. We also provide, on a limited basis, resale local and long distance telephony services.

Connections. The following table summarizes the development of our subscriber base:

	As of					
	9/30/97	12/31/97	3/31/98	6/30/98	9/30/98	12/31/98
On-Net Service Connections:						
Voice.....	1,909	3,214	4,473	11,428	20,857	30,868
Video.....	4,870	11,784	15,599	35,196	58,324	86,349
Data.....	326	150	267	1,588	3,661	6,176
Subtotal On-Net.....	7,105	15,148	20,339	48,212	82,842	123,393
Off-Net:						
Voice.....	10,953	24,900	40,447	49,052	58,093	65,022
Video.....	229,198	227,619	227,558	214,164	196,776	175,313
Data.....	--	--	370,271	398,560	470,466	491,633
Subtotal Off-Net.....	240,151	252,519	638,276	661,776	725,335	731,968
Total Service Connections.....	247,256	267,667	658,615	709,988	808,177	855,361
Homes Passed.....	26,083	44,045	63,386	122,977	213,983	304,505
Marketable Homes.....	--	--	--	111,187	181,353	270,406

Because we deliver a variety of services to our customers, we account for our customer activity by the number of individual local telephone, video programming or Internet access services, or "connections", purchased. Consequently, a single customer purchasing local telephone, video programming and Internet access counts as three connections.

We classify connections in the "Off-Net" category until the relevant facilities are capable of providing voice, video and data services, including local telephone service, through an RCN switch. During 1998, our Allentown, Pennsylvania system was upgraded to provide a full range of services, and the customers on that system were moved to the "On-Net" connections category.

"Off-Net-Voice" figures in the table above represent resold local phone service provided to customers not connected to the advanced fiber optic networks.

Our "Off-Net-Video" figures in the table above include approximately 31,000 wireless connections and wireline video connections serving the University of Delaware (4,000 connections at December 31, 1998).

As of December 31, 1998 we had approximately 186,000 homes passed and approximately 140,000 basic subscribers connected to our hybrid fiber/coaxial cable system in New York, New Jersey and Lehigh Valley service areas.

In areas served by our joint ventures in the Greater Boston and Washington, D.C. areas, the subscribers are customers of the relevant joint venture and are fully included in the connections reflected in the table above.

As of September 30, 1998, we began to report marketable homes, which represents that segment of homes passed which are being marketed our entire line of advanced fiber optic network products. The distinction between

homes passed and marketable homes recognizes our transition from constructing our network in initial markets to providing services to customers that have ordered our services.

Set forth below is a brief description of our services:

Voice. We offer full-featured local exchange telephone service, including standard dial tone access, enhanced 911 access, operator services and directory assistance. We compete with the incumbent local exchange providers and CLECs. In addition, we offer a wide range of value-added vertical services, including call forwarding, call waiting, conference calling, speed dial, calling card, 800-numbers and voice mail. We also provide Centrex service and associated features. Our local telephone rates are generally competitive with the rates charged by the incumbent providers. At December 31, 1998, we had approximately 30,900 telephone service connections on our advanced fiber optic networks and approximately 65,000 customers for resold telephone service. We also provide long distance telephone services, including outbound, inbound, calling card and operator services. These services are offered to residential and business customers.

Video Services. We offer a diverse line-up of high quality basic, premium and pay-per-view video programming. Depending on the system, we offer from 61 to 147 channels. Our basic video programming package provides extensive channel selection featuring all major cable and broadcast networks. Our premium services include HBO, Cinemax, Showtime and The Movie Channel, as well as supplementary channels such as HBO 2, HBO 3 and Cinemax 2. StarCinema, available on our advanced fiber optic networks, uses the latest "impulse" technology allowing convenient impulse pay-per-view ordering of the latest hit movies and special events instantly from the customer's remote. "Music Choice" offers 30 different commercial-free music channels delivered to the customer's stereo in digital CD quality sound.

As of December 31, 1998, we had approximately 86,350 subscribers for our video programming services provided over advanced fiber optic networks. As of such date, we also had approximately 34,900 connections attributable to the wireless video system and approximately 140,400 connections attributable to the hybrid fiber/coaxial cable systems.

Internet Access and Data Transmission. We operate as an Internet service provider under the RCN.com brand name. We focus on serving individuals and businesses through a network of our-owned points of presence ("POPs") which are connected to our advanced fiber optic network. Our primary service offerings are 56K dial-up and high-speed cable modem access. We also sell commercially oriented private line point-to-point data transmission services such as DS-1 and OC-3 and a range of web page and server hosting services. Our subscribers use their RCN accounts to communicate, retrieve information, and publish information on the Internet. Following the recent acquisitions described below under "--- Recent Acquisition Transactions", we believe that we are the largest regional provider of Internet services in the Northeast United States. As of December 31, 1998, we had approximately 497,800 Internet subscribers.

Migration of Customers to Advanced Fiber Networks

We provide wireless video services to customers located near our advanced fiber optic network in New York City and Internet services to acquired subscribers. We have also actively marketed resold telephone service in the past. Our goal is to extend our advanced fiber optic network to service many of those customers. As our advanced fiber optic network is extended into these areas or buildings, customers receiving wireless video service in New York City are switched to the advanced fiber optic network from the wireless video network. The wireless video equipment is then used to provide service to other customers in off-network premises. Similarly, as the advanced fiber optic network is developed, voice and data customers are switched to the advanced fiber optic network from resale accounts. The switch to our network allows us to gain additional revenue and higher margins from originating and terminating access fees and to control the related services and service quality.

Strategic Relationships and Facilities Agreements

We have entered into a number of strategic alliances and relationships which allow us to enter into the telecommunications services market early and to reduce the cost of entry into our markets. We expect to continue to pursue potential opportunities from entering into strategic alliances to facilitate network expansion and entry into new markets.

BECO Joint Venture

In 1996 RCN and the Boston Edison Company ("BECO"), through wholly-owned subsidiaries, formed a joint venture to use 126 fiber miles of BECO's fiber optic network to deliver our comprehensive communications package in Greater Boston. A joint venture agreement provided for the organization and operation of RCN-BECOCOM, LLC, an unregulated entity with a term expiring in the year 2060. RCN-BECOCOM is a Massachusetts limited liability company organized to own and operate an advanced fiber optic telecommunications network and to provide, in the market in and around Boston, Massachusetts, voice, video and data services. At December 31, 1998 we owned 51% of the equity interest in RCN-BECOCOM and BECO owned the remaining 49% interest. This joint venture with BECO is reflected on our financial statements on a consolidated basis.

Pursuant to an exchange agreement between BECO and RCN, BECO has the right, from time to time, to convert portions of its ownership interest in RCN-BECOCOM into shares of our common stock. In February 1999, BECO and the Company entered into an Exchange Agreement relative to BECO's exercise of its right to convert approximately one-half of its ownership interest in RCN-BECOCOM into RCN common stock. (Note 7). The transaction was valued as of January 20, 1998, the date on which BECO gave notice to us of its intent to convert this ownership interest. The Exchange Agreement provided for the conversion of such ownership interest into 1,107,539 shares of RCN common stock. In accordance with the terms of the Operating Agreement, BECO has continued to invest in RCN-BECOCOM as if retaining a 49% interest and will continue to do so as long as BECOCOM does not dispose of the Exchange Shares.

We expect to benefit from our ability to use BECO's large fiber optic network, its focus on innovative technology, its sales and marketing expertise and its reach into the market. In the future, the venture may expand into energy management and property monitoring services. Starting in Boston, the joint venture partners have expanded into surrounding markets, including Arlington, Somerville and Newton. As a result of our access to the extensive BECO network, our reliance on and use of MFS/WorldCom facilities in Boston has been reduced significantly.

Starpower Joint Venture

In 1997, RCN Telecom Services, Inc., one of our subsidiaries, and Potomac Capital Investment Corporation ("PCI"), a wholly-owned subsidiary of Potomac Electric Power Company, formed a joint venture to own and operate a communications network to provide voice, video, data and other communications services to residential and commercial customers in the greater Washington, D.C., Virginia and Maryland area. Starpower is an unregulated limited liability

company with a perpetual term. Starpower was formed to construct, own, lease, operate and market a network for the selling of voice, video, data and other telecommunications services to all potential commercial and residential customers in the Washington, D.C. market covered by the joint venture contract. We own 50% of the equity interest in Starpower and Pepco Communications owns the remaining 50% interest. Starpower is reflected on our financial statements under the equity method of accounting.

Miscellaneous Facilities Agreements

We have also entered into agreements which have helped us accelerate network development, including Fiber Agreements entered into with MFS/WorldCom. MFS/WorldCom owns or has the right to use certain fiber optic network facilities in the Boston, Massachusetts and New York City markets. Under the Fiber Agreements, MFS/WorldCom agreed to construct and provide extensions connecting the fiber optic facilities to buildings we designated. We are also able to use certain dedicated fibers in those facilities, except that we may not use the facilities to deliver telephone services to commercial customers.

In February 1999, we announced that we have entered into joint construction agreements with Level 3. The agreements will allow us to deploy additional network in Boston and New York faster and at a lower cost. We also recently announced that we have entered into a letter of intent with Level 3 for Level 3 to provide us with cross-country capacity to allow our customers to connect to major Internet connection points in the United States. This gives us the ability to negotiate peering agreements that will allow the exchange of traffic as a Tier I operator.

In June 1998, we entered into an agreement with Qwest Communications for Qwest to provide us with capacity in its regional backbone of fiber lines to connect to our local networks from Boston to Washington, D.C.

Recent Acquisition Transactions

In February 1998, we acquired Erols Internet, Inc. ("Erols"). The total approximate consideration was \$36.0 million in cash including out of pocket costs of approximately \$1.4 million and the assumption and repayment of debt of approximately \$5.1 million and RCN Common Stock with a fair value of approximately \$45.0 million at the time of issuance. Additionally, the purchase price includes approximately \$11.0 million representing the fair value of Erols stock options which were converted to RCN stock options in connection with the acquisition. The transaction was accounted for by the purchase method of accounting.

RCN contributed to Starpower approximately 60% of the subscribers and related unearned revenue acquired in the acquisition of Erols. (Note 7)

Goodwill and the value assigned to certain acquired current products and technologies, primarily residential dial-up and dedicated Internet access, and Internet advertising, aggregating approximately \$35.0 million was recorded in connection with the acquisition of Erols and contribution to Starpower. These intangible assets are being amortized over approximately four years.

In February 1998, we acquired Ultranet Communications, Inc. ("Ultranet"). The total approximate consideration was \$7.7 million in cash including cash payments aggregating approximately \$5.5 million to certain holders of Ultranet stock options and RCN Common Stock with a fair value of approximately \$26.2 million at the time of issuance. Additionally, the purchase price includes approximately \$1.9 million representing the fair value of Ultranet stock options which were converted to RCN stock options in connection with the acquisition. The transaction was accounted for by the purchase method of accounting.

RCN contributed to RCN-BECOCOM approximately 30% of the subscribers acquired in the acquisition of Ultranet.

Goodwill and the value assigned to certain acquired current products and technologies, primarily residential dial-up and dedicated Internet access, and Internet advertising, aggregating approximately \$31.1 million was recorded in connection with the acquisition of Ultranet and contribution to RCN-BECOCOM. These intangible assets are being amortized over approximately four years.

In the allocation of purchase price associated with the acquisition of Erols and Ultranet, \$13.2 and \$5.1 million, respectively, was determined to represent acquired in-process research & development ("IPR&D"). Specifically, four projects were identified which qualified as IPR&D by definition of not having achieved technological feasibility and representing technology which at the point of acquisition offered no alternative use than the defined project. The fair value of the IPR&D projects associated with these acquisitions is based upon a discounted cash flow analysis modified to represent only that portion of the project associated with completed research and development efforts at the date of acquisition. For both the Erols and the Ultranet acquisitions, RCN identified the R&D development projects to include -

- Cable Modem Internet access for subscribers, consisting of projects to develop the hardware, systems and software to permit subscribers to be offered high-speed Internet access through direct cable connection. The remaining development effort is concerned with technical standards for this service and with the design and integration of this product into RCN's cable and fiber optic network. RCN management estimated that this project for both acquisitions was approximately 70% complete and that each had approximately \$25.0 thousand of direct development expense remaining to be spent in 1998 and 1999, with planned revenues from this service expected to begin thereafter.

- Internet Telephony, representing projects to develop the potential for dial-up telephone service through the Internet. This service area presented significant technical challenges as well as political, commercial and market challenges to be faced before service could be offered to subscribers. Since at the acquisition date neither hardware nor systems have been acquired or developed in support of this new product, a high degree of development activity remains. RCN management estimated that this project for both acquisitions was only approximately 20% complete and that the remaining development cost at the date of acquisition was approximately \$1 million in 1998, \$2 million in 1999 and \$5 million in 2000 with revenues from this service expected to begin thereafter.

- E-Commerce Systems, consisted of our efforts to develop a suitable system that would permit subscribers to conduct commercial activities over the Internet. Following evaluation of commercially-available packages, none were capable of meeting subscriber needs and development of the suitable system was undertaken. RCN management estimated that the project for both acquisitions was approximately 90% complete and that each had about \$25 thousand of development expense remaining to be spent in 1998 with revenues from this service expected to begin thereafter.

- High-speed shared office Internet access, representing a blending of fiber optic and Internet networking technologies, was under development as a package to be offered to commercial clients. While the technical challenges were still being addressed at the acquisition date, there was no certainty that this system would result in a competitive product offering in the market. The management of RCN estimated that the project for both acquisitions was approximately 75% complete and that each had less than \$25 thousand of development expense remaining to be spent in 1998 with revenues from this service expected to begin thereafter.

Relative to the qualification of these projects as IPR&D projects under the meaning within Statement of Financial Accounting Standards No. 2 ("SFAS 2"), each represented at the date of acquisition a development project associated with new and uncertain technology that was incomplete and had not reached technical feasibility. Further, the technology under development in each of these areas was not seen to present opportunities for alternative future use should the contemplated development project fail to achieve completion. In each of the above projects, the uncertainty

associated with each, in the absence of a successful product introduction, may result in the possible abandonment of the project and the loss of both invested development funds and the profit contributions that such projects were expected to bring to the business as a whole.

In June 1998, RCN acquired Interport Communications Corp. ("Interport"). The total approximate consideration for the transaction was \$1.3 million in cash and RCN Common Stock with a fair value of approximately \$8.5 million at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$7.2 million has been allocated to goodwill. Such goodwill is being amortized over approximately four years.

In June 1998, we also acquired Lancit Media Entertainment, Ltd. ("Lancit"), a producer of high quality children's programming. The total approximate consideration for the transaction was \$4 million in cash and RCN Common Stock with a fair value of approximately \$7.4 million at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$9.5 million has been allocated to goodwill. Such goodwill is being amortized over approximately five years.

In July 1998, we acquired Javanet, Inc. ("Javanet"). The total approximate consideration for the transaction was \$3.7 million in cash and RCN Common Stock with a fair value of approximately \$13.4 million at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$14.8 million has been allocated to goodwill. Such goodwill is being amortized over approximately three years.

International

We own a 40.0% interest in Megacable, the second largest cable television provider in Mexico. Megacable owns 22 wireline cable systems in Mexico, principally on the Pacific and Gulf coasts and including Guadalajara, the second largest city in Mexico, Hermosillo, the largest city in the state of Sonora and Veracruz, the largest city in the state of Veracruz. At December 31, 1998, their wireline systems passed approximately 733,500 homes and served approximately 222,300 subscribers. Megacable had revenues of \$37.5 million and \$30.4 million for the years ended December 31, 1998 and 1997, respectively.

Additionally, Megacable presently holds a 99% interest in Megacable Comunicaciones de Mexico S.A. ("MCM"). MCM has received a license from the Mexican government to allow it to build a fiber optic network in Mexico City, Monterrey and Guadalajara. MCM intends to use this network to provide local voice and high-speed data service in these cities, principally to commercial customers in Mexico City.

Competition

Overview -----

We compete with a wide range of service providers for each of our services. Virtually all markets for voice and video services are extremely competitive, and we expect that competition will intensify in the future. We face significant competition in each of the markets in which we offer voice and video programming services. Our competitors are often larger, better-financed incumbent local telephone carriers and cable companies with better access to capital resources, and many have historically dominated their local telephone and cable television markets. These incumbents presently have numerous advantages as a result of their historic monopolistic control of their respective markets, economies of scale and scope and control of limited conduit and pole space. They also have well-established customer and vendor relationships. However, we believe that most existing and potential competitors will, at least initially, offer narrower services over limited delivery platforms compared to the wide range of voice, video and data services that we provide over our fiber-based networks. This gives us an opportunity to achieve important market penetration.

We compete with the incumbent Local Exchange Carriers ("LECs") for the provision of local telephone services, as well as with alternative service providers including CLECs. Cable operators are also entering the local exchange market in some locations. Other sources of competitive local and long distance telephone services include: Commercial mobile radio services providers, including cellular carriers (such as Bell Atlantic Mobile Services); personal communications services carriers such as Sprint PCS; and enhanced specialized mobile radio services providers (such as NextTel).

We face, and expect to continue to face, significant competition for long distance telephone services from the inter-exchange carriers ("IXCs"), including AT&T, Sprint and MCI WorldCom, which account for the majority of all U.S. long distance revenue. The major long distance service providers benefit from established market share and from established trade names through nationwide advertising. However, we regard our long-distance service as a complementary service rather than a principal source of revenue. Certain IXCs, including AT&T, MCI WorldCom and Sprint, have also announced their intention to offer local services in major U.S. markets using their existing infrastructure in combination with resale of incumbent LEC service, lease of unbundled local loops or other providers' services. Internet-based telephony, a potential competitor for low cost telephone service, is also developing and the Company is also pursuing this technology.

All of our video services face competition from alternative methods of receiving and distributing television signals and from other sources of news, information and entertainment. Other sources include off-air television broadcast programming, newspapers, movie theaters, live sporting events, interactive online computer services and home video products, including videotape cassette recorders. Alternative video distribution technologies include traditional cable networks, wireless local video distribution technologies, and home satellite dish ("HSD") earth stations. Home satellite systems enable individual households to receive many of the satellite-delivered program services formerly available only to cable subscribers. The Cable Television Consumer Protection and Competition Act of 1992 (the "1992 Act") contains provisions, which the FCC has implemented with regulations, to enhance the ability of cable competitors to purchase and make available to HSD owners certain satellite-delivered cable programming at competitive costs. We face additional competition from private satellite master antenna television ("SMATV") systems that serve condominiums, apartment and office complexes and private residential developments. The FCC and Congress have adopted policies providing a more favorable operating environment for new and existing technologies that compete, or may compete, with our various video distribution systems. These technologies include, among others, Direct Broadcast Satellite ("DBS") service whereby signals are transmitted by satellite to receiving facilities located on customer premises. We expect that our video programming services will face growing competition from current and new DBS service providers. The FCC has recently determined that DBS is the fastest-growing competitor to franchised cable operations. We also compete with wireless program distribution services such as Multi-Channel Multi-Point Distribution Service which use low-power microwave frequencies to transmit video programming over-the-air to subscribers.

The Internet access market is extremely competitive and highly fragmented. Competition in this market is expected to intensify. Our current and prospective competitors include established online services; local, regional and national ISPs; national and international telecommunications companies including Regional Bell Operating Companies ("RBOCs") such as Bell Atlantic; and affiliates of incumbent cable providers. Increased competition may create downward pressure on the pricing of and margins from Internet access services.

Other new technologies, including Internet-based services, may compete with services that we can offer. Advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring. Thus, we cannot predict the effect that ongoing or future developments might have on the voice, video and data industries or on our operations or Financial Condition.

We believe that among the existing competitors, the incumbent LECs, incumbent cable providers and the CLECs are most of our competitors in the delivery of "last mile" connections for voice and video services.

Video and Voice Services

Incumbent LECs

In each of our target markets for advanced fiber optic networks, we face, and expect to continue to face, significant competition from the incumbent LECs. The incumbent LECs include Bell Atlantic in the Northeast Corridor, and Pacific Bell in California, both of which currently dominate their local telephone markets. We compete with the incumbent LECs in our markets for local exchange services on the basis of product offerings, including the ability to offer bundled voice and video service, reliability, state-of-the-art technology and superior customer service, as well as price. We believe that our advanced fiber optic networks provide superior technology for delivering high-speed, high-capacity voice, video and data services compared to the incumbent LECs' primarily copper wire based networks. However, the incumbent LECs have long-standing relationships with their customers. They have also begun to expand the amount of fiber facilities in their networks, to offer broadband digital transmission services and retail Internet access, and to prepare to re-enter the long distance telephone service market. The pending merger between Bell Atlantic and GTE Corporation may enhance the combined entity's ability to compete with us in the Northeast corridor markets. The pending merger between SBC and Ameritech may also increase competitive pressures in the Northeast corridor if SBC, which already owns a Connecticut incumbent LEC and several wireless franchises in this region, continues to pursue a nationwide strategy.

Under the Telecommunications Act of 1996 (the "1996 Act"), and ensuing federal and state regulatory initiatives, barriers to local exchange competition are being slowly removed. The introduction of such competition, however, also establishes the predicate for the RBOCs, such as Bell Atlantic, to provide in-region interexchange long distance services. The RBOCs are currently allowed to offer "incidental" long distance service in-region and to offer out-of-region long distance service. Once the RBOCs are allowed to offer in-region long distance services, they will also be in a position to offer single source local and long distance service similar to what we offer and proposed by the three largest IXCs: AT&T, MCI WorldCom and Sprint. We expect that the increased competition made possible by regulatory reform will result in certain pricing and margin pressures in the telecommunications services business.

We have sought, and will continue to seek, to provide a full range of local voice services which compete with incumbent LECs in our service areas. We expect that competition for local telephone services will be based primarily on quality, capacity and reliability of network facilities, customer service, response to customer needs, service features and price, and will not be based on any proprietary technology. Our new advanced fiber optic networks, employ dual backbone architecture and state-of-the-art technology therefore, we may have capital cost and service quality advantages over some of the networks of the incumbent LECs. We may also have a competitive advantage because we are able to deliver a bundled voice and video service.

The 1996 Act permits the incumbent LECs and others, with which we compete, to provide a wide variety of video services directly to subscribers, which we compete with. Various LECs currently are providing video services within and outside their

telephone service areas through a variety of distribution methods, including both the deployment of broadband wire facilities and the use of wireless transmission facilities. We cannot predict the likelihood of success of video service ventures by LECs or the impact such competitive ventures may have on us. Some LECs, including Bell Atlantic, also offer Internet access services that compete with RCN.com services.

Incumbent Cable Television Service Providers

Certain of our video service businesses compete with incumbent wireline cable companies in their respective service areas. In particular, our advanced fiber optic networks compete for cable subscribers with the major wireline cable operators in our markets, such as Time-Warner Cable in New York City and Cablevision in Boston and TCI in Washington, D.C. Our wireless video service in New York City competes primarily with Time-Warner Cable. We believe that the expanded capacity and fiber-to-node architecture of our advanced fiber optic networks make them better equipped to provide high-capacity communications services than traditional coaxial cable based networks using "tree and branch" architecture. Our Lehigh Valley, Pennsylvania hybrid fiber/coaxial cable television system competes with an alternate service provider, Service Electric, which also holds a franchise for the relevant service area.

Cable television systems generally operate pursuant to franchises granted on a non-exclusive basis, and the 1992 Act prohibits franchising authorities from unreasonably denying requests for additional franchises and permits franchising authorities to operate cable systems. Therefore, well-financed businesses from outside the cable industry, such as the public utilities that own certain of the conduits or poles which carry cable, may become competitors for franchises or providers of competing services. Telephone companies or others may also enter the video distribution market by becoming open video service operators as we have done in several markets, pursuant to Section 653 of the Communications Act. No local franchise is required for the provision of such service. See "Regulation of video services" below.

CLECs and Other Competitors

We also face, and expect to continue to face, competition from other potential competitors in certain of our geographic markets. Other CLECs, such as subsidiaries of AT&T and MCI WorldCom, compete for local telephone services, although they have to date focused primarily on the market for commercial customers rather than residential customers. In addition, potential competitors capable of offering private line and special access services also include other smaller long distance carriers, cable television companies, electric utilities, microwave carriers, wireless telephone system operators and private networks built by large end-users, including Winstar, Dualstar and New Vision. However, we believe that, at least initially, we are relatively unique in our markets in offering bundled voice, video and data services primarily to customers in residential areas over our own advanced fiber optic network.

Internet Services

The Internet access market is extremely competitive and highly fragmented. No significant barriers to entry exist, and accordingly competition in this market is expected to intensify. Our current and prospective competitors include many large companies with substantially greater market presence and financial and other resources. RCN.com competes directly or indirectly with:

- o established online services, such as America Online, the Microsoft Network and Prodigy;
- o local, regional, and national ISPs such as PSINet, EarthLink, Mindspring and Rocky Mountain Internet;
- o the Internet services of national and international telecommunications companies, such as AT&T, GTE, MCI WorldCom and Cable & Wireless;

- o Internet access offered by RBOCs such as Bell Atlantic; and
- o online services offered by incumbent cable providers, such as At Home and Roadrunner.

Bell Atlantic has recently asked the FCC to authorize it to build a regional high-speed network, which would serve as an Internet backbone, and to exempt this network from pricing and other regulatory restrictions. The network would span the states from Maine to Virginia. The acquisition of Internet access competition is likely to increase as large diversified telecommunications and media companies acquire ISPs and as ISPs consolidate into larger, more competitive companies. For example, AT&T has completed the acquisition of TCI's cable television networks, which gives it a significant ownership interest in At Home, an ISP. Diversified competitors may bundle other services and products with Internet connectivity services, potentially placing us at a competitive disadvantage. In addition, competitors may create downward pressure on the pricing of and margins from Internet access services. Competition could also impact our ability to participate in transit agreements and peering arrangements, which could in turn adversely effect the speed of service that we can provide to our customers.

Other new technologies may become competitive with our services. A provider of Limited Multi Distribution Systems ("LMDS") recently began offering wireless Internet and video programming services in New York City and has announced plans to offer telephone service in the future. Advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring. In addition, a continuing trend toward business combinations and alliances in the telecommunications industry may also create significant new competitors. We cannot predict whether competition from developing and future technologies or from future competitors will have a material impact on our operations or financial condition.

Regulation

Our telephone and video programming transmission services are subject to federal, state and local government regulation. The 1996 Act introduced widespread changes in the regulation of the communications industry, including the local telephone, long distance telephone, data services, and television entertainment segments. The 1996 Act was intended to promote competition and decrease regulation of these segments of the industry. The law delegates to both the FCC and the states broad regulatory and administrative authority to implement the 1996 Act.

Telecommunications Act of 1996

The 1996 Act eliminates many of the pre-existing legal barriers to competition in the telephone and video programming communications businesses. The Act also preempts many of the state barriers to local telephone service competition that previously existed in state and local laws and regulations and sets basic standards for relationships between telecommunications providers.

The 1996 Act removes barriers to entry in the local exchange telephone market by preempting state and local laws that restrict competition and by requiring LECs to provide nondiscriminatory access and interconnection to potential competitors, such as cable operators, wireless telecommunications providers, and long distance companies. In addition, the 1996 Act provides relief from the earnings restrictions and price controls that have governed the local telephone business for many years. The 1996 Act will also, once certain thresholds are met, allow incumbent RBOCs to enter the long distance market within their own local service regions.

Regulations promulgated by the FCC under the 1996 Act require LECs to open their telephone networks to competition by providing competitors interconnection, access to unbundled network elements and retail services at wholesale rates. As a result of these changes, companies such as ours are now able to interconnect with the incumbent LECs in order to provide local exchange services. Numerous parties appealed certain aspects of these regulations, and implementation of several provisions of the rules was delayed while the courts considered these appeals. On January 25, 1999, the Supreme Court issued an opinion confirming the FCC's authority to issue regulations implementing the pricing and other provisions of the 1996 Act and reinstating most of the challenged rules. However, the Supreme Court vacated a key FCC rule identifying the network elements that incumbent LECs are required to unbundle. This decision will likely require the FCC to conduct additional proceedings to determine new unbundling standards. The outcome of such proceedings cannot be predicted. Also, while the Supreme Court confirmed that the FCC has authority to issue rules implementing the 1996 Act, particular rules still may be challenged in future court proceedings. Future regulatory proceedings and court appeals may create delay and uncertainty in effectuating the interconnection and local competition provisions of the 1996 Act. While the courts were reviewing the FCC rules, we had entered into interconnection agreements with Bell Atlantic covering all of our target market area that are generally consistent with the FCC guidelines. Those agreements remain in effect, although some are subject to termination on or after July 1, 1999. We cannot assure you, however, that we will be able to obtain or enforce future interconnection agreements, or obtain renewal of existing agreements, on acceptable terms.

The 1996 Act establishes certain conditions before RBOCs are allowed to offer interLATA long distance service to customers within their local service regions. These conditions include 14 "checklist" requirements designed to open the RBOC networks to competitors. To date, no RBOC has received FCC authorization to provide in-region long distance service, but it is likely that several RBOCs will seek authorization in 1999. Bell Atlantic is likely to seek authorization for New York and possibly other states in its region. If an RBOC is authorized to provide in-region long distance service in one or more states, the RBOC may be able to offer "one-stop shopping" services that compete with our service offerings. See "Business-Competition". In addition, the RBOC will lose the incentive it now has to rapidly implement the interconnection provisions of the 1996 Act in order to obtain in-region authority, although the RBOC will still be subject to a legal obligation to comply with those provisions.

The 1996 Act also makes far-reaching changes in the regulation of video programming transmission services. These include changes to the regulations applicable to video operators, the elimination of restrictions on telephone company entry into the video business, and the establishment of a new OVS regulatory structure for telephone companies and others. Under the 1996 Act and implementing rules adopted by the FCC, local telephone companies, including both incumbent LECs such as Bell Atlantic, and CLECs such as RCN, may provide service as traditional cable television operators subject to municipal cable television franchises, or they may choose to provide their programming over non-franchised open video systems subject to certain conditions. The ability to provide OVS service without having obtained a local franchise, however, has been called into question by a recent decision. See Regulation of Video Services, below. The conditions include making available a portion of their channel capacity for use by unaffiliated program distributors and satisfying certain other requirements, including providing capacity for public, educational and government channels, and paying a gross receipts fee equal to the franchise fee paid by the incumbent cable television operator. We are one of the first CLECs to provide television programming over an advanced fiber optic network under the OVS regulations implemented by the FCC under the 1996 Act. As discussed below, we are currently providing OVS service in the City of Boston, in the City of New York and in a number of communities surrounding Boston. We are also negotiating, in the District of Columbia, similar agreements in Northern New Jersey, Philadelphia and surrounding communities, and San Francisco and surrounding communities. Starpower is negotiating similar OVS agreements and local franchises in communities surrounding Washington D.C.

Regulation of Voice Services

Our voice business is subject to regulation by the FCC at the federal level for interstate telephone services (i.e., those that originate in one state and terminate in a different state). State regulatory commissions have jurisdiction over intrastate communications (i.e., those that originate and terminate in the same state).

State Regulation of Intrastate Local and Long Distance Telephone Services. Our intrastate telephone services are regulated by the public service commissions or comparable agencies of the various states in which we offer these services. Our subsidiaries or affiliates have received authority to offer intrastate telephone services, including local exchange service, in California, Delaware, the District of Columbia, Maryland, Massachusetts, Nevada, New Jersey, New York, Pennsylvania, Rhode Island, Vermont and Virginia. We have applied for authority to offer these services in Arizona, Connecticut, Maine and New Hampshire. Starpower has separately obtained similar authority in Maryland, Virginia and the District of Columbia. Our resale and interconnection agreements have been approved, pursuant to Section 252 of the Communications Act, by state regulatory commissions in Arizona, Delaware, the District of Columbia, Maine, Maryland, Massachusetts, New York, New Jersey, New Hampshire, Pennsylvania, Rhode Island, Vermont and Virginia.

RCN Long Distance Company is authorized to offer intrastate long distance services in 48 states nationwide. RCN Long Distance Company is permitted to resell intrastate long distance services both to other carriers, including our local operating subsidiaries and Starpower for resale to their end user subscribers, and to our own end user customers.

FCC Regulation of Interstate and International Telephone Services. Through several of our subsidiaries, including RCN Long Distance Company, we may provide domestic interstate telephone services nationwide under tariffs on file at the FCC. We have been authorized by the FCC under Section 214 of the 1996 Act to offer worldwide international services as well.

Local Regulation of Telephone Services. Municipalities also regulate limited aspects of our voice business by, for example, imposing various zoning requirements. In some instances, they require telecommunications licenses, franchise agreements and/or installation permits for access to local streets and rights-of-way. In New York City, for example, we will be required to obtain a telephone franchise in order to provide voice services using our advanced fiber optic network facilities located in the streets of New York City, although services may be provided over certain leased or resold facilities while we wait to receive a franchise.

Regulation of Video Services

Open Video Systems. At various times between February 1997 and July 1998, our subsidiaries and affiliates have been certified by the FCC to operate OVS networks in New York City, Boston, Washington, Philadelphia and San Francisco, and communities surrounding each of these cities, and in the Northern New Jersey area. Initiation of OVS services is subject to completion of an open enrollment period for non-affiliated video programmers to seek capacity on the systems and after negotiation of certain agreements with local governments. The initial open enrollment period for each of these systems has expired, except for the Northern New Jersey system, where the open enrollment period has not yet begun. We executed an agreement with the City of Boston on June 2, 1997, and initiated OVS service in the City on that day. Under our agreement with the City of Boston, we will be required to pay a fee to the City equal to 5% of video revenues. We have entered into similar OVS agreements or are in the process of negotiating agreements with certain other Boston-area municipalities, either to offer OVS services or franchised cable television services. We entered into an agreement with the City of New York on December 29, 1997 and have initiated OVS service in the Borough of Manhattan. RCN also provides video distribution service in Manhattan and a portion of the Bronx using microwave facilities and antennas located at multiple dwelling units. On July 10, 1998, we supplemented our agreement with the City of New York to include all five boroughs. On October 26, 1998, Starpower entered into an

agreement with the District of Columbia and initiated OVS service in the District in the last quarter of 1998. Starpower has entered into similar agreements or is in the process of negotiating agreements with numerous suburban communities near Washington, D.C., to offer either OVS services or franchised cable television services.

In areas where we offer video programming services as an OVS operator, we are required to make any "open capacity" on the system available to unaffiliated video program providers ("VPPs"). The commission's rules permit us to retain up to one-third of system capacity for our own (or affiliate's) use. Under the OVS regulations, during initial open enrollment period we must offer at least two-thirds of our capacity to unaffiliated parties, if demand for such capacity exists during the open enrollment period. In certain areas, at the request of local officials, we are in discussions to explore the feasibility of obtaining a cable franchise instead of an OVS agreement. We will consider providing RCN video service under franchise agreements rather than OVS certification, if franchise agreements are preferred by the local authorities and can be obtained on acceptable terms and conditions. We will consider the relative benefits of OVS certification versus local franchise agreements, including the possible imposition build out requirements, before making any decisions.

The U.S. Court of Appeals for the Fifth Circuit has recently released a decision approving some portions of the FCC's OVS rules but striking down other portions. Although a number of the Court's rulings are favorable to OVS operators, others could have an adverse impact on our OVS operations and planning. The Court's most significant decision was to strike down the FCC's rule preempting local authority to franchise OVS operators. The FCC's rules had set forth a relatively simple procedure at the FCC for rapid certification of each OVS system on a regional basis and permitted local authorities to regulate OVS only as to rights-of-way administration and in other minor respects. One of the principal advantages of OVS as structured by Congress and by the FCC was to eliminate the time, expense, and uncertainty generally required to secure a local franchise. The Court's action allowing local governments to require area-by-area franchising may significantly reduce the advantage of OVS operation as compared with traditional franchising and delay achieving agreements with local governments. We believe the Court's decision is erroneous in its application of law and have sought reconsideration by the full court. The FCC, which is the respondent before the Fifth Circuit, has also sought reconsideration. In the event the court denies reconsideration, it is not clear how the FCC will modify its OVS policy and rules to take account of the Court's specific rulings. The U.S. Courts of Appeal do not routinely grant requests to reconsider their rulings and when they do a significant period of time is generally required for the consideration of such requests. However, in many instances RCN, at the insistence of local authorities, has been negotiating franchise agreements and agreeing to provisions in OVS right-of-way agreements which to some extent erode the differences between the two modes of operation. Accordingly, while the ruling is disadvantageous to us, we expect to continue to expand our video service offerings.

The FCC's rules require OVS operators to make their facilities available to video program providers on a non-discriminatory basis, with certain exceptions. One exception is that competing in-region cable operators are not entitled to become video program providers on an OVS except in certain limited circumstances. The incumbent cable operator in Boston, Cablevision of Boston, Inc., sought an order from the FCC compelling us to provide it with certain data on our Boston OVS system and declaring Cablevision an eligible video programming provider on our system. The FCC's Cable Services Bureau denied its request and that denial has become final. Time Warner Cable Co., which operates franchised cable systems in many suburban Boston communities included within our OVS certification, also sought an order compelling us to release certain OVS system data and to declare it eligible for carriage on our system. Unlike Cablevision, Time Warner is not competing with any RCN-provided OVS service and restricted its request to communities where it is not the franchised cable operator. Time Warner also petitioned the FCC to impose fines or cancel our OVS authority. The Cable Services Bureau partially granted the data

request and partially denied it but found too little evidence to justify further exploration of our good faith in acquiring OVS authority. We have sought partial reconsideration of the Bureau's order, which is currently pending. Time Warner filed a similar complaint against us in New York City where we compete with it for video distribution business in Manhattan. Time Warner asked for system data concerning parts of New York City in which it does not hold a franchise for cable service. The FCC's Cable Services Bureau partially granted Time Warner's complaint, and partially denied it, relying on its prior decision in the Time Warner complaint in the Boston area. We have sought partial reconsideration of that decision and Time Warner has asked the full commission to review that portion of the Cable Bureau's decision which denied certain of Time Warner's data requests.

Two additional cable company complaints have been filed against Starpower, seeking data and a determination of eligibility for carriage on the metropolitan Washington OVS system. As in the prior complaints, they challenge our status as an OVS operator and seek to revoke our OVS authority. These complaints were filed by Media General Cable of Fairfax, Inc., which operates franchised cable service within the projected service area of Starpower's OVS system, and Media General Cable of Fredericksburg, Inc. which is an affiliate of Media General Cable of Fairfax, Inc. and operates a cable system beyond Starpower's service area. Both claimed to be seeking system data for areas in which they do not provide franchised service. Starpower declined to provide system data to Media General of Fairfax on the ground that, as an in-region competitive cable company, it was not entitled to the data or to be carried on the system. The request of Media General of Fredericksburg was denied on the ground that, as an affiliate of Media General of Fairfax, it was not entitled under FCC rules to the requested data or to be carried on the system. Starpower responded to both Media General Complaints on December 14, 1998. Media General has also sought to initiate discovery against Starpower. The cable services bureau has not yet acted on the Media General complaints.

Cable industry representatives have opposed or commented adversely on two other RCN OVS initiatives. In respect to our application for OVS authority in the San Francisco area, the California Cable Television Association filed an opposition, alleging that we were misusing the OVS rules to compete unfairly against franchised cable operators. The Pennsylvania Cable & Telecommunications Association filed comments on our OVS application for OVS authority in the Philadelphia region, making similar allegations but not formally opposing the application. The Cable Services Bureau granted both of our applications, indicating that our applications were consistent with the rules and that the opposing parties had not provided sufficient evidence to justify initiating any regulatory action against us. There is language in each of these Cable Bureau determinations involving our implementation of the OVS concept which leave open the possibility for adverse parties to challenge our status as an OVS operator. We believe that we are operating in strict conformity with all applicable provisions of the law and will continue to defend our OVS roll-outs against what we believe are anti-competitive requests for data or carriage by competing in-region cable operators. However, we cannot assure you that the FCC will resolve the pending OVS complaints in our favor. If the FCC were to grant any such complaints and as a result we were obliged to share system data with our local competitors, we would be forced to reassess the desirability of continuing to operate in certain markets as an OVS operator as compared with seeking traditional cable franchises. We do not believe that abandoning our OVS certifications under such circumstances would materially adversely affect our video distribution activities.

As in the case of traditional franchised cable systems, OVS operators must in virtually all locations have access to public rights-of-way for their distribution plant. In a number of jurisdictions local authorities have attempted to impose rights-of-way fees on us which we believe are in violation of federal law. A number of FCC and judicial decisions have addressed the issues posed by the imposition of rights-of-way fees on CLECs and on video distributors. To date the state of the law is uncertain and may remain so for some time. The obligation to pay local rights-of-way fees which are excessive or discriminatory could have adverse effects on our business activities. See "Legal Proceeding" below. The incumbent cable operator in Boston, MA, Cablevision of Boston, Inc., recently filed suit in U.S. District Court in Boston against the City of Boston, RCN-BECOCOM, RCN, BECOCOM and others, alleging that the City

had followed a discriminatory policy in administering access to public rights-of-way for the installation and use of underground conduit and that the private defendants had participated in an effort to unlawfully construct and use underground conduit. Cablevision claimed that the defendants were in violation of the 1996 Act and Massachusetts state law, and sought a preliminary injunction. RCN and the other defendants denied participating in any unlawful activity. The Court has denied the preliminary injunction and issued a written memorandum of decision expressing some doubts about the underlying merits of Cablevision's claims. On March 15, 1999 the district judge stayed the litigation pending the outcome of Cablevision's appeal. There can be no assurance that Cablevision will not further pursue the litigation nor that if it does so the outcome will be favorable to the Company. Cablevision filed an appeal of the District Court's ruling with the First Circuit Court of Appeals on February 26, 1999. Oral argument on the appeal will be scheduled for June 1999. Cablevision has filed an Amended Complaint in the District Court, but the District Court has stayed that proceeding until the First Circuit Court rules on the appeal. We cannot assure you that Cablevision will not further pursue the litigation nor that if it does so the outcome will be favorable to us.

Access issues have also arisen in a proceeding before the Massachusetts Department of Telecommunications and Energy (the "MDTE"). In 1997, the MDTE opened an investigation into Boston Edison Company's compliance with a MDTE order in 1993 that permitted Boston Edison to invest up to \$45 million in its unregulated subsidiary Boston Edison Technology Group for three limited purposes. RCN-BECOCOM intervened in the current proceeding, as did Cablevision Systems Corporation and the New England Cable Television Association, Inc., along with others. Hearings began in December 1998 and are still proceeding. The intervenors, in particular, Cablevision have advocated that if the MDTE finds that Boston Edison's investment in RCN-BECOCOM violated the 1993 Order, then Boston Edison should be forced to divest itself of its interest in RCN-BECOCOM, that RCN-BECOCOM should be subject to the same terms and conditions as other cable television providers who seek to attach their facilities to Boston Edison facilities, and that installed RCN-BECOCOM cables and fiber-optic facilities should be relocated. Boston Edison is vigorously defending the propriety of its compliance with the MDTE's 1993 Order, and its investment in RCN-BECOCOM. RCN cannot assure you that the MDTE will not determine that Boston Edison violated the MDTE's 1993 Order nor can RCN assure you as to the nature of any remedy that the MDTE may determine to be appropriate including those proposed remedies which are equitable in nature. RCN is participating in the proceeding and plans to take such action as it deems appropriate to protect its rights.

Prior to our certification as an OVS provider, we offered limited video programming services using the Video DialTone Transport ("VDT") services offered by MFS/WorldCom in Manhattan and the City of Boston. In February 1997, the FCC held that MFS/WorldCom's facilities did not qualify as video dialtone facilities entitled to an extension of time to comply with the newly adopted OVS rules. Nonetheless, the FCC did not direct MFS/WorldCom and RCN to cease video programming distribution operations over the MFS/WorldCom platform. One of the incumbent cable television companies in New York City has filed a complaint with the New York Public Service Commission challenging the former, pre-OVS, operations of RCN and WorldCom under the VDT framework, which remains pending before that commission.

Wireless Video Services. Our 18 GHz wireless video services in New York City are distributed using microwave facilities provided by Bartholdi Cable under temporary authorizations issued to Bartholdi Cable by the FCC. Bartholdi Cable has agreed to provide us with transmission services until we have either converted the wireless video subscribers to our advanced fiber optic network facilities or have obtained FCC authority to provide services under our own wireless radio licenses. In addition, Bartholdi Cable has agreed to transfer to us the transmission equipment on demand. Bartholdi Cable's obligation to provide transmission services is subject to Bartholdi Cable having licenses from the FCC to provide these services. The qualifications of Bartholdi Cable to hold certain of the licenses needed to provide transmission services to us are at issue in an FCC proceeding in which an initial decision was released on March 6, 1998. In the initial decision, the Administrative Law Judge found Bartholdi Cable unqualified with respect to 15 such licenses. The Administrative Law Judge declared that the initial decision would become effective 50 days after its release unless Bartholdi Cable filed exceptions to the initial decision within 30 days of its release or the FCC elected to review the case on its own motion. Bartholdi Cable filed exceptions to the initial decision on April 7, 1998. Because of the uncertainty as to Bartholdi Cable's right in the future to offer transmission services to us, we filed our own license applications at the FCC for all of the microwave transmission paths which are currently being used by Bartholdi Cable to provide us with transmission services. In light of the increased uncertainties resulting from the initial decision in the FCC proceeding, we expect now actively to pursue our license applications. While we expect to receive authorizations to transmit over these microwave paths, we cannot assure you that we will be able to offer wireless video services under our own FCC licenses or that the FCC's investigation will be resolved favorably. Our failure to obtain these licenses or resolve these proceedings would materially adversely affect our wireless video operations in New York City.

We cannot assure you that we will be able to obtain or retain all necessary authorizations needed to construct advanced fiber optic network facilities, to convert our wireless video subscribers to an advanced fiber optic network or to offer wireless video services under our own FCC licenses.

Hybrid Fiber/Coaxial Cable. Our hybrid fiber/coaxial cable systems are subject to regulation under the 1992 Act. The 1992 Act regulate rates for cable services in communities that are not subject to "effective competition," certain programming requirements, and broadcast signal carriage requirements that allow local commercial television broadcast stations to require a cable system to carry the station. Local commercial television broadcast stations may elect once every three years to require a cable system

to carry the station ("must-carry"), subject to certain exceptions, or to withhold consent and negotiate the terms of carriage ("retransmission consent"). A cable system generally is required to devote up to one-third of its activated channel capacity for the carriage of local commercial television stations whether under the mandatory carriage or retransmission consent requirements of the 1992 Act. Local non-commercial television stations are also given mandatory carriage rights. The FCC recently issued rules establishing standards for digital television ("DTV"). The FCC's rules require television stations to simulcast their existing television signals ("NTSC") and DTV signals for a period of years. During this simulcast period, it is unclear whether must-carry rules will apply to DTV signals. The FCC has initiated a rule making proceeding seeking comment on the carriage of broadcast DTV signals by cable and OVS operators during the transitional period to full digital broadcasting. The FCC's proceeding addresses the need for the digital systems to be compatible, seeks comment on possible changes to the mandatory carriage rules, and explores the impact carriage of DTV signals may have on other FCC rules. The cable industry has generally opposed many of the FCC's proposals, on the grounds that they constitute excessively burdensome obligations on the industry. The Communications Act permits franchising authorities to require cable operators to set aside certain channels for public, educational and governmental access programming. Cable systems with 36 or more channels must designate a portion of their channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator.

On September 8, 1997, we were notified by the FCC that it had ruled that certain of our upper levels of service for our New Jersey systems were regulated levels of service and that our rates for these levels of service exceeded the rates allowed by the FCC rate regulation rules. Since that time, RCN and the FCC have negotiated a settlement under which the FCC finds that our upper levels of service for our New Jersey and certain New York systems are "New Product Tiers". Our rates for 1997 and prior years for those systems are approved, except that we will give a \$5.00 per subscriber refund to all subscribers in our New Jersey systems and a refund of \$3.30 per subscriber in certain of our New York systems. The settlement has been subject to public comment and is now awaiting final approval by the FCC. We do not believe that the ultimate resolution of this matter, whether the settlement is finally approved or not, will have a material impact on our results of operations or financial condition.

Because a cable communications system uses local streets and rights-of-way, such cable systems are generally subject to state and local regulation, typically imposed through the franchising process. The terms and conditions of state or local government franchises vary materially from jurisdiction to jurisdiction. Generally, they contain provisions governing cable service rates, franchise fees, franchise term, system construction and maintenance obligations, customer service standards, franchise renewal, sale or transfer of the franchise, territory of the franchisee and use and occupancy of public streets and types of cable services provided. Local franchising authorities may award one or more franchises within their jurisdictions and prohibit non-grandfathered cable systems from operating without a franchise. The Communications Act also provides that in granting or renewing franchises, local authorities may establish requirements for cable-related facilities and equipment, but not for video programming or information services other than in broad categories. The Communications Act limits franchise fees to 5% of revenues derived from cable operations and permits the cable operator to seek modification of franchise requirements through the franchise authority or by judicial action if changed circumstances warrant.

Our ability to provide franchised cable television services depends largely on our ability to obtain and renew our franchise agreements from local government authorities on generally acceptable terms. We currently have 91 franchise agreements relating to the hybrid fiber/coaxial cable systems in New York (outside New York City), New Jersey and Pennsylvania. These franchises typically contain many conditions, such as time limitations on commencement and completion of construction, conditions of service, including

the number of channels, the provision of free service to schools and certain other public institutions, and the maintenance of insurance and indemnity bonds. These franchises provide for the payment of fees to the issuing authorities and generally range from 3% to 5% of revenues. The duration of these outstanding franchises presently varies up to the year 2011. To date, all of our cable franchises have been renewed or extended, generally at or before their stated expirations and on acceptable terms. Approximately 39 of our hybrid fiber/coaxial cable systems' franchises are due for renewal within the next three years. We cannot assure you that we will be able to renew our franchises on acceptable terms. No one franchise accounts for more than 4% of our total revenue. Our five largest franchises account for approximately 11% of our total revenue.

The hybrid fiber/coaxial cable systems are also subject to certain service quality standards and other obligations imposed by the FCC and, where effective competition has not been demonstrated to exist, to rate regulation by the FCC as well. Our cable television system in Pennsylvania has been operating in a competitive cable environment for almost 30 years, with approximately 80% of the homes passed having access to an alternate cable operator, Service Electric Cable TV. As a result, our Pennsylvania cable system is exempt from many FCC cable television regulations, including rate regulation. Our other cable television systems in New York State and New Jersey currently remain subject to FCC rate regulation. As required by the 1996 Act, however, all cable programming services will be deregulated if effective competition is shown to exist in the franchise area, or by March 31, 1999, whichever date is sooner. There has been widespread discussion in Congress about possible legislation to keep cable rate regulation in effect longer. We cannot assure you that legislation will not be adopted. We anticipate that the remaining provisions of the 1992 Act that do not relate to rate regulation, including provisions relating to retransmission consent and customer service standards, will remain in place and may reduce the future operating margins of our hybrid fiber/coaxial cable television businesses as video programming competition develops in our cable television service markets.

The FCC is required to regulate the rates, terms and conditions imposed by public utilities for cable systems' use of utility pole and conduit space unless state authorities can demonstrate that they adequately regulate pole attachment rates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. In some cases, utility companies have increased pole attachment fees for cable systems that have installed fiber optic cables and that are using these cables for the distribution of non-video services. The FCC concluded that, in the absence of state regulation, it can determine whether utility companies have justified their demand for additional rental fees and that the Communications Act does not permit disparate rates based on the type of service provided over the equipment attached to the utility's pole. The 1996 Act and the FCC's implementing regulations modify the current pole attachment provisions of the Communications Act. It immediately permits certain providers of telecommunications services to rely upon the protections of the current law and require that utilities provide cable systems and telecommunications carriers with nondiscriminatory access to any pole, conduit or right-of-way, controlled by the utility. The FCC has recently adopted new regulations to govern the charges for pole attachments used by companies providing telecommunications services, including cable operators. These new pole attachment rate regulations will become effective five years after enactment of the 1996 Act, and any increase in attachment rates resulting from the FCC's new regulations will be phased in equal annual increments over a period of five years beginning on the effective date of the new FCC regulations. The ultimate outcome of these rulemakings and the ultimate impact of any revised FCC rate formula or of any new pole attachment rate regulations on us or our businesses cannot be determined at this time.

The 1992 Act, the 1996 Act and FCC regulations preclude any cable operator or satellite video programmer affiliated with a cable company, or with a common carrier providing video programming directly to its subscribers, from favoring an affiliated company over competitors. These programmers are required to

sell their programming to other multichannel video distributors. These provisions limit the ability of program suppliers affiliated with cable companies or with common carriers providing satellite delivered video programming directly to their subscribers to offer exclusive programming arrangements to their affiliates. Except in limited circumstances, however, these statutory and regulatory limitations do not apply to programming which is distributed other than by satellite. We are experiencing difficulty in securing access to certain local sports programming in the New York City market, which we consider important to successful competition in that market. The Communications Act also includes provisions concerning horizontal and vertical ownership of cable systems, customer service, subscriber privacy, marketing practices, equal employment opportunity, obscene or indecent programming, regulation of technical standards and equipment compatibility.

In addition to the FCC regulations previously discussed, there are other FCC regulations covering areas such as:

- o equal employment opportunity;
- o syndicated program exclusivity;
- o network program non-duplication;
- o registration of cable systems;
- o maintenance of various records and public inspection files;
- o microwave frequency usage;
- o lockbox availability;
- o sponsorship identification;
- o antenna structure notification;
- o tower marking and lighting;
- o carriage of local sports broadcast programming;
- o application of rules governing political broadcasts;
- o limitations on advertising contained in non-broadcast children's programming;
- o consumer protection and customer service;
- o ownership and access to cable home wiring and home wiring in multiple dwelling units;
- o indecent programming;
- o programmer access to cable systems;
- o programming agreements;
- o technical standards; and
- o consumer electronics equipment compatibility and closed captioning.

The FCC has the authority to enforce its regulations through imposing substantial fines, issuing cease and desist orders and/or imposing other administrative sanctions, such as revoking FCC licenses needed to operate certain transmission facilities often used in connection with cable operations. We have difficulty gaining access to the video distribution wiring in certain multiple dwelling units in the City of Boston in which Cablevision is the incumbent provider of video services. In some buildings the management will not permit us to install our own distribution wiring and Cablevision has not been willing to permit us to use the existing wiring on some equitable basis when we wish to initiate service to an individual unit previously served by Cablevision. We have sought a ruling from the FCC's Cable Services Bureau

that existing FCC inside wiring rules require Cablevision to cooperate with us to make such wiring available to it. The matter is currently pending before the FCC's Cable Services Bureau staff.

Other bills and administrative proposals pertaining to cable television have previously been introduced in Congress or considered by other governmental bodies over the past several years. There will likely be legislative proposals in the future by Congress and other governmental bodies relating to the regulation of communications services.

Cable television systems are subject to federal compulsory copyright licensing covering the retransmission of television and radio broadcast signals. In exchange for filing certain reports and contributing a percentage of their basic revenues to a federal copyright royalty pool, cable operators can obtain blanket licenses to retransmit the copyrighted material on broadcast signals.

Other Regulatory Issues. The data services business, including Internet access, is largely unregulated at this time apart from federal, state, and local laws and regulations applicable to businesses in general. However, we cannot assure you that this business will not become subject to regulatory restraints. Some federal, state, local and foreign governmental organizations are considering a number of legislative and regulatory proposals with respect to Internet user privacy, infringement, pricing, quality of products and services and intellectual property ownership. We are also unsure how existing laws will be applied to the Internet in areas such as property ownership, copyright, trademark, trade secret, obscenity and defamation. Additionally, some jurisdictions have sought to impose taxes and other burdens on providers of data services, and to regulate content provided via the Internet and other information services. We expect that proposals of this nature will continue to be debated in Congress and state legislatures in the future. In addition, although the FCC has on several occasions rejected proposals to impose additional costs on providers of Internet access service and other data services for the use of local exchange telephone network facilities for access to their customers, the FCC or Congress may consider similar proposals in the future. The adoption of new laws or the adaptation of existing laws to the Internet may decrease the growth in the use of the Internet, which could in turn have a material adverse effect on our Internet business.

We have interconnection agreements with Bell Atlantic and other incumbent local exchange carriers that entitle us to collect reciprocal compensation payments from them for local telephone calls that terminate on our facilities. We make similar payments for outbound local calls we deliver to the incumbent local exchange carriers. However, ILECs around the country have been contesting whether the obligation to pay reciprocal compensation to CLECs should apply to local telephone calls from an ILEC's customers to Internet service providers served by CLECs. The ILECs claim that this traffic is interstate in nature and therefore should be exempt from compensation arrangements applicable to local, intrastate calls. CLECs have contended that the interconnection agreements provide no exception for local calls to Internet service providers and reciprocal compensation is therefore applicable. Currently, over 25 state commissions and several federal and state courts have ruled that reciprocal compensation arrangements do apply to calls to Internet service providers, and no jurisdiction has ruled to the contrary. In the regions we are focusing on, the California, Massachusetts, New York, Pennsylvania, Maryland and Virginia public utility commissions have issued such orders. Certain of these are subject to appeal. Additional disputes over the appropriate treatment of ISP traffic are pending in other states. On February 26, 1999, the FCC released a Declaratory Ruling determining that ISP traffic is interstate for jurisdictional purposes, but that its current rules neither require nor prohibit the payment of reciprocal compensation for such calls. In the absence of a federal rule, the FCC determined that state commissions have authority to interpret and enforce the reciprocal compensation provisions of existing interconnection agreements, and to determine the appropriate treatment of ISP traffic in arbitrating new agreements. The FCC also requested comment on alternative federal rules to govern compensation for such calls in the future. In response to the FCC ruling, some RBOCs have asked state commissions to reopen previous decisions requiring the payment of reciprocal compensation on ISP calls. We are opposing such efforts in Maryland, Massachusetts, and New York. The Company anticipates that Internet service providers will be among its target customers, and adverse decisions in state proceedings could limit its ability to service this group of customers profitably.

In order to develop our networks, we must obtain local franchises and other permits, as well as building access agreements and rights to use underground conduit and pole space, private easements and other rights-of-way and fiber capacity from entities such as incumbent local exchange carriers and other utilities, railroads, long distance companies, state highway authorities, local governments and transit authorities. We

cannot assure you that we will be able to maintain our existing franchises, permits and rights or to obtain and maintain the other franchises, permits, building access agreements and rights needed to implement our business plan on acceptable terms. Although we do not believe that any of the existing arrangements will be canceled or will not be renewed as needed in the near future, certain cancellation or non-renewal of these arrangements could materially adversely affect our business. In addition, our failure to enter into and maintain any such required arrangements for a particular network, including a network which is already under development, may affect our ability to acquire or develop that network.

We have summarized present and proposed federal, state, and local regulations and legislation affecting the telephone, video programming and data service industries. This summary is not complete. Other existing federal regulations, copyright licensing, and, in many jurisdictions, state and local franchise requirements, are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could change, in varying degrees, the operations of communications companies. The ultimate outcome of these proceedings, and the ultimate impact of the 1996 Act or any final regulations adopted under the new law on us or our businesses cannot be determined at this time.

Employees

As of December 31, 1998, we had approximately 2,150 full-time employees including joint ventures, general office and administrative personnel and approximately 200 part-time employees. The Company has a collective bargaining agreement that covers approximately 70 employees, which is valid through January 14, 2001. We consider relations with our employees to be good.

ITEM 2. PROPERTIES

Overview of Advanced Fiber Optic Networks

RCN's advanced fiber optic networks are designed to support voice, video and data services via a fiber-rich network architecture. The Company's multi-service network is presently operating in Boston, New York City, Lehigh Valley PA and Washington, D.C. The advanced fiber optic network consists of fiber optic transport facilities; local and long distance digital telephony switches; video head-ends; voice, video and data transmission and distribution equipment; Internet routing and WAN equipment and the associated network wiring and network termination equipment. The Company's telephone switching network utilizes the Lucent 5ESS-2000 switch as the local switching element and the network is designed to provide highly reliable life-line telephony service. In each of the four existing markets, a Lucent 5ESS-2000 switch is installed and fully operational, with network switch additions planned for the Queens, NY, Philadelphia and San Francisco markets throughout 1999. The networks' common backbone signal transport medium for both digital signals (voice, video and data) and analog signals (video) is exclusively fiber optical cable, either RCN-owned, or leased from other providers such as MCI WorldCom, Qwest or Level 3. The digital fiber optic backbone transport network utilizes a Synchronous Optical Network ("SONET") self-healing ring architecture to provide high speed, redundant connections for the delivery of RCN's voice, video and data services. Facility connections from the backbone network to individual buildings or residential and commercial service areas are typically provided via RCN-owned fiber optic facilities. RCN's advanced fiber optic network contains over 1,400 route miles of cable.

Presently, RCN owns and operates four local telephony switches, two long distance switches and four video head-ends to provide service within the four existing markets. As of December 31, 1998, RCN has passed 304,505 of homes with its advanced fiber optic network and has connected 501 buildings directly to its fiber optic facilities in metropolitan areas.

The majority of RCN's network infrastructure is built using fiber optic cable as the predominant transport medium. Fiber optic systems are suitable for transmission of digitized voice, video and data information, or a combination of these types of signals. The main benefits resulting from the deployment of fiber optic cable in the backbone and local distribution portions of the network, in place of traditional coaxial cable or copper wire, are greater network capacity, increased functionality, smaller size service areas and decreased requirements for periodic amplification of the signal. These factors contribute to lower installation and maintenance costs and increase the variety and quality of the service offerings. The inherent bandwidth limitations of twisted pair copper wire historically used in telephone networks present a substantial obstacle to the use of existing telephone networks to provide video programming services. Although coaxial cable provides substantially greater bandwidth than twisted pair copper wire, fiber optic cable provides substantially greater bandwidth than coaxial cable. Consequently, newly constructed fiber networks such as RCN's provide a superior platform for delivering high speed, high capacity voice, video and data services, as compared to traditional systems based largely on copper wire or coaxial cable.

The fiber optic cable utilized by RCN's network has the increased capacity necessary for the transport and delivery of today's high-bandwidth data and video transmission requirements. The fiber optic cable used typically contains between 12 and 288 fiber strands, however, larger sizes up to 864 strands are planned for use in the near future. Each individual strand of fiber is capable of providing a large number of telecommunications channels or "circuits". Depending on the transmission electronics used, a single pair of glass fibers on RCN's network currently can transmit tens of thousands of simultaneous voice conversations, whereas, a typical pair of copper wires can carry a maximum of 24 simultaneous conversations using standard TDM multiplexing systems. Although

the LECs commonly use copper wire in their networks, they are currently deploying fiber optic cable to upgrade portions of their copper based network, particularly in areas served by RCN. RCN expects that continued developments and enhancements in communications equipment will increase the capacity of each optical fiber, thereby providing even more capacity at relatively low incremental cost.

As the Company's network is further developed, it will be dependent on certain strategic alliances and other arrangements in order to provide the full range of its telecommunication service offerings. These relationships include RCN's arrangements with MCI WorldCom to lease portions of MCI WorldCom's fiber optic network in New York City and, to a lesser extent due to our access to the BECO Netwrk, in Boston, RCN's joint venture with BECO, the Starpower joint venture and RCN's arrangements to lease unbundled local loop and T-1 facilities from the serving LEC. See "Strategic Relationships and Facilities Agreement" above and "Voice Services Advanced Fiber Optic Networks" immediately following. Any disruption of these arrangements and relationships could have a material adverse effect on the Company.

Voice Services

Advanced Fiber Optic Networks. The Company's advanced fiber optic networks in all existing markets utilize a voice network that supports both switched and non-switched (private line) services. Individual buildings are connected to the network backbone via fiber extensions that are generally terminated in SONET equipment, which provides redundant and fail-safe interconnection between the building and the RCN central switch location. In situations where fiber extensions are not yet available, interim facility connections can be provided by leasing special access facilities through an arrangement with MCI WorldCom or the incumbent LEC. In this regard, RCN has in place agreements which allow it to lease certain facilities owned by the incumbent LECs (unbundled local loops and T-1 facilities) to provide voice services. This enables RCN to provide voice services to subscribers who are not directly connected to RCN's advanced fiber optic network. As RCN's network expands to reach more areas within a target market, subscribers served by these temporary connections will be migrated to RCN's advanced fiber optic network. Within a building (or small grouping of buildings), a voice service hub is established by installing Integrated Digital Loop Carrier ("IDLC") equipment, which acts as the point of interface between the SONET backbone facility and the intra-building wiring. Each IDLC is installed with a standby power system and is capable of serving between 672 and 2048 lines (maximum), depending on the specific type of equipment utilized. The IDLC is capable of supporting a wide range of both non-switched services (DS-1, digital data) and switched voice services and features including ISDN, Centrex, Custom Calling and CLASS features. Within each building, internal wiring (twisted pair copper cable) connects the IDLC to the customer premises and the customer-owned telephone equipment. In certain instances, voice service is extended to other buildings in the building group or cluster via either fiber optic cable or twisted pair copper cable. At the time of initial wiring, RCN generally installs wiring in excess of its initial requirements, in order to meet future subscriber demand.

In residential overbuild situations, RCN provides a fiber-rich local distribution architecture for the delivery of voice services to the residential or commercial subscriber. Fiber optic backbone facilities using SONET transport electronics provide interconnection from the telephony distribution electronics to the RCN 5ESS-2000 local telephony switch. Fiber optic facilities are utilized to transport the telephony signals to a residential service area node, a point typically within 900 feet from the furthest subscriber. The distribution facilities between the node and the subscriber can either be coaxial cable, fiber optic cable, or in some cases, twisted pair copper cable.

Video Programming

Advanced Fiber Optic Networks. There are presently four video head-end locations within RCN's advanced fiber optic networks (i.e., New York City,

Boston, Lehigh Valley, PA and Washington, D.C.). The video head-ends consist of optical transmitters, optical receivers, satellite receivers, signal processors, modulators, encoding equipment, digital video transport equipment and network status monitoring and automated tape distribution equipment. From the head-end, the video signals are transported to secondary hub sites in either digital or analog signal format. Once the signal is received at the secondary hub site, the signal is conditioned, processed and interconnected to the local fiber optic transport facilities for distribution to the video subscribers. The video signals are distributed to individual fiber nodes or receivers via the same fiber optic cable used to deliver the voice and data service. The fiber cable terminates in a fiber optic receiver within an individual building or video service area. From the fiber node, coaxial cable and related distribution equipment is used to distribute the video signals to the customer premises. The bandwidth of the video distribution is a minimum of 860 MHz, which is capable of supporting between 90 and 110 analog video channels plus a substantial number of digital video channels. This distribution plant is specifically designed to be predominantly fiber-based, which increases the reliability and improves the quality of the services delivered as compared to traditional cable television distribution architectures.

Wireless Video. RCN also owns and operates a "wireless video" television system (which was formerly operated as Liberty Cable Television of New York and acquired by RCN in 1996) using point-to-point 18GHz microwave technology. RCN is utilizing this system in New York City as an alternate platform for delivering television programming to buildings that are not yet connected to the advanced fiber optic network. RCN expects that the majority of the buildings currently served by the wireless service will ultimately be connected to the network to the extent that connection is feasible. As buildings are connected to the RCN network, RCN will reuse the microwave equipment to provide service to other customers in off-network premises. The transmission equipment and microwave services used to provision RCN's wireless service are provided by Bartholdi Cable, which formerly operated Liberty Cable Television of New York. Bartholdi Cable has agreed to provide transmission services to RCN until RCN has either converted the subscribers to its advanced fiber optic network or has obtained FCC authority to provide such services pursuant to its own licenses. In addition, Bartholdi Cable has agreed to transfer to RCN the transmission equipment on demand. Bartholdi Cable's obligation to provide transmission services is subject to Bartholdi Cable having authority to provide such services. The qualifications of Bartholdi Cable to hold certain of the licenses needed to provide transmission services to RCN are at issue in an FCC proceeding in which an Initial Decision was released on March 6, 1998. In the Initial Decision, the Administrative Law Judge found Bartholdi Cable unqualified with respect to 15 such licenses. The Initial Decision will become effective 50 days after its release unless Bartholdi Cable, as expected, files exceptions to the Initial Decision within 30 days of its release or the FCC elects to review the case on its own motion.

With the exception of one license all other overlapping paths to Bartholdi licenses have been approved by the FCC. The Company expects that the FCC will issue the final license during 1999.

Hybrid Fiber/Coaxial Cable Systems. RCN owns and operates Hybrid Fiber Coaxial cable television networks in Pennsylvania, New Jersey and New York State (outside of New York City). These networks offer expanded bandwidth and a platform for two-way services, and have an aggregate of 592 route miles of fiber optic cable. The network in Pennsylvania includes a separate high capacity fiber optic ring with a minimum 84 fibers (covering approximately 100 route miles), which is designed and constructed to support a competitive telephony network. The New York system includes 211 route miles of fiber optic cable serving approximately 101 nodes from one head-end. Approximately 70% of the New York system is two-way active 750 MHz plant with 84 active channels of programming. The New Jersey system includes 145 route miles of fiber optic cable and generally operates a 400/450 MHz plant. The New Jersey system has over 30 miles of two-way plant active and provides 62 channels of video programming. The Pennsylvania system consists of 2,700 miles of coaxial cable and 236 route miles

of fiber cable. The Pennsylvania system serves 150 nodes from one head-end, and operates at 550 - 750 MHz with approximately 80 active channels. All of the Company's Hybrid Fiber Coaxial cable systems are 100% one-way addressable.

These fiber-rich networks provide a basic fiber optic platform capable of enhancement for supporting two-way services, such as high-speed Internet services. RCN is presently expanding the fiber capacity in some of these fiber/coaxial cable television networks so that they will be capable of delivering switched two-way services in the near future.

Data Services. RCN's Internet access and data transmission services are currently provided over the advanced fiber optic network via dial-up modems facilitated through the RCN voice network in on-net subscriber applications. In off-net situations, subscribers use conventional dial-up modems through the incumbent LEC network to access RCN's Internet transmission network. RCN is beginning to offer Internet and data transmission services via cable modems. Cable modems, which utilize the broadband coaxial plant, offer higher speed access for data transmission than the speeds achieved by conventional telephone dial-up technology.

RCN is presently developing a long haul, high-bandwidth fiber optic transport facility that will traverse from Boston to Washington D.C. This facility will utilize fiber that RCN recently acquired in an arrangement with Qwest and be used to provide high speed connectivity between each of RCN's points of presence along the Northeast Corridor. It will initially provide long distance telephone and internet connectivity along this corridor for RCN's customers.

RCN provides high quality Internet access services to businesses by utilizing high-speed access via ISDN, frame relay, fractional T-1, T-1 and T-3 circuits. RCN's network infrastructure currently supports modems with dial-access speeds of up to 56 KBPS. RCN provides new dial-access subscribers with an easy-to-install proprietary access software package, which incorporates a telephone dialer, an e-mail platform, a Web browser (Microsoft Corp.'s Microsoft Internet Explorer) and SurfWatch™ software for parental control over Internet content access. This software package permits simplified access to the Internet through a "point and click" graphical user interface. After installation, the subscriber has a direct connection to the Internet using Point-to-Point Protocol and access to all of the Internet's resources, including e-mail, the World Wide Web, Usenet News service and Internet Relay Chat. Access software automatically displays the RCN World Wide Web site each time a subscriber logs on, providing RCN with the opportunity to communicate with its subscribers at the start of each session. RCN maintains "24 x 7" subscriber and technical support 365 days a year.

RCN services currently rely on the widespread commercial use of Transmission Control Protocol/Internet Protocol ("TCP/IP"). Alternative open and proprietary protocol standards that compete with TCP/IP, including proprietary protocols developed by International Business Machines Corporation ("IBM") and Novell, Inc. have been or are being developed. The adoption of such new industry standards could render the Company's existing services obsolete and unmarketable or require reduction in the fees charged therefore.

RCN relies on a combination of copyright, trademark and trade secret laws and contractual restrictions to establish and protect its proprietary technology. However, there can be no assurance that RCN's technology will not be misappropriated or that equivalent or superior technologies will not be developed. In addition, there can be no assurance that third parties will not assert that RCN's services or its users' content infringe their proprietary rights. The Company has obtained authorization, typically in the form of a license, to distribute third-party software incorporated in the RCN access software product for Windows 3.1, Windows 95, Windows NT and Macintosh platforms. The Company plans to maintain or negotiate renewals of existing software licenses and authorizations. The Company may desire or need to license other applications in the future we believe that all of our properties are in good operating condition.

ITEM 3. LEGAL PROCEEDINGS

In the normal course of business, there are various legal proceedings outstanding. In the opinion of management, these proceedings will not have a material adverse effect on the results of operations or financial condition of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Registrant during the fourth quarter of the Registrant's 1998 fiscal year.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an un-numbered Item in Part I of this Report in lieu of being included in the definitive proxy statement relating to the Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14(A) of the Securities Exchange Act of 1934 (the "1934 Act").

Executive Officers of the Registrant

David C. McCourt, 42, has been the Chairman and Chief Executive Officer of the Company as well as a Director since September 1997. Mr. McCourt has served as a Director and Chairman and Chief Executive Officer of Cable Michigan from September 30, 1997 to November 1998. In addition, he is a Director and Chairman of Commonwealth Telephone Enterprises, Inc. ("CTE") positions he has held since October 1993. Mr. McCourt was Chief Executive Officer of CTE from October 1993 to December 1998. Mr. McCourt has also been President and Chief Executive Officer, as well as a Director of Level 3 Telecom Holdings, Inc. formerly Kiewit Telecom Holdings, Inc. He was also Chairman and Chief Executive Officer as well as a Director of Mercom from October 1993 to November 1998. Director of MFS Communications Company, Inc. from July 1990 to December 1996, President and a Director of Metropolitan Fiber Systems/ McCourt, Inc., a subsidiary of MFS Telecom, Inc., since 1988, has been a Director of Cable Satellite Public Affairs Network ("C-SPAN") since June 1995, was a Director of WorldCom, Inc. from December 1996 to March 1998 and is a Director of Kiewit Diversified Group, Inc. now Level 3 Communications, Inc. since August 1997.

Michael J. Mahoney, 48 has been the President and Chief Operating Officer, as well as a Director of the Company since September 1997. Mr. Mahoney is also a Director of CTE, a position he has held since May 1995. Mr. Mahoney was President and Chief Operating Officer of CTE from February 1994 to September 1997, President and Chief Operating Officer of Mercom from February 1994 to October 1997 and a Director of Mercom from January 1994 to November 1998. In addition, he was Executive Vice President of Cable Television Group from June 1991 to March 1994 and Executive Vice President of Mercom from December 1991 to March 1994.

Bruce C. Godfrey, 43, has been the Executive Vice President, Chief Financial Officer, and Director of the Company since September 1997. Mr. Godfrey was Corporate Secretary of the Company from September 1997 to August 1998. Mr. Godfrey was also a Director of Cable Michigan as well as its Corporate Secretary from September 1997 to September 1998. Mr. Godfrey has been a Director of CTE since November 1996, Executive Vice President and Chief Financial Officer of CTE from April 1994 to December 1998. He was Executive Vice President and Chief Financial Officer of Mercom from April 1994 to October 1997 and a Director of Mercom from May 1994 to November 1998 and Corporate Secretary from October 1997 to September 1998. Mr. Godfrey was also Senior Vice President and Principal of Daniels and Associates from January 1984 to April 1994.

Michael A. Adams, 41, has been the President of Technology and Network Development Group of the Company and Executive Vice President of the Company since September 1997. Mr. Adams held the corresponding position at CTE from November 1996 to September 1997. Prior to that date, Mr. Adams held the following positions: Executive Vice President of Technology and Strategic Development of CTE from August 1996 to November

1996, Executive Vice President of CTE's Communications Services Group from September 1994 to June 1996, Vice President of Technology from November 1993 to September 1994, Vice President of Engineering for RCN Telecom Services, Inc., a wholly owned subsidiary of RCN, from September 1992 to October 1993.

Mark Haverkate, 44, has been the Executive Vice President, Business Development of the Company since September 1997. Mr. Haverkate was President and Chief Operating Officer and a Director of Cable Michigan from September 1997 to November 1998. He was President and Chief Operating Officer of Mercom, from October 1997 to November 1998. He was the President of RCN Development (a division of RCN) from June 1997 to September 1997. Previously, he was President for Business Operations of RCN Telecom Services, Inc. from November 1996 to June 1997, Executive Vice President of RCN Telecom Services, Inc. from August 1996 to November 1996, Executive Vice President of CTE's Cable Television Group from July 1995 to August 1996, Executive Vice President of Development for CTE from February 1995 to July 1995, Executive Vice President for Development at Mercom from November 1995 to February 1996, Vice President of Development for CTE from December 1993 to February 1995, Vice President for Development at Mercom from December 1993 to February 1995, Vice President of CTE's Cable Television Group from October 1989 to December 1993.

Ralph S. Hromisin, CPA, 38, has been Senior Vice President and Chief Accounting Officer of the Company since August 1998. He was Vice President and Chief Accounting Officer from September 1997 to August 1998. He was Vice President and Chief Accounting Officer of Cable Michigan, Inc. from September 1997 to November 1998. He is Vice President and Chief Accounting Officer of CTE since September 1997. He served as Vice President and Corporate Controller of CTE from August 1994 to September 1997. Mr. Hromisin was Vice President and Corporate Controller for Mercom from October 1996 to November 1998, and Director of Corporate Accounting for CTE from March 1992 to August 1994.

Paul E. Sigmund, 34, is Executive Vice President of the Company since September 1997 and Executive Vice President of RCN International Holdings since 1996. Previously, Mr. Sigmund was a Vice President at Smith Barney, Inc. from 1994 to 1996; an Associate at the law firm Skadden, Arps, Slate, Meagher & Flom from 1993 to 1994 and an Investment Associate at the International Finance Corporation/World Bank from 1986 to 1989.

Timothy J. Stoklosa, 38, has been the Senior Vice President and Treasurer of the Company since September 1997. He also has been Senior Vice President of Finance of CTE since February 1997 and Treasurer of CTE since August 1994. Mr. Stoklosa was Executive Vice President and Chief Financial Officer of Cable Michigan and Mercom from October 1997 to November 1998. Previously, Mr. Stoklosa was Vice President of Finance of CTE from May 1995 to February 1997, Manager of Mergers and Acquisitions at Peter Kiewit Sons, Inc. from October 1991 to August 1994 and Senior Financial Analyst of Corporate Development at Citizens Utilities Co. from February 1990 to October 1991.

John J. Jones, 32, has been Executive Vice President, General Counsel and Corporate Secretary of the Company and CTE since July 1998. Mr. Jones served as Vice President, General Counsel and Corporate Secretary of Designer Holdings, Ltd. from January 1996 to December 1997. Prior to that time, Mr. Jones was engaged in the private practice of law at the law firm of Skadden, Arps, Slate, Meagher & Flom beginning in September 1991 to August 1995.

David Epstein, 30, has been President of RCN Internet Services since February 1999. Mr. Epstein was Senior Vice President of Customer Contact of the Company from November 1998 to February 1999. Mr. Epstein was responsible for the integration of RCN's ISP purchases from July

1998 to November 1998. He was a co-founder of MTP, LLC that did business as JavaNet in July 1995 and served as a managing member until RCN purchased the company in July 1998. Prior to founding JavaNet, he was employed at The Stock Market, a stock photography agency, from November 1994 to June 1995 as the Director of the International Division. Mr. Epstein was the Director of Multimedia Projects for Black Book Marketing Group (BBMG) from August 1992 to October 1994.

Rajan Chopra, 47, has been President of the Business and New Product Development group since January 21, 1999. Mr. Chopra was Vice President of Chase Manhattan Bank from June 1995 to July 1998 responsible for strategic fixed income derivatives trading and risk management. Mr. Chopra was a Director of Proprietary Trading of CDC Capital, Inc. from January 1994 to May 1995.

PART II

ITEM 5. Market for the Registrant's Common Stock and Related Shareholder Matters

The Company's Common Stock is traded on the NASDAQ stock exchange. There were approximately 2,834 holders of Registrant's Common Stock on February 28, 1999. The Company maintains a no cash dividend policy. The Company does not intend to alter this policy in the foreseeable future. Other information required under Item 5 of Part II is set forth in Note 19 to the consolidated financial statements included in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 6. Selected Financial Data

Information required under Item 6 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information required under Item 7 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 7a. Quantitative and qualitative disclosures about market risk.

Information required under Item 7 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 8. Financial Statements and Supplementary Data.

The consolidated financial statements and supplementary data required under Item 8 of Part II are set forth in Part IV Item 14(a)(1) of this Form 10-K.

ITEM 9. Disagreements on Accounting and Financial Disclosure.

During the two years preceding December 31, 1998, there has been neither a change of accountants of the Registrant nor any disagreement on any matter of accounting principles, practices, or financial statement disclosure.

PART III

ITEM 10. Directors and Executive Officers of the Registrant

The information required under Item 10 of Part III with respect to the Directors of Registrant is set forth in the definitive proxy statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14(a) of the 1934 Act and is hereby specifically incorporated herein by referenced thereto.

The information required under Item 10 of Part III with respect to the executive officers of the Registrant is set forth at the end of Part I hereof.

ITEM 11. Executive Compensation

The information required under Item 11 of Part III is set forth in the definitive Proxy Statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14(a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management

The information required under Item 12 of Part III is included in the definitive Proxy Statement relating to Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14(a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

ITEM 13. Certain Relationships and Related Transactions

The information required under Item 13 of Part III is included in the definitive Proxy Statement to Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14 (a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

PART IV

ITEM 14. Exhibits, Financial Statement Schedules and Report on form 8-K.

ITEM 14 (a)(1) Financial Statements:

Consolidated Statements of Operations for the Years Ended December 31, 1998, 1997 and 1996.

Consolidated Statements of Cash Flows for Years Ended December 31, 1998, 1997 and 1996.

Consolidated Balance Sheets - December 31, 1998 and 1997.

Consolidated Statements of Changes in Common Shareholders' Equity for Years Ended December 31, 1998, 1997 and 1996.

Notes to Consolidated Financial Statements

Report of Independent Accountants

ITEM 14 (a)(2) Financial Statement Schedules:

Description

Condensed Financial Information of Registrant for the Year Ended December 31, 1998. (Schedule I)

Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1998, 1997 and 1996 (Schedule II)

All other financial statement schedules not listed have been omitted since the required information is included in the consolidated financial statements or the notes thereto, or are not applicable or required.

ITEM 14 (a)(3) Exhibits:

Exhibits marked with an asterisk are filed herewith and are listed in the index to exhibits of this Form 10-K. The remainder of the exhibits have been filed with the Commission and are incorporated herein by reference.

(2) Plan of acquisition, reorganization, arrangement and Report on Form 8-K

(a) Form of Distribution Agreement among C-TEC Corporation, Cable Michigan, Inc. and the Registrant is incorporated herein by reference to Exhibit 2.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(3) Articles of Incorporation and By-laws

(a) Form of Amended and Restated Articles of Incorporation of the Registrant are incorporated herein by reference to Exhibit 3.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(b) Form of Amended and Restated Bylaws of the Registrant are incorporated herein by reference to Exhibit 3.2 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

- (4) Instruments defining the rights of security holders, including indentures
- (a) Credit Agreement dated as of July 1, 1997 among C-TEC Cable Systems, Inc., ComVideo Systems, Inc., C-TEC Cable Systems of New York, Inc. and First Union National Bank, as agent is incorporated herein by reference to Exhibit 4.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (b) Indenture dated as of February 6, 1998 between the Company, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 9.80% Senior Discount Notes due 2008 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 ("1998 Form S-4") filed on March 23, 1998) (Commission File No. 0-22825.)
 - (c) Form of 9.80% Senior Discount Notes due 2008, Series B (included in Exhibit 4.1) (incorporated by reference to Exhibit 4.2 to the Company's 1998 Form S-4) (Commission File No. 0-22825.)
 - (d) Indenture dated as of October 17, 1997 between the Company, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 10% Senior Notes due 2007 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 ("Form S-4") filed on November 26, 1997) (Commission File No. 0-22825.)
 - (e) Form of the 10% Senior Exchange Notes due 2007 (included in Exhibit 4.4) (incorporated by reference to Exhibit 4.2 to the Company's Form S-4) (Commission File No. 0-22825.)
 - (f) Indenture dated as of October 17, 1997 between the Company, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 11 1/8% Senior Discount Notes due 2007 (incorporated by reference to Exhibit 4.3 to the Company's Form S-4) (Commission File No. 0-22825.)
 - (g) Form of the 11 1/8% Senior Discount Exchange Notes due 2007 (included in Exhibit 4.6) (incorporated by reference to Exhibit 4.4 to the Company's Form S-4) (Commission File No. 0-22825.)
 - (h) Escrow Agreement dated as of October 17, 1997 among The Chase Manhattan Bank, as escrow agent, The Chase Manhattan Bank, as Trustee under the Indenture (as defined therein), and the Company (incorporated by reference to Exhibit 4.6 to the Company's Form S-4) (Commission File No. 0-22825.)
- (10) Material Contracts
- (a) Tax Sharing Agreement by and among C-TEC Corporation, Cable Michigan, Inc. and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (b) Dark Fiber IRU Agreement dated as of May 8, 1997 among Metropolitan Fiber Systems/McCourt, Inc. and RCN Telecom Services of Massachusetts, Inc. is incorporated herein by reference to Exhibit 10.2 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (c) Dark Fiber IRU Agreement dated as of May 8, 1997 among Metropolitan Fiber Systems of New York, Inc. and RCN Telecom Services of New York, Inc. is

incorporated herein by reference to Exhibit 10.3 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

- (d) Joint Venture Agreement dated as of December 23, 1996 between RCN Telecom Services, Inc. and Boston Energy Technology Group, Inc. is incorporated herein reference by Exhibit 10.7 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (e) Amended and Restated Operating Agreement of RCN-BecoCom, LLC dated as of June 17, 1997 is incorporated herein by reference to Exhibit 10.8 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (f) Management Agreement dated as of June 17, 1997 among RCN Operating Services, Inc. and BecoCom, Inc. is incorporated herein by reference to Exhibit 10.9 to the Company's Amendment No.2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (g) Construction and Indefeasible Right of Use Agreement dated as of June 17, 1997 between BecoCom, Inc. and RCN-BecoCom, LLC is incorporated herein by reference to Exhibit 10.10 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (h) License Agreement dated as of June 17, 1997 between Boston Edison Company and BecoCom, Inc. is incorporated herein by reference to Exhibit 10.11 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (i) Joint Investment and Non-Competition Agreement dated as of June 17, 1997 among RCN Telecom Services of Massachusetts, Inc., BecoCom, Inc. and RCN-BecoCom, LLC is incorporated herein by reference to Exhibit 10.12 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (j) Amended and restated Operating Agreement of Starpower Communications, L.L.C. by and between Pepco Communications, L.L.C. and RCN Telecom Services of Washington, D.C. Inc. dated October 28, 1997 is incorporated herein by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (Commission File No. 0-22825.)
- 21* Subsidiaries of Registrant
 - 23* Consent of PricewaterhouseCoopers LLP with respect to RCN Corporation
 - 24* Power of Attorney
 - 27* Financial Data Schedule

99 (a) Report on Form 11-K with respect to the RCN Savings and Stock Ownership Plan will be filed as an amendment to this Report on Form 10-K.

ITEM 14.(b) Reports on Form 8-K

On December 14, 1998, the Company filed an 8-K regarding the November 13, 1998 purchase by David C. McCourt, the Chairman and Chief Executive Officer of the Registrant, of \$2 million aggregate principal amount of 11 1/8% Senior Discount Notes due October 15, 2007 of the Registrant.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 1999

RCN Corporation

By: \s\ David C. McCourt

David C. McCourt
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
-----	-----	----

PRINCIPAL EXECUTIVE AND ACCOUNTING OFFICERS:

\s\ David C. McCourt ----- David C. McCourt	Chairman and Chief Executive Officer	March 31, 1999
\s\ Michael J. Mahoney ----- Michael J. Mahoney	President and Chief Operating Officer	March 31, 1999
\s\ Bruce C. Godfrey ----- Bruce C. Godfrey	Executive Vice President and Chief Financial Officer	March 31, 1999
\s\ Ralph S. Hromisin ----- Ralph S. Hromisin	Senior Vice President and Chief Accounting Officer	March 31, 1999

DIRECTORS:

\s\ David C. McCourt ----- David C. McCourt	March 31, 1999
\s\ James Q. Crowe ----- James Q. Crowe	March 31, 1999
\s\ Walter E. Scott, Jr. ----- Walter E. Scott, Jr.	March 31, 1999
\s\ Richard R. Jaros ----- Richard R. Jaros	March 31, 1999
\s\ Thomas May ----- Thomas May	March 31, 1999
\s\ Alfred Fasola ----- Alfred Fasola	March 31, 1999
\s\ Thomas P. O'Neill, III ----- Thomas P. O'Neill, III	March 31, 1999
\s\ Eugene Roth ----- Eugene Roth	March 31, 1999
\s\ Stuart E. Graham ----- Stuart E. Graham	March 31, 1999
\s\ Michael B. Yanney ----- Michael B. Yanney	March 31, 1999
\s\ Michael J. Mahoney ----- Michael J. Mahoney	March 31, 1999
\s\ Bruce C. Godfrey ----- Bruce C. Godfrey	March 31, 1999

SCHEDULE I

RCN CORPORATION
 CONDENSED FINANCIAL INFORMATION OF REGISTRANT
 STATEMENT OF OPERATIONS
 (THOUSANDS OF DOLLARS)

	For the Years Ended December 31,	
	1998	1997
Sales	\$ 177	\$ 40
Costs and expenses, excluding depreciation and amortization	18,470	498
Operating income (loss)	(18,293)	(458)
Interest income	2,834	661
Interest expense	(106,161)	(12,791)
(Loss) before income taxes	(121,620)	(12,588)
(Benefit) for income taxes	(36,164)	(4,388)
Equity in (loss) of consolidated entities	(119,986)	(44,191)
Net (loss)	\$ (205,442)	\$ (52,391)
Earnings (loss) per average common share:		
Net (loss)	\$ (3.36)	\$ (0.95)
Weighted average common shares outstanding	61,187,354	54,965,716

SCHEDULE I

RCN CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEET
(THOUSANDS OF DOLLARS)

	December 31,	
	1998	1997
ASSETS		
Current assets		
Cash and temporary cash investments	\$ 15	\$ -
Accounts receivable from related parties	99	3,291
Accounts receivable from affiliates	13,172	1,977
Accounts receivable	4	-
Prepayments & other	25,120	211
Investments restricted for debt service	22,500	22,500
Total current assets	60,910	27,979
Investments restricted for debt service	19,869	39,411
Investments	1,444,450	859,271
Unauthorized debt issuance cost	26,640	19,188
Deferred charges and other assets	9,525	2,877
Total assets	\$1,561,394	\$ 948,726
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable affiliate	20,368	4,034
Accrued interest	4,813	4,687
Accrued expenses	152	318
Total current liabilities	25,333	9,039
Long-term debt	1,164,615	583,103
SHAREHOLDERS' EQUITY		
Common stock	65,477	27,495
Deficit	(222,558)	(17,116)
Additional paid in capital	539,770	349,261
Cumulative translation adjustment	(3,055)	(3,056)
Unrealized appreciation on investments	1,113	-
Treasury stock	(9,301)	-
Total common shareholders' equity	371,446	356,584
Total liabilities and shareholders' equity	\$1,561,394	\$ 948,726

SCHEDULE I

RCN CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF CASH FLOWS
(THOUSANDS OF DOLLARS)

	For the years Ended December 31,	
	1998	1997
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss)	\$ (205,442)	\$ (52,391)
Deferred income taxes and investment tax credits	(7,728)	(2,877)
Working capital	(19,009)	2,749
Equity in loss of consolidated entity	119,986	44,191
Noncash accretion of discounted senior notes	80,925	8,103
Amortization of financing costs	2,733	-
Noncash write-off of acquired R&D	18,293	-
Other	1,080	-
	-----	-----
Net cash (used in) operating activities	(9,162)	(225)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(47,028)	167
Other	(562,106)	17
	-----	-----
Net Cash Provided by investing activities	(609,134)	184
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of common stock	112,866	-
Issuance of long-term debt	500,587	575,000
(Increase) in cash restricted for debt service	-	(61,250)
Interest paid on senior notes	22,375	-
Financing costs	(10,185)	(19,188)
Transfer (to) CTE	-	(494,751)
Proceeds from the exercise of stock options	1,969	230
Purchase of treasury stock	(9,301)	-
	-----	-----
Net cash provided by financing activities	618,311	41
	-----	-----
Net increase/(decrease) in cash and temporary cash investments	15	0
Beginning cash & temporary cash investments	0	0
	-----	-----
Ending cash & temporary cash investments	\$ 15	\$ 0
	=====	=====

SCHEDULE II

RCN CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997, AND 1996
(THOUSANDS OF DOLLARS)

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
-----	-----	ADDITION		-----	-----
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSE	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
-----	-----	-----	-----	-----	-----
ALLOWANCE FOR DOUBTFUL ACCOUNTS- DEDUCTED FROM ACCOUNTS RECEIVABLE IN THE CONSOLIDATED BALANCE SHEETS					
1998	\$2,134	\$4,096	\$1,215	\$1,679	\$5,766
1997	\$ 861	\$2,732	\$ 997	\$2,456	\$2,134
1996	\$ 607	\$1,788	\$ (556)	\$ 978	\$ 861
ALLOWANCE FOR DEFERRED TAX ASSETS- DEDUCTED FROM DEFERRED TAX ASSETS IN THE CONSOLIDATED BALANCE SHEETS					
1998	\$8,404	\$64,498	\$12,963	\$3,797	\$82,068
1997	\$3,691	\$ 5,777	\$ -	\$1,064	\$ 8,404
1996	\$2,022	\$ 1,921	\$ 26	\$ 278	\$ 3,691

RCN CORPORATION
SELECTED FINANCIAL DATA
Thousands of Dollars Except Per Share Amounts
For the Years Ended December 31,

	1998	1997	1996	1995	1994
Sales	\$ 210,940	\$ 127,297	\$ 104,910	\$ 91,997	\$ 59,500
(Loss) income before extraordinary charge and cumulative effect of change in accounting principle	\$ (204,801)	\$ (49,181)	\$ (5,989)	\$ 2,114	\$ 3,736
Basic and diluted (loss) income per average common share before extraordinary charge and cumulative effect of change in accounting principle	\$ (3.35)	\$ (0.89)	\$ (0.11)	\$ 0.04	\$ 0.11
Dividends per share	-	-	-	-	-
Total assets	\$1,907,615	\$1,150,992	\$ 628,085	\$ 649,610	\$ 568,586
Long-term debt, net of current maturities	\$1,263,036	\$ 686,103	\$ 131,250	\$ 135,250	\$ 154,000

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(Dollars in thousands, except per share data)

Certain statements contained in this annual report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are thus prospective. Such forward-looking statements include, in particular, statements made as to plans to develop networks and upgrade facilities, the market opportunity presented by markets targeted by the Company, the Company's intention to connect certain wireless video resale telephone and Internet service customers to its advanced fiber optic networks, the development of the Company's businesses, the markets for the Company's services and products, the Company's anticipated capital expenditures, the Company's anticipated sources of capital, the Company's state of Year 2000 readiness, and effects of regulatory reform and competitive and technological developments. No assurance can be given that the future results covered by the forward-looking statements will be achieved. Such statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

The following discussion should be read in conjunction with the Company's historical Consolidated Financial Statements and Notes thereto:

GENERAL

RCN Corporation (the "Company" or "RCN") provides a wide range of telecommunications services through high speed, high capacity advanced fiber optic networks. RCN currently offers local and long distance telephone, video and data services, including high speed Internet access. We provide our services primarily to residential customers in selected markets with high levels of population density and favorable demographics. RCN's initial advanced fiber optic networks have been established in selected markets in the Boston to Washington D.C. corridor and RCN has begun developing advanced fiber optic networks in the San Francisco to San Diego corridor.

The Company expects that the operating and net losses from its business will rise in the future as it expands and develops its network and customer base.

There can be no assurance that RCN will achieve or sustain profitability or positive operating income in the future as it develops its advanced fiber optic network.

The operating losses have resulted primarily from expenditures associated with the development of the Company's operational infrastructure and marketing expenses. The Company expects it will continue to experience negative operating income while it continues to invest in its networks and until such time as revenue growth is sufficient to fund operating expenses. The Company expects to achieve positive operating margins over time by (i) increasing the number of customers it serves, (ii) increasing the number of connections per customer by cross marketing its services and promoting bundled service options and therefore increasing the revenue per customer, (iii) lowering the costs associated with new subscriber additions and (iv) reducing the cost of providing services by capturing economies of scale. The Company expects its operating revenues will increase in future periods through internal growth of its current advanced fiber optic networks, increases in penetration, and increases in the number of services per customer; however, the Company also expects that operating losses will increase for some period of time as the Company initiates network development in new markets and expands its current networks. When the Company

makes its initial investment in a new market, the operating losses typically increase as the network and sales force are expanded to facilitate growth. The Company's ability to generate positive cash flow in the future will depend on the extent of capital expenditures in current and additional markets, the ability of the joint ventures to generate revenues and cash flow, competition in the Company's markets and any potential adverse regulatory developments. The Company will be dependent on various financing sources to fund its growth as well as continued losses from operations. There can be no assurance that such funding will be available, or available on terms acceptable to the Company. See - "Liquidity and Capital Resources."

The terms of the Company's joint ventures require the mutual consent of the Company and its joint venture partner to distribute or advance funds to the Company. The Company's debt agreements allow subsidiaries and joint ventures to incur indebtedness for network buildout costs, which indebtedness may contain limitations on the subsidiaries' and the joint ventures' ability to pay dividends and distributions to the Company. Cash flows available to the Company in future periods will be affected by the extent to which operations are conducted through joint ventures. Due to the degree of control that the Company has in the joint ventures, RCN accounts for the BECO joint venture on a consolidated basis and for Starpower under the equity method of accounting.

Prior to September 30, 1997, the Company was operated as part of C-TEC Corporation. On September 30, 1997, C-TEC distributed 100% of the outstanding shares of common stock of its wholly owned subsidiaries, RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's Common Stock and C-TEC's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C-TEC, RCN and Cable Michigan. At the time of the distribution, RCN consisted primarily of C-TEC's high growth, bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor, its existing New York, New Jersey and Pennsylvania cable television operations, a portion of its long distance operations and its international investment in Megacable, S.A. de C.V. C-TEC, RCN and Cable Michigan have entered into certain agreements providing for the Distribution, including a distribution agreement and a tax-sharing agreement. On November 6, 1998, Cable Michigan announced that its sale to Avalon Cable of Michigan, Inc. was complete. As a result of the sale, Cable Michigan has no ongoing support services relationship with RCN and CTE. The historical financial information presented herein reflects periods during which the Company did not operate as an independent company and accordingly, certain assumptions were made in preparing such financial information. Such information, therefore, may not necessarily reflect the results of operations or the financial condition of the Company which would have resulted had the Company been an independent, public company during the reporting periods, and are not necessarily indicative of the Company's future operating results or financial condition.

In June 1997 the Financial Accounting Standards Board (FASB) issued statement of Financial Accounting Standard No. 131 "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement, which establishes standards for the reporting of information about operating segments in interim and year end financial statements, is effective for fiscal years beginning after December 15, 1997. If applicable, this statement would only require additional disclosures in the Company's consolidated financial statements and as such, its adoption will not have any impact on the Company's consolidated financial position or results of operations. The Company's operations involve developing an advanced fiber network to provide a bundled service package of voice, video and data services to new customers in high density markets and migrating as many customers as is economically justified which were served by the Company's previously separate lines of business, for which profitability was separately measurable and monitored, to the single source network. While the Company's chief decision makers monitor the revenue streams of the various products, operations are managed and financial performance is evaluated based upon the delivery of multiple services to customers over a single network. This allows the Company to leverage its network costs to maximum profitability. It is management belief that the Company operates as one reportable operating segment which contains many share expenses generated by the Company's various revenue streams and that any segment allocation of shared expenses incurred on a single network to multiple revenue streams would be impractical and arbitrary; furthermore, the Company currently does not make such allocations internally. The Company's chief decision makers do, however, monitor financial performance in a way which is different from that depicted in the historical general purpose financial statements in that such measurement includes the consolidation of all joint ventures, including Starpower which is not consolidated under generally accepted principles. Such information, however, does not represent a separate segment under generally accepted accounting principles and therefore it is not separately disclosed.

Results of Operations

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997:

Sales were \$210,940 for the year ended December 31, 1998 as compared to \$127,297 for the year ended December 31, 1997.

Operating income before depreciation, amortization, non-recurring charge and acquired research and development was (\$51,412) for the year ended December 31, 1998 as compared to (\$7,670) for the year ended December 31, 1997.

Net loss was (\$205,442), or (\$3.36) per average common share for 1998 and (\$52,391) or (\$0.95) per average common share for 1997.

Sales

Video sales are comprised primarily of subscription fees for basic, premium and pay-per-view cable television services; for both wireless and hybrid fiber/coaxial cable customers in New York, New Jersey and Pennsylvania which the Company expects to migrate to its advanced fiber networks over time as well as for advanced fiber customers, primarily in Allentown, New York City and Boston.

Voice sales include local telephone service fees consisting primarily of monthly line charges, local toll and special features and long-distance telephone service fees based on minutes of traffic and tariffed rates or contracted fees. Voice sales include both resold services and traffic over the Company's own switches.

Data sales represent Internet access fees billed at contracted rates.

For the year ended December 31, 1998 total sales were \$210,940, an increase of \$83,643 or 65.7%, from \$127,297 for the year ended December 31, 1997. The increase resulted from higher total service connections which increased 219.6% to approximately 855,000 at December 31, 1998 from approximately 268,000 at December 31, 1997. The increase in total service connections resulted principally from dial-up internet connections from the acquisitions of Erols Internet, Inc. ("Erols") and UltraNet Communications ("UltraNet") in February 1998, and growth in advanced fiber connections, which increased 714.6% from approximately 15,000 in 1997 to approximately 123,000 at December 31, 1998. The service connections at December 31, 1998 include connections of the Starpower joint venture which is accounted for under the equity method of accounting. The Starpower service connections resulted primarily from customers in the joint venture market acquired from Erols Internet, Inc. in February 1998.

Voice revenues increased \$21,424 or 534.7% to \$25,431 for the year ended December 31, 1998 from \$4,007 for the year ended December 31, 1997, primarily due to higher average connections. Advanced fiber voice connections increased approximately 860.4% to approximately 31,000 at December 31, 1998 from approximately 3,000 at December 31, 1997. Off-net voice connections increased approximately 161.1% to approximately 65,000 at December 31, 1998 from approximately 25,000 at December 31, 1997. Contributing to the increase in off-net voice connections was the launch of telephony service in the Lehigh Valley, Pennsylvania market in the fourth quarter of 1997.

Overall, higher service connections contributed approximately \$20,500 to the increase in voice revenues and higher revenue per connection contributed approximately \$1,000.

During the fourth quarter of 1998, the Company ceased marketing new customers for resale of its competitors' local phone service. The Company expects that the effect of this decision will be lower revenue growth than would result if such resale continued; however, this decision is also expected to have a positive impact on the Company's overall gross margin percentage and a neutral effect on operating income before depreciation and amortization ("EBITDA").

Video revenues increased \$9,707 or 9.4% to \$113,078 for the year ended December 31, 1998 from \$103,371 for the year ended December 31, 1997. Video revenues for 1997 included one time launch incentive revenue of approximately \$1,000 related to the launch of certain new channels. The increase in 1998 was primarily due to increases of approximately 22,000 additional video connections and the conversion of approximately 50,000 off-net connections to the advanced fiber network at December 31, 1998 as compared to December 31, 1997.

On-net video connections grew 74,565 or 632.8% to 86,349 at December 31, 1998 from 11,784 at December 31, 1997. Off-net video connections were 175,313 and 227,619 at December 31, 1998 and 1997, respectively.

Overall, higher service connections contributed approximately \$6,000 to the increase in video revenues and higher average revenue per connection contributed approximately \$5,000 offset by the one time launch incentive revenue of approximately \$1,000 received in 1997.

Data revenues increased \$40,280 to \$40,321 for the year ended December 31, 1998 from \$41 for the year ended December 31, 1997 primarily due to the acquisitions

of Erols and UltraNet in February 1998, Interport in June 1998 and Javanet in July 1998. At December 31, 1998, the Company had approximately 492,000 off-net data connections and approximately 6,000 advanced fiber data connections, including connections of the Starpower joint venture.

During the fourth quarter of 1998, dial-up Internet access replaced resold local phone service as the Company's initial product offering in areas in which RCN's fiber optic network is still under construction. The Company expects that its advanced fiber networks will eventually be extended to reach most of its dial-up Internet connections.

Commercial and other revenues increased \$12,232 or 61.5% to \$32,110 for the year ended December 31, 1998 from \$19,878 for the year ended December 31, 1997. The increase was due primarily to an increase in average commercial main access lines of approximately 9,800 in 1998 over 1997, which contributed approximately \$5,000 to the increase. Higher revenue per commercial main access line contributed approximately \$3,000. Additionally, contributing approximately \$6,000 to the increase was higher wholesale long distance revenue from Commonwealth Telecom Services, Inc. ("CTSI"), a wholly-owned subsidiary of Commonwealth Telephone Enterprises, Inc. (formerly C-Tec Corporation) CTSI is a Competitive Local Exchange Carrier ("CLEC") which operates in areas adjacent to the traditional service area of Commonwealth Telephone Company (also a wholly-owned subsidiary of Commonwealth Telephone Enterprises, Inc.)

The Company recognizes that managing customer turnover is an important factor in maximizing revenues and cash flow. For the quarter ended December 31, 1998, the Company's average monthly churn rate was approximately 2.8%.

Costs and Expenses, excluding depreciation and amortization

Costs and expenses, excluding depreciation and amortization are comprised of direct costs, and operating, selling and general and administrative expenses.

Direct expenses include direct costs of providing services, primarily video programming, franchise costs and network access fees.

Direct expenses increased \$50,553 or 97.7% to \$102,310 for the year ended December 31, 1998 from \$51,757 for the year ended December 31, 1997. The increase was primarily due to higher voice connections, primarily resold voice, which contributed approximately \$27,500 to the increase. Higher video programming costs of approximately \$8,000 resulted from higher programming rates, new channels and increased video connections. The remaining increase primarily represents Internet access costs associated with the increase in data revenues.

Operating, selling, general and administrative expenses primarily include customer service costs, advertising, sales, marketing, order processing, telecommunications network maintenance and repair ("technical expenses") general and administrative expenses, installation and provisioning expenses, and other corporate overhead.

Operating, selling, general and administrative costs increased \$76,832 or 92.3%, to \$160,042 for the year ended December 31, 1998 from \$83,210 for the year ended December 31, 1997.

Advertising costs increased approximately \$14,000 or 136.9% for the year ended December 31, 1998 as compared to the year ended December 31, 1997. Costs associated with an extensive high visibility multi-media campaign primarily in New York City and Boston, which commenced in June 1997, increased approximately \$4,400 over 1997. Internet advertising, primarily associated with the acquisition of Erols, increased approximately \$5,300. Promotional materials expense increased approximately \$1,000. Ad agency fees and costs to promote the commencement of telephony product offering in Lehigh Valley, Pennsylvania are the significant contributions to the remaining increase in

advertising expense.

Customer service costs, including order processing, increased approximately \$19,500 or 182.1% for the year ended December 31, 1998 as compared to the year ended December 31, 1997. Increases of approximately \$7,500, primarily personnel related, were due to customer base support for Internet acquisitions. Other staff and temporary labor increases to support expanding operations in New York City, Boston, and Lehigh Valley, Pennsylvania contributed approximately \$9,000 to the increase. Higher billing costs of approximately \$3,000 for increased customers comprises the remainder of the increase in customer service costs.

Technical expense, including installation and provisioning, increased approximately \$11,000 or 58.1% for the year ended December 31, 1998 as compared to the year ended December 31, 1997.

Technical expense increases of approximately \$8,500 were due to engineering and construction headcount and contract labor additions made to plan and execute network expansion and network operations center control monitoring. Resale telephony installation costs contributed approximately \$1,700 to the increase. Retail expense primarily for materials and hub sites increased approximately \$1,500. Technical expense increases associated with Internet acquisitions in 1998 were approximately \$3,500. These increases were partially offset by approximately \$5,200 of technical costs capitalized as part of the cost basis of the telecommunications network. The remaining increase in technical expenses is primarily due to higher right of way use fees.

Sales and marketing costs increased approximately \$13,000 or 84.6% for the year ended December 31, 1998 as compared to the year ended December 31, 1997. The increase resulted from additional staff, contract labor and related commissions and benefits, aggregating approximately \$4,900 to cover increases in marketable homes, to increase penetration in the Company's existing markets and to increase the number of services per customer. Telemarketing expense increased approximately \$1,200 due to increased campaigns. Sales and marketing increases associated with Internet acquisitions in 1998, primarily Erols, were approximately \$5,400.

General and Administrative expenses increased approximately \$19,000 or 69.5%. Internet and Lancit acquisitions in 1998 contributed approximately \$6,800. Legal expense increased approximately \$1,500 primarily as a result of various start-up regulatory expenses related to the procurement of franchise and OVS agreements. Higher bad debt expense of approximately \$1,500 was associated with the increase in sales. Higher salaries and benefits of approximately \$3,800 were due to staff additions, primarily to support the expansion, maintenance and upgrade of the Company's management information systems, new product development and integration of acquisitions. In addition, the Company met certain quarterly performance targets established for 1998 relative to the determination of a potential contribution to its ESOP plan and accrued the related amounts aggregating approximately \$1,000. Expenditures in 1998 relative to Year 2000 planning and remediation were approximately \$400. The Company is in the process of developing information technology systems which will provide a sophisticated customer care infrastructure. Expenses associated with the planning and analysis stages of such systems development were approximately \$5,000 in 1998. The Company expects that such charges may increase in future periods during 1999 until the planning and analysis stages of its IT systems development projects are complete. The above increases were partially offset by a one-time credit of approximately \$2,400 related to the reversal of an accrual for damages related to contract termination which was settled between the Company and the

counterparty.

Depreciation and amortization

Depreciation and amortization was \$89,088 for the year ended December 31, 1998 and \$53,205 for the year ended December 31, 1997. The increase of \$35,883, or 67.4% was the result of both a higher depreciable basis of plant, resulting primarily from expansion of the Company's advanced fiber network, and amortization of intangible assets arising from the acquisitions of Erols and UltraNet in February 1998. The cost basis of property, plant and equipment at December 31, 1998 and 1997 was \$601,679 and \$307,759, respectively. The basis of intangible assets was \$267,031 and \$149,935 at December 31, 1998 and 1997, respectively.

In future periods, depreciation and amortization are expected to exceed amounts recorded in 1998 due to depreciation with respect to expansion of the Company's advanced fiber optic network and the effect of a full year of depreciation and amortization related to acquisitions in 1998.

Acquired in-process research and development

In connection with the acquisitions of Erols and UltraNet, RCN has allocated \$13,228 million for Erols and \$5,065 million for UltraNet to in-process research and development ("IPR&D"). Specifically, four projects were identified which qualified as IPR&D by definition of not having achieved technological feasibility and representing technology which at the point of acquisition offered no alternative use other than the defined project. Those projects were cable modem Internet access for subscribers, Internet telephony, E-Commerce systems, and High-speed shared office Internet access (Note 4). The IPR&D valuation charge was measured by the stage of completion method. The expected completion percentages are estimated based on the latest available financial information at the date of acquisition and were established on a project by project basis primarily calculated by dividing the costs incurred to date by the total expected R&D expenses specific to the project. The significant assumptions utilized by management were as follows:

Cash flow projections, utilizing risk adjusted discount rates of between 35% and 40% for Erols projects, commenced in 1998, and were expected to grow significantly in 1999 and 2000. Cash flow projections, utilizing risk adjusted discount rates of between 30% and 33% for UltraNet projects, were expected to commence in 1999, growing significantly in 2000 and 2001. The IPR&D projections are founded on significant assumptions with regard to timing of market entrance, levels of penetration, and costs of provisioning.

RCN is constructing new telecommunications networks. The margins on products expected to result from acquired in-process technologies in some cases represent higher margins than RCN's margins on existing products primarily due to the efficiencies in delivering multiple products, including bundled-service offerings, over a single state of the art high capacity fiber optic network.

Interest income

Interest income was \$58,679 and \$22,824 for the years ended December 31, 1998, and 1997, respectively. The increase of \$35,855, or 157.1% results from higher cash, temporary cash investments and short-term investments as compared to the same period in 1997. Cash, temporary cash investments and short-term investments were approximately \$1,013,000 at December 31, 1998 and approximately \$639,000 at December 31, 1997. Included in the cash, temporary cash investments and short-term investments balance at December 31, 1997 were proceeds from 10% Senior Notes, issued in October 1997, which generated gross proceeds of \$225,000 and yielded net proceeds of \$218,250; and 11 1/8% Senior Discount Notes, issued in October 1997, which generated gross proceeds of \$350,001 and yielded net proceeds of \$337,751. Additionally, during 1998, proceeds from the following increased cash, temporary cash investments and short-term investments: 9.8%

Senior Discount Notes, issued in February 1998, which generated gross proceeds of \$350,587 and yielded net proceeds of \$344,855; 11% Senior Discount Notes, issued in June 1998, which generated gross proceeds of \$149,999 and yielded net proceeds of \$147,187 and the issuance of 6,098,355 shares of the Company's Common Stock, issued in June 1998, which yielded net proceeds of \$112,866.

Interest expense

For the year ended December 31, 1998, interest expense was \$112,239 as compared to \$25,602 for the year ended December 31, 1997. The increase resulted from the debt financings referred to above, offset by a reduction due to the prepayment in September 1997 and \$131,250 of 9.65% Senior Secured Notes.

Other (expense) income

Other (expense) income was (\$1,889) and \$131 for the years ended December 31, 1998 and 1997, respectively. The 1998 expense primarily represents the write down of certain of the Company's information technology assets which the Company upgraded with higher capacity state of the art products in connection with an overall internal technology upgrade.

Income tax

The Company's effective income tax rate was a benefit of 2.3% and 29.8% for the years ended December 31, 1998 and 1997, respectively. The primary reasons for the difference include the charge for in-process technology which is not deductible for tax purposes and for which a tax benefit was correspondingly not recorded. Additionally, during 1998, the tax effect of the Company's cumulative losses has exceeded the tax effect of accelerated deductions, primarily depreciation, which the Company has taken for federal income tax purposes. Except in unusual cases, generally accepted accounting principles do not permit the recognition of tax benefits of such excess losses in the financial statements. This accounting treatment does not impact the amount or expiration periods of actual net operating loss carryovers or cash flows for taxes. For an analysis of the changes in income taxes, see the reconciliation of the effective income tax rate in note 11 to the consolidated financial statements.

Minority interest

For the year ended December 31, 1998, minority interest of \$17,162 primarily represents the 49% interest of BECO in the loss of RCN-BECOCOM. For the year ended December 31, 1997, minority interest primarily represents the 49% interest of BECO in the loss of RCN-BECOCOM of \$6,563 and the 19.9% minority interest in the loss of Freedom of \$966. The Company purchased the remaining 19.9% ownership interest in Freedom on March 21, 1997.

Equity in loss of unconsolidated entities

For the year ended December 31, 1998, equity in the loss of unconsolidated entities primarily represents the Company's 50% interest in the loss of Starpower of \$10,335 and the Company's share of the losses and amortization of excess cost over net assets of Megacable of \$2,384. In January 1995, the Company purchased a forty percent equity position in Megacable, a Mexican cable television provider, for cash of \$84,115. The Company is exposed to foreign currency translation adjustments resulting from translation into U.S. dollars of the financial statements of Megacable, which through December 1996 utilized the peso as the local and functional currency. Such adjustments have historically been included as a separate component of shareholders' equity. Effective January 1, 1997 since the three year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is being treated for accounting purposes under Statement of Financial Accounting Standards No. 52-"Foreign Currency Translation" as having a highly inflationary economy through December 31, 1998. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. The Company is also exposed to foreign currency transaction losses resulting from transactions of Megacable which are made in currencies different from Megacable's own. The Company's proportionate share of transaction gains (losses) are included in income as they occur. The Company does not hedge its foreign currency exchange risk and it is not possible to determine what effect future currency fluctuations will have on the Company's operating results. Exchange gains (losses) of (\$766), (\$12), and \$247 in 1998, 1997 and 1996, respectively, including translation losses in 1998 and 1997, are included in the respective statements of operations through the Company's proportionate share of losses of Megacable.

In 1998, Megacable had sales of \$37,480, operating income before depreciation and amortization of \$13,409 and net income of \$9,739. In 1997, Megacable had sales of \$30,441, operating income before depreciation and amortization of \$10,504 and net income of \$6,653. The Company's investment in Megacable exceed its underlying equity in the net assets of Megacable when acquired by approximately \$94,000, which goodwill is being amortized on a straight-line basis over 15 years. In 1998 and 1997 amortization of the Company's excess purchase price over the net assets of Megacable when acquired was \$6,280 in each year. For the year ended December 31, 1997, equity in the loss of unconsolidated entities primarily represents the Company's share of the losses and amortization of excess cost over net assets of Megacable.

YEAR ENDED DECEMBER 31, 1997 COMPARED TO THE YEAR ENDED DECEMBER 31, 1996:

Sales were \$127,297 for the year ended December 31, 1997 as compared to \$104,910 for the year ended December 31, 1996.

Operating income before depreciation, amortization and nonrecurring charge was (\$7,670) for the year ended December 31, 1997 as compared to \$25,803 for the year ended December 31, 1996.

Net loss was (\$52,391) or (\$.95) per average common share for 1997 and (\$5,989) or (\$.11) per average common share for 1996.

Sales

For the year ended December 31, 1997, total sales were \$127,297, an increase of \$22,387 or 21.3%, from \$104,910 for the year ended December 31, 1996, primarily due to higher total service connections which increased 20.6% to approximately 268,000 at December 31, 1997 from approximately 222,000 at December 31, 1996. The increase is due to the commencement of service through advanced fiber optic network facilities as well as growth in resold voice and off-net video connections.

Voice revenues increased \$3,177 to \$4,007 for the year ended December 31, 1997 from \$830 for the year ended December 31, 1996. The increase was primarily due to an increase in off-net connections. Off-net connections were 24,900 and 1,875 at December 31, 1997 and 1996, respectively.

Video revenue increased \$15,901 or 18.2% to \$103,371 for the year ended December 31, 1997 from \$87,470 for the year ended December 31, 1996. The increase was due to an increase in off-net video sales principally resulting from higher basic service revenue resulting from approximately 4,850 additional average monthly subscribers over 1996, the effects of a rate increase in the first quarter of 1997 and cash incentives related to the launch of certain new channels. Additionally, other video sales increased primarily due to the acquisition of Freedom on August 30, 1996 (the "Freedom Acquisition"), which resulted in approximately 38,000 wireless video connections for a full year in 1997 as compared to four months in 1996. The Company also began providing video service over its advanced fiber network during 1997 and had approximately 11,800 advanced fiber connections at December 31, 1997.

Commercial and other revenues increased \$3,272, or 19.7% to \$19,878 for the year ended December 31, 1997 from \$16,606 for the year ended December 31, 1996. The increase primarily results from terminating access provided to CTSI. An increase in commercial main access lines of approximately 5,200 over 1996 accounted for approximately \$1,100 of the increase in commercial and other revenues.

Costs and expenses, excluding depreciation and amortization

For the year ended December 31, 1997, direct expenses were \$51,757, an increase of \$16,531 or 46.9% as compared to direct expenses of \$35,226 in 1996. The increase is primarily attributable to higher sales and a change in overall revenue mix to a higher volume of resold voice, which has a lower margin than the Company's other products. The resold voice increase represents planned marketing primarily in the Boston and New York City markets ahead of construction of the advanced fiber network to build a customer base which is intended to be migrated to the advanced fiber network. Origination and programming costs increased approximately \$7,200 primarily due to higher video connections, rate increases and additional channels. The remaining increase in direct costs and expenses is principally attributable to higher commercial long distance network capacity in anticipation of volume growth in the Company's markets resulting in higher recurring costs.

Operating, selling, general and administrative expenses increased \$39,329 or 89.6% to \$83,210 for the year ended December 31, 1997 from \$43,881 for the year ended December 31, 1996. Advertising costs increased approximately \$9,000 for the year ended December 31, 1997 primarily due to a high visibility multi-media campaign to promote name recognition primarily in New York City and Boston. Customer service costs increased approximately \$4,100, or 60.3% primarily related to headcount additions to support the increase in the customer base and to meet the Company's objectives for world class customer service. Technical expense increased approximately \$8,300, or 75.1% for the year ended December 31, 1997. The increase is primarily related to salaries

and benefits associated with increased network engineering staff, responsible for planning the development and construction of the advanced fiber network, and increased installation and repair technicians. Sales and marketing costs increased approximately \$8,500, or 116.7%, for the year ended December 31, 1997. The increase relates to higher sales staff to increase penetration in the Company's markets, higher marketing staff to monitor and coordinate the Company's direct advertising efforts and plan sales promotions and to higher telemarketing expenses. The remaining increase in operating, selling, general and administrative expenses is attributable to several factors including costs associated with the spin-off of the Company from C-TEC. Additionally, in connection with the Distribution (Note 1), C-TEC completed a comprehensive study of its employee benefit plans in 1996. As a result of this study, effective December 31, 1996, in general, employees of RCN no longer accrued benefits under the defined benefit pension plan, but became fully vested in their defined pension benefits accrued through that date. C-TEC notified affected participants in December 1996. In December 1996, C-TEC allocated pension plan assets of \$6,984 to a separate plan for employees who no longer accrued benefits after December 31, 1996. The underlying liabilities were also allocated. The allocation of assets and liabilities resulted in a curtailment/settlement gain of \$4,292. The Company's allocable share of this gain was \$3,437. Such gain did not recur in 1997.

Depreciation and amortization

Depreciation and amortization increased \$14,324, or 36.8% to \$53,205 for the year ended December 31, 1997 as compared to \$38,881 for 1996. The increase is principally due to the additional depreciation and amortization resulting from the Freedom Acquisition and depreciation related to the Company's advanced fiber optic networks in New York City and Boston.

Nonrecurring charges

Nonrecurring charges of \$10,000 in 1997 represent costs incurred with respect to the termination of a marketing services agreement held by Freedom.

Interest income

For the year ended December 31, 1997, interest income was \$22,824, a decrease of \$2,778, or 10.9% primarily due to lower average cash balances and lower average notes receivable with related parties. Average cash balances decreased principally as a result of the Freedom Acquisition in August 1996 (as well as the acquisition in March 1997 of the remaining 19.9% ownership interest in Freedom) and capital expenditures, partially offset by the proceeds of the Company's high yield debt offering in October 1997.

Interest expense

For the year ended December 31, 1997, interest expense was \$25,602, an increase of \$9,556, or 59.6% primarily due to interest expense on the Company's \$225,000 of 10% Senior Notes and \$601,045 aggregate principal amount at maturity of 11 1/8% Senior Discount Notes placed in October 1997 (Note 10). This was partially offset by lower interest expense resulting from the required principal payment in December 1996 of \$18,750 on 9.65% Senior Secured Notes. Additionally, the Company paid \$922 to Kiewit Telecom Holdings, Inc. in 1996 in connection with the Company's August 1996 acquisition of Kiewit Telecom Holdings, Inc.'s 80.1% interest in Freedom. This portion of the consideration represents an amount to compensate Kiewit Telecom Holdings, Inc. for forgone interest on the amount which it had invested in Freedom.

Income tax

Benefit for income taxes increased \$21,828 primarily due to the increase of \$65,020 in loss after minority interest and equity in unconsolidated entities before income taxes. For an analysis of the change in income taxes, see the reconciliation of the effective income tax rate in Note 11 to the Consolidated Financial Statements.

Minority interest

Minority interest in the loss of consolidated entities increased \$5,956 primarily as a result of the minority share of the losses of the BECO joint venture (Note 7), which began operations in June 1997. Additionally, the minority share of the losses of Freedom from January 1 through March 21, at which time the Company acquired the remaining 19.9% ownership interest, was \$966.

Equity in loss of unconsolidated entities

The Company's equity in the (loss) of unconsolidated entities was (\$3,804) in 1997 and (\$2,282) in 1996, and is comprised principally of the Company's share of the operating results of Megacable. Exchange gains (losses) of (\$12), \$247, and (\$932) in 1997, 1996 and 1995, respectively, including translation losses in 1997, are included in the respective statements of operations through the Company's proportionate share of losses of Megacable.

In 1997, Megacable had sales of \$30,441, operating income before depreciation and amortization of \$10,504 and net income of \$6,653. In 1996, Megacable had sales of \$23,225, operating income before depreciation and amortization of \$10,183 and net income of \$10,226.

Extraordinary charge

In September 1997, the Company prepaid Senior Secured Notes with the proceeds of new credit facilities (Note 10). The early extinguishment of the Senior Secured Notes resulted in an extraordinary charge of \$3,210, net of taxes.

LIQUIDITY AND CAPITAL RESOURCES

Because our network development plan involves relatively low fixed costs, we are able to schedule capital expenditures to meet expected subscriber growth in each major market. Our principal fixed costs in each such market are incurred in connection with the establishment of a video transmission and telephone switching facility. To make each market economically viable, it is then necessary to construct infrastructure to connect a minimum number of subscribers to the transmission and switching facility. We phase our market entry projects to ensure that we have sufficient cash on hand to fund this construction.

Based on its current growth plan, the Company expects that it will require a substantial amount of capital to expand the development of its network and operations into new areas within its larger target markets. The Company needs capital to fund the construction of its advanced fiber optic networks, upgrade its hybrid fiber/coaxial plant and fund operating losses and repay its debts. The Company currently estimates that its capital requirements for the period from January 1, 1999 through 2000 will be approximately \$1.8 billion, which include capital expenditures of approximately \$700 million in 1999 and approximately \$1 billion in 2000. These capital expenditures will be used principally to fund additional construction of the Company's fiber optic network in high density areas in the Boston, New York, Washington, D.C. and San Francisco Bay markets as well as to expand into new markets and to develop its information technology systems. These estimates are forward-looking statements that may change if circumstances related to construction, timing of receipt of regulatory approvals and opportunities to accelerate the deployment of the Company's networks do not occur as expected. In addition to the Company's own capital requirements, its joint venture partners are each expected to contribute approximately \$275 million, of which approximately \$120 million has been contributed, to the joint ventures through 2000 in connection with development of the Boston and Washington, D.C. markets.

In order to facilitate growth beyond 2000, the Company expects to supplement its existing available credit facilities and operating cash flow by continuing to seek to raise additional capital to increase its network coverage and pay for other capital expenditures, working capital, debt service requirements and anticipated further operating losses.

Sources of funding for the Company's further financing requirements may include vendor financing, public offerings or private placements of equity and/or debt securities, and bank loans. There can be no assurance that sufficient additional financing will continue to be available to the Company or, if available, that it can be obtained on a timely basis and on acceptable terms. Failure to obtain such financing could result in the delay or curtailment of the Company's development and expansion plans and expenditures. Any of these events could impair the Company's ability to meet its debt service requirements and could have a material adverse effect on its business.

In October 1997, the Company raised \$575,000 in gross proceeds from an offering of two tranches of debt securities. The offering was comprised of \$225,000 principal amount of 10% Senior Notes and \$601,045 principal amount at maturity of 11 1/8% Senior Discount Notes, both due in 2007. The proceeds include \$61,000 of restricted cash to be used to fund an Escrow Account to pay interest on the 10% Senior Notes for three years. In February 1998, the Company raised \$350,587 in gross proceeds from an offering of \$567,000 principal amount at maturity of 9.80% Senior Discount Notes, due in 2008. In June 1998, the Company raised \$149,999 in gross proceeds from an offering of \$256,755 principal amount at maturity of 11% Senior Discount Notes, due 2008. Also in June 1998, the Company raised \$112,866 in net proceeds from an offering of 6,098,355 shares of the Company's Common Stock. The preceding Indentures all contain similar provisions. The Chase Manhattan Bank acts as Trustee for each of the Indentures. All the aforementioned Notes are general senior unsecured obligations of RCN. The 9.80% Senior Discount Notes will mature on February 15, 2008. The 9.80% Senior Discount Notes will not bear cash interest prior to February 15, 2003. Thereafter, cash interest on the notes will accrue at 9.80% per annum and will be payable semi-annually in arrears on February 15 and August 15 of each year commencing February 15, 2003. The 10% and 11 1/8% Notes (the "1997 Notes") will mature on October 15, 2007. Interest on the 10% Senior Notes is payable in cash at a rate of 10% per annum semi-annually in arrears on each April 15 and October 15, commencing April 15, 1998. The 11 1/8% Senior Discount Notes will not bear cash interest prior to October 15, 2002. Thereafter, cash interest on the notes will accrue at a rate of 11 1/8% per annum and will be payable semi-annually in arrears on April 15 and October 15 of each year commencing April 15, 2002. The 11% Senior Discount Notes will not bear cash interest prior to January 1, 2003. Thereafter, cash interest on the notes will accrue at a rate of 11% per annum and will be payable semi-annually in arrears on January 1 and July 1 of each year, commencing July 1, 2003.

The 9.80% Senior Discount Notes are redeemable, in whole or in part, at any time on or after February 15, 2003 at the option of RCN. The 9.80% Senior Discount Notes may be redeemed at redemption prices starting at 104.900% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued and unpaid interest. The 1997 Notes are redeemable, in whole or in part, at any time on or after October 15, 2002 at the option of RCN. The 10% Senior Notes may be redeemed at redemption prices starting at 105% of the principal amount and declining to 100% of the principal amount at maturity, plus any accrued and unpaid interest. The 11 1/8% Senior Discount Notes may be redeemed at redemption prices starting at 105.562% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued and unpaid interest. The 11% Senior Discount Notes will be redeemable, in whole or in part, at any time on or after July 1, 2003 at the option of RCN. The 11% Senior Discount Notes may be redeemed at redemption prices starting at 105.5% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus accrued and unpaid interest.

RCN may, at its option, use the net proceeds of certain offerings of RCN Common Stock to redeem up to an aggregate of 35% of the aggregate principal amount at maturity of the debt securities issued under the Indentures at a certain premium. Upon the occurrence of a change of control, RCN must make an offer to purchase all of the debt securities issued under the Indentures then outstanding at a premium.

The Indentures contain certain covenants that, among other things, limit the ability of RCN and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

RCN Cable and certain of its subsidiaries ("Borrowers") have in place collateralized credit facilities comprised of a five-year revolving credit facility in the amount of \$25,000 (the "Revolving Credit Facility") and an eight-year term credit facility in the amount of \$100,000 (the "Term Credit Facility"), both of which facilities are governed by a single credit agreement dated as of July 1, 1997 (the "Credit Agreement"). As of December 31, 1998, \$100,000 of the Term Credit Facility was outstanding. The term loan must be repaid over six years in quarterly installments, at the end of September, December, March and June of each year from September 30, 1999 through June 30, 2005. As of December 31, 1998, no principal was outstanding under the Revolving Credit Facility. Revolving loans may be repaid and reborrowed from time to time. All borrowings under the Credit Agreement will be pari passu and will be collateralized under a common collateral package.

The interest rate on the Credit Agreement is, at the election of the Borrowers, based on either a LIBOR or a Base Rate option (each as defined in the Credit Agreement). In the case of LIBOR option, the interest rate includes a spread that varies, based on RCN Cable's Leverage Ratio (defined as the ratio of Total Debt at the last day of the most recently ended fiscal quarter to Operating Cash Flow for the four fiscal quarters then ended), from 50 basis points to 125 basis points. In the case of the Revolving Credit Facility, a fee of 20 basis points on the unused revolving commitment accrues and is payable quarterly in arrears.

The Credit Agreement contains customary covenants for facilities of this nature, including covenants limiting debt, liens, investments, consolidations, mergers, acquisitions and sales of assets, payment of dividends and other distributions, capital expenditures and transactions with affiliates. In addition, the Borrowers are subject to a prohibition on granting negative pledges and the Borrowers must apply certain cash proceeds realized from certain asset sales, certain payments under insurance policies and certain incurrences of additional debt to repay the Revolving Credit Facility. The Credit Agreement requires the Borrowers to maintain the following financial ratios: (i) the ratio of Total Debt at any fiscal quarter end to Operating Cash Flow for the trailing four fiscal quarters is not to exceed 5.0:1 initially, adjusting over time to 4.0:1; (ii) the ratio of Operating Cash Flow to Interest

Expense for any four consecutive fiscal quarters is not to fall below 2.75:1 for periods ending during the first 3 years after the Closing Date, adjusting to 3.0:1 thereafter; and (iii) the ratio of Operating Cash Flow (minus certain capital expenditures, cash taxes and cash dividends) to Fixed Charges (defined as scheduled principal payments and interest expense) for any four consecutive quarters is not to fall below 1.0:1 for periods ending on or before December 31, 2000 and adjusting to 1.05:1 thereafter. The Credit Agreement also includes customary events of default.

The Company has indebtedness that is substantial in relation to its shareholders' equity and cash flow. At December 31, 1998, the Company has an aggregate of approximately \$1,267,000 of indebtedness outstanding, and the ability to borrow up to an additional \$25,000 under the Credit Agreement. The Company also has cash, temporary cash investments and short term investments aggregating approximately \$1,013,000 and a current ratio of approximately 6 to 1.

On March 18, 1999, the Company announced that Hicks, Muse, Tate & Furst, through Hicks, Muse, Tate & Furst Equity Fund IV, L.P., signed a commitment to purchase up to \$250 million of a new issue of Series A 7% Senior Convertible Preferred Stock ("Series A Preferred Stock") of the Company in a private placement transaction. The Series A Preferred Stock will have an annual dividend rate of 7% payable quarterly in cash or additional shares of Series A Preferred Stock at the option of the Company and will have an initial conversion price of \$39.00 per share (which represents a 30% premium over the average five-day closing price of the Common Stock of the Company). The Series A Preferred Stock is convertible into Common Stock of the Company at any time. The issue has a final maturity of 15 years, but may be called by the Company after four years.

The Company also announced on March 18, 1999 that it had entered into a commitment letter with The Chase Manhattan Bank ("Chase") pursuant to which Chase has agreed to provide an aggregate principal amount of \$1 billion of senior secured credit facilities to certain of the Company's wholly-owned subsidiaries. The facilities will be comprised of a seven-year senior secured revolving credit facility in an amount of \$250 million, a seven-year senior secured multi-draw term loan facility in an amount of \$350 million and an eight-year senior secured single-draw term loan facility in an amount of \$400 million. All borrowings under the facilities will be pari passu and will be collateralized under a common collateral package covering substantially all of the assets of the Company and its domestic subsidiaries.

As a result of the substantial indebtedness of the Company, the Company's fixed charges are expected to exceed its earnings for the foreseeable future. Based on its current plans, the Company will require substantial additional capital particularly in connection with the buildout of the Company's networks and the introduction of its telecommunications services to new markets. The leveraged nature of the Company could limit its ability to effect future financing or may otherwise restrict the Company's business activities.

The extent of the Company's leverage may have the following consequences: (i) limit the ability of the Company to obtain necessary financing in the future of working capital, capital expenditures, debt service requirements or other purposes; (ii) require that a substantial portion of the Company's cash flows from operations be dedicated to the payment of principal and interest on its indebtedness and therefore not be available for other purposes; (iii) limit the Company's flexibility in planning for, or reacting to, changes in its business; (iv) place the Company at a competitive disadvantage as compared with less leveraged competitors; and (v) render the Company more vulnerable in the event of a downturn in its business.

For the year ended December 31, 1998, the Company's net cash provided by operating activities was \$35,110 comprised primarily of a net loss of (\$205,442) adjusted by non-cash depreciation and amortization of \$89,088, other non-cash items totaling \$95,569 and working capital changes of \$58,133. Net cash used in investing activities of \$828,176 consisted primarily of additions to property, plant and equipment of \$285,867, purchase of short-term investments of \$936,401, investment in unconsolidated joint venture of \$20,000 and acquisitions of \$47,361 (primarily the Erols, UltraNet and JavaNet acquisitions), partially offset by net sales and maturities of short-term investments of \$461,795. Net cash provided by financing activities of \$690,282 included the issuance of long-term debt of \$502,587, proceeds from the issuance of stock of \$112,866, contribution from minority interest partner of \$77,849 and decrease in investments restricted for debt service of \$22,375, partially offset by the repayment of long-term debt of \$7,770, purchase of treasury stock of \$9,301 and payments made for debt financing costs of \$10,185.

For the year ended December 31, 1997, the Company's net cash provided by operating activities was \$2,069, comprised primarily of a net loss of (\$52,391) adjusted by non-cash depreciation and amortization of \$53,205, other non-cash items totaling (\$203), working capital changes of \$377 and changes in other deferred expenses of \$1,081. Net cash used in investing activities of \$475,860 consisted primarily of purchases of short-term investments of \$445,137, additions to property, plant and equipment of \$79,042 and acquisitions of \$30,490 (primarily acquisition of the minority interest of Freedom) partially offset by sales and maturities of short-term investments of \$76,923. Net cash provided by financing activities of \$634,858 consisted primarily of issuance of long-term debt of \$688,000, change in affiliate notes of \$97,624 and transfers from C-TEC of \$89,323 partially offset by repayment of long-term debt of \$141,250, transfers to C-TEC of \$23,474, payments made for debt financing costs of \$20,151 and an increase related to cash restricted for debt service of \$61,250.

IMPACT OF THE YEAR 2000 ISSUE

Certain statements concerning Year 2000 issues, which contain more than historical information, may be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and are thus subject to risks and uncertainties. Actual results may differ materially from those expressed by any forward-looking statements. The Company's Year 2000 discussion should be read in conjunction with the Company's statement on forward-looking statements which appears at the beginning of this Management's Discussion and Analysis of Financial Condition and Results of Operations.

State of Readiness

The Company has certain information technology ("IT") systems (system used in the management of the business) and non-information technology systems ("non-IT") (System used to produce service to customers) which are subject to Year 2000 exposures and require remediation. The Company has established a Year 2000 Program Office which is staffed with personnel who address, on a full-time and ongoing basis, the Year 2000 issue. This group is led by a full-time Director who reports in the organization, on a daily basis, directly to the Senior Vice President of IT, on a periodic basis, to a Year 2000 Steering Committee comprised of the Chairman, President, Chief Financial Officer, Senior Vice President of IT and General Counsel and President of Network Technology of the Company. The Year 2000 Program Office personnel work with subject matter experts consisting of current employees from various disciplines across the Company to specifically identify these systems and implement a plan for remediation. This plan, the Year 2000 Compliance Program, includes a 5-step process of remediation as follows:

1. inventory
2. planning
3. assessment
4. repair
5. integration

The Company has evaluated which systems are critical to its operations and has prioritized its Year 2000 remediation efforts to address these systems first. As a result, the Company is in different stages of this Program for its various systems.

For business reasons unrelated to Year 2000 issues, the Company is replacing its financial, billing, operational support, and customer services systems. These systems are critical to the Company's operations. The financial system replacement involved converting the legacy of financial systems to a state-of-the-art Oracle system. The Oracle system, which went into production use on November 1, 1998, is expected to ensure Year 2000 compliance in financial applications. The replacement systems for the Company's billing, operational support and customer services will also be Year 2000 compliant at installation. The replacement of the billing, operational support and customer service systems is in process and includes substantial risk of not progressing along the planned time line due to the scope of the project. To manage this risk, the Company has assumed that the replacement systems will not be available before the Year 2000. To ensure business continuity, and as a contingency strategy, the Company is renovating the current billing, operational support and customer service systems which are not already Year 2000 compliant. The Company's switches and head-ends are also critical systems and are either currently Year 2000 compliant or are expected to be compliant with the next vendor software upgrade. Such software upgrades are expected to be installed by June 30, 1999.

The Company expects most renovations to IT systems to be completed by May 31, 1999. The Company has begun testing of some of its critical systems and expects thorough integration testing to be completed by June 30, 1999. The Company completed an inventory of its non-IT systems which must be remediated and is in the process of developing a specific remediation plan and timetable for those systems.

The Year 2000 compliance status of interdependent third parties is not yet fully known. The Company recognizes the importance of communication with third parties to determine their plans for becoming Year 2000 compliant. The Company estimates that it has approximately 200 critical vendors and has sent surveys regarding the Year 2000 remediation to those vendors. The Company has received responses from approximately 40% of these vendors. The Company is vigorously pursuing the timely receipt of relevant information from the remaining vendors. The Company will assess its remediation plans based on those responses. The Company is also working with integrated providers and will be setting up testing, according to their communications. The Company will be reviewing the process of risk and contingency planning associated with noncompliant vendor responses. There can be no assurance that third party systems will be made Year 2000 compliant in a timely manner or that non-compliance of these systems would not have a material adverse effect on the Company's operations and financial condition.

No other IT projects have been deferred due to the Year 2000 remediation efforts.

Cost

Based upon its current assessment, the total cost associated with the Company's Year 2000 Compliance Program is not expected to be material to the Company's results of operations or financial position. The estimated total cost of the Company's Year 2000 Compliance Program is approximately \$5,500. This is comprised of approximately \$3,300 for salaries, facilities and consulting services; approximately \$1,200 for program code remediation; approximately \$500 for equipment replacement and approximately \$500 for testing. Approximately \$400 has been incurred through December 31, 1998. The cost for replacing systems which had been planned, and for which the timeline for replacement was not accelerated due to Year 2000 issues, have not been included.

Risk Assessment and Contingencies

Through current and constant systems reassessment, the Company does not believe it is exposed to any significant Year 2000 risk with respect to its critical systems other than would be caused by substantial deviation from the plans and time frames set forth above, in particular, with respect to our ability to bill customers, track collections of receivables and provide services for new orders. The Company is currently in the process of identifying its other systems requiring remediation and intends to apply its five-step program as outlined above to these systems based on each system's priority in operations. The company is not currently able to assess the most significant risk associated with vendor non-compliance.

Item 7a. Quantitative & qualitative disclosures about market risk

The Company has adopted Item 305 of Regulation S-K "Quantitative & qualitative disclosures about market risk" which is effective in financial statements for fiscal years ending after June 15, 1998. The Company currently has no items that relate to "trading portfolios". Under the "other than trading portfolios" the Company does have four short-term investment portfolios categorized as available for sale securities that are stated at cost, which approximates market, and which are re-evaluated at each balance sheet date and one portfolio that is categorized as held to maturity which is an escrow account against a defined number of future interest payments related to the company's 10% Senior Discount Notes. These portfolios consist of Federal Agency notes, Commercial Paper, Corporate Debt Securities, Certificates of Deposit, U.S. Treasury notes, and Asset Backed Securities (see note 5). The Company believes there is limited exposure to market risk due primarily to the small amount of market sensitive investments that have the potential to create material market risk. Furthermore, the Company's internal investment policies have set maturity limits, concentration limits, and credit quality limits to minimize risk and promote liquidity. The Company did not include trade accounts payable and trade accounts receivable in the "other than trading portfolio" because their carrying amounts approximate fair value.

The objective of the Company's "other than trading portfolio" is to invest in high quality securities and seeks to preserve principal, meet liquidity needs, and deliver a suitable return in relationship to these guidelines.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(THOUSANDS OF DOLLARS EXCEPT PER SHARE AMOUNTS)

	For the Years Ended December 31,		
	1998	1997	1996
Sales	\$ 210,940	\$ 127,297	\$ 104,910
Costs and expenses, excluding depreciation and amortization	262,352	134,967	79,107
Depreciation and amortization	89,088	53,205	38,881
Acquired in-process research and development	18,293	-	-
Nonrecurring charges	-	10,000	-
Operating (loss)	(158,793)	(70,875)	(13,078)
Interest income	58,679	22,824	25,602
Interest expense	(112,239)	(25,602)	(16,046)
Other (expense) income, net	(1,889)	131	(546)
(Loss) before income taxes	(214,242)	(73,522)	(4,068)
(Benefit) provision for income taxes	(4,998)	(20,849)	979
(Loss) before minority interest and equity in unconsolidated entities	(209,244)	(52,673)	(5,047)
Minority interest in loss of consolidated entities	17,162	7,296	1,340
Equity in (loss) of unconsolidated entities	(12,719)	(3,804)	(2,282)
(Loss) before extraordinary charge and cumulative effect of change in accounting principle	(204,801)	(49,181)	(5,989)
Extraordinary charge - debt prepayment penalty, net of tax of \$1,728	-	(3,210)	-
Cumulative effect of change in accounting for start-up costs, net of tax	(641)	-	-
Net (loss)	\$ (205,442)	\$ (52,391)	\$ (5,989)
Basic and diluted earnings per average common share:			
(Loss) before extraordinary charge and cumulative effect of change in accounting principle	\$ (3.35)	\$ (0.89)	\$ (0.11)
Extraordinary charge - debt prepayment penalty	-	\$ (0.06)	-
Cumulative effect of change in accounting for start-up costs	\$ (0.01)	-	-
Net (loss)	\$ (3.36)	\$ (0.95)	\$ (0.11)
Weighted average shares outstanding	61,187,354	54,965,716	54,918,394

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(THOUSANDS OF DOLLARS EXCEPT SHARE DATA)

	December 31,	
	1998	1997
<hr/>		
ASSETS		
Current assets		
Cash and temporary cash investments	\$ 120,126	\$ 222,910
Short-term investments	892,448	415,603
Accounts receivable from related parties	6,919	9,829
Accounts receivable, net of reserve for doubtful accounts of \$5,766 in 1998 and \$2,134 in 1997	27,261	13,139
Unbilled revenues	2,727	1,695
Material and supply inventory, at average cost	3,870	2,745
Prepayments and other	15,368	9,990
Deferred income taxes	712	4,821
Investments restricted for debt service	23,437	22,500
	<hr/>	
Total current assets	1,092,868	703,232
	<hr/>	
Property, plant and equipment, net of accumulated depreciation of \$153,304 in 1998 and \$107,419 in 1997	448,375	200,340
Investments restricted for debt service	19,869	39,411
Investments	129,529	70,424
Intangible assets, net of accumulated amortization of \$97,313 at December 31, 1998 and \$53,388 at December 31, 1997.	169,718	96,547
Deferred charges and other assets	47,256	41,038
	<hr/>	
Total assets	\$1,907,615	\$1,150,992
	<hr/>	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Current maturities of long term debt and capital lease obligations	\$ 4,097	\$ -
Accounts payable to related parties	7,153	3,748
Accounts payable	65,623	24,835
Advance billings and customer deposits	21,679	7,318
Accrued interest	5,267	5,549
Accrued telephony cost of sales	12,000	2,739
Accrued expenses	62,250	25,516
	<hr/>	
Total current liabilities	178,069	69,705
	<hr/>	
Long-term debt	1,263,036	686,103
Deferred income taxes	3,281	19,612
Other deferred credits	14,667	2,596
Minority interest	77,116	16,392
Commitments and contingencies		
Preferred stock: authorized 25,000,000 shares	-	-
Common shareholders' equity:		
Common stock, par value \$1 per share: Authorized 100,000,000 shares: Issued 65,477,493 and 54,989,870 shares at December 31, 1998 and 1997, respectively	65,477	54,989
Additional paid-in capital	539,770	321,766
Cumulative translation adjustments	(3,055)	(3,055)
Unrealized appreciation on investments	1,113	-
Treasury stock, 557,000 shares at cost at December 31, 1998	(9,301)	-
Deficit	(222,558)	(17,116)
	<hr/>	
Total common shareholders' equity	371,446	356,584
	<hr/>	
Total liabilities and shareholders' equity	\$1,907,615	\$1,150,992
	<hr/>	

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

	For the Years Ended December 31,		
	1998	1997	1996
<hr/>			
Cash flows from operating activities			
Net (loss)	\$ (205,442)	\$ (52,391)	\$ (5,989)
Gain on pension curtailment/settlement	-	-	(3,437)
Accretion of discounted debt	80,925	8,103	-
Amortization of financing costs	2,816	408	-
Acquired in-process research and development	18,293	-	-
Gain on sale of partnership interest	-	(661)	-
Extraordinary item - debt prepayment penalty	-	3,210	-
Depreciation and amortization	89,088	53,205	38,881
Deferred income taxes and investment tax credits, net	(6,147)	(10,503)	(6,477)
Provision for losses on accounts receivable	4,125	2,732	1,788
Equity in loss of unconsolidated entities	12,719	3,804	2,282
Minority interest	(17,162)	(7,296)	(1,340)
Net change in certain assets and liabilities, net of business acquisitions:			
Accounts receivable and unbilled revenues	3,500	(14,979)	(3,780)
Material and supply inventory	(1,109)	(1,605)	(814)
Accounts payable	28,456	11,193	2,954
Accrued expenses	37,446	3,353	4,283
Accounts receivable from related parties	2,910	3,180	1,572
Accounts payable to related parties	3,405	(1,132)	(5,448)
Unearned revenue	(17,629)	-	-
Other, net	1,154	367	597
Other	(2,238)	1,081	(1,241)
Net cash provided by operating activities	35,110	2,069	23,831
<hr/>			
Cash flows from investing activities:			
Additions to property, plant and equipment	(285,867)	(79,042)	(38,548)
Purchase of short-term investments	(936,401)	(445,137)	(75,091)
Sales and maturities of short-term investments	461,795	76,923	149,086
Acquisitions, net of cash acquired	(47,361)	(30,490)	(30,090)
Investment in unconsolidated joint venture	(20,000)	-	-
Purchase of loan receivable	-	-	(13,088)
Proceeds from sale of partnership interest	-	1,900	-
Other	(342)	(14)	(1,646)
Net cash used in investing activities	(828,176)	(475,860)	(9,377)
<hr/>			

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

Cash flows from financing activities			
Repayment of long-term debt and capital leases	(7,770)	(141,250)	(44,750)
Issuance of long-term debt	502,587	688,000	19,000
Proceeds from the issuance of stock	112,866	-	-
Purchase of treasury stock	(9,301)	-	-
Contribution to minority interest partner	(108)	-	-
Change in affiliate notes, net	-	97,624	32,802
Extraordinary item - debt prepayment penalty	-	(3,210)	-
Payments made for debt financing costs	(10,185)	(20,151)	-
Cash contribution from minority interest partner	77,849	9,016	-
Decrease (increase) related to investments restricted for debt service	22,375	(61,250)	-
Proceeds from the exercise of stock options	1,969	230	-
Transfers from C-TEC	-	89,323	78,550
Transfers (to) C-TEC	-	(23,474)	(76,211)
Net cash provided by financing activities	690,282	634,858	9,391
Net increase (decrease) in cash and temporary cash investments	(102,784)	161,067	23,845
Cash and temporary cash investments at beginning of year	222,910	61,843	37,998
Cash and temporary cash investments at end of year	\$ 120,126	\$222,910	\$61,843
Supplemental disclosures of cash flow information			
Cash paid during the periods for:			
Income taxes	\$ 1,047	\$ 1,090	\$ 549
Interest (net of \$1,636 capitalized in 1998)	\$ 28,781	\$ 16,536	\$16,046

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

Supplemental Schedule of Non-Cash Investing and Financing Activities

In February 1998, RCN completed the acquisition of Erols Internet, Inc.
The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 147,000
Less:	
Fair value of RCN stock issued	(45,000)
Fair value of stock options exchanged	(11,000)
Liabilities assumed	(55,000)

Net cash paid (including out of pocket expenses of approximately \$1,400 and repayment of debt of approximately \$5,100)	\$ 36,000
	=====

RCN expects to contribute to Starpower approximately 60% of
the subscribers and related unearned revenue acquired in the acquisition
of Erols.

In February 1998, RCN completed the acquisition of UltraNet.
The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 41,500
Less:	
Fair value of RCN stock issued	(26,200)
Fair value of stock options exchanged	(1,900)
Liabilities assumed	(5,700)

Net cash paid	\$ 7,700
	=====

In June 1998, RCN completed the acquisition of Interport Communications, Corp.
The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 11,000
Less:	
Fair value of RCN stock issued	(8,500)
Liabilities assumed	(1,200)

Net cash paid	\$ 1,300
	=====

In June 1998, RCN completed the acquisition of Lancit Media Entertainment, Ltd.
The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 14,800
Less:	
Fair value of RCN stock issued	(7,400)
Liabilities assumed	(7,000)

Net cash paid	\$ 400
	=====

In July 1998, RCN completed the acquisition of JavaNet, Inc. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 21,800
Less	
Fair value of RCN stock issued	(13,400)
Liabilities assumed	(4,700)

Net cash paid	\$ 3,700
	=====

In March 1997, the Company acquired the portion of Freedom which it did not already own. The transaction was accounted for as a purchase.

A summary of the transaction is as follows:

Fair value of assets acquired	\$ 26,188
Non-capitalizable costs	10,000
Reduction of minority interest	3,812

Net cash paid	\$ 40,000
	=====

In 1996, C-TEC acquired an 80.1% interest in Freedom New York, L.L.C. The acquisition was accounted for as a purchase.

A summary of the acquisition is as follows:

Fair value of assets acquired	\$ 42,548
Less:	
Liabilities assumed	(7,621)
Deferred tax asset recognized	167
Minority interest recognized	(6,188)

Net cash paid	\$ 28,906
	=====

In 1997, certain intercompany accounts receivable and payable and intercompany note balances were transferred to Shareholders' Net Investment in connection with the Distribution.

BECO's contribution of the IRU to the RCN-BECOCOM joint venture (Note 7) is included in "Telecommunications Network" at its fair value.

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996
(THOUSANDS OF DOLLARS)

	Common Stock	Additional Paid in Capital	Deficit	Treasury Stock	Shareholder's Net Investment	Cumulative Translation Adjustment	Unrealized appreciation on Investments	Total Shareholders' Equity
Balance, December 31, 1995	\$ 1	\$ -	\$ -	\$ -	\$ 396,674	\$ (2,606)	\$ -	\$ 394,069
Net loss					(5,989)			(5,989)
Transfers from C-TEC					3,134			3,134
Cumulative translation adjustment						(449)		(449)
Balance, December 31, 1996	1	-	-	-	393,819	(3,055)	-	390,765
Net loss from 1/1/97 through 3/30/97					(35,275)			(35,275)
Net loss from 10/1/97 through 12/31/97			(17,116)					(17,116)
Transfers from C-TEC					17,980			17,980
Common stock issued in connection with the distribution	54,968	321,556			(376,524)			-
Stock plan transactions	20	210						230
Balance, December 31, 1997	54,989	321,766	(17,116)	-	-	(3,055)	-	356,584
Net loss			(205,442)					(205,442)
Common stock offering	6,099	106,767						112,866
Stock plan transactions	436	2,001						2,437
Stock and stock options issued in connection with acquisitions	3,953	109,258						113,211
Purchase of treasury stock				(9,301)				(9,301)
Unrealized appreciation on investments							1,113	1,113
Other		(22)						(22)
Balance, December 31, 1998	\$65,477	\$ 539,770	\$(222,558)	\$(9,301)	\$ -	\$ (3,055)	\$ 1,113	\$ 371,446

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1998, 1997 AND 1996

	Common Shares Issued	Treasury Stock	Shares Outstanding
	-----	-----	-----
Balance, December 31, 1995	1,400	-	1,400
Net Loss			
Transfers from C-TEC			
Cumulative translation adjustments			
	-----	-----	-----
Balance, December 31, 1996	1,400	-	1,400
Net loss from 1/1/97 through 9/30/97			
Net loss from 10/1/97 through 12/31/97			
Transfers from C-TEC			
Common stock issued in connection with the distribution	54,967,952		54,967,952
Stock plan transactions	20,518		20,518
	-----	-----	-----
Balance, December 31, 1998	54,989,870	-	54,989,870
Net loss			
Common stock offering	6,098,355		6,098,355
Stock plan transactions	436,342		436,342
Stock issued in connection with acquisitions	3,952,926		3,952,926
Purchase of treasury stock		(557,000)	(557,000)
Unrealized appreciation on investments			
	-----	-----	-----
Balance, December 31, 1998	65,477,493	(557,000)	64,920,493
	=====	=====	=====

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)

1. BACKGROUND AND BASIS OF PRESENTATION

RCN Corporation (the "Company" or "RCN") provides a wide range of telecommunications services through high speed, high capacity advanced fiber optic networks. RCN currently offers local and long distance telephone, video and data services, including high speed Internet access. We provide our services primarily to residential customers in selected markets with high levels of population density and favorable demographics. RCN's initial advanced fiber optic networks have been established in selected markets in the Boston to Washington D.C. corridor and RCN has begun developing advanced fiber optic networks in the San Francisco to San Diego corridor.

Prior to September 30, 1997, RCN Corporation was operated as part of C-TEC Corporation ("C-TEC"). On September 30, 1997, C-TEC distributed 100 percent of the outstanding shares of common stock of its wholly owned subsidiaries, RCN and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's Common Stock and C-TEC's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C-TEC, RCN and Cable Michigan. At the time of the distribution RCN consisted primarily of C-TEC's bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor, its existing New York, New Jersey and Pennsylvania cable television operations, a portion of its long distance operations and its international investment in Megacable, S.A. de C.V. ("Megacable"). C-TEC's corporate services group and corporate financial services company both became subsidiaries of RCN immediately coincident with the Distribution. Cable Michigan, Inc. consisted of C-TEC's Michigan cable operations, including its 62% ownership in Mercom, Inc. In connection with the Distribution, C-TEC changed its name to Commonwealth Telephone Enterprises, Inc. ("CTE").

CTE, RCN and Cable Michigan have entered into certain agreements providing for the Distribution, and governing various ongoing relationships, including the provision of support services, between the three companies, including a distribution agreement and a tax-sharing agreement.

On November 6, 1998, Cable Michigan announced that its sale to Avalon Cable of Michigan, Inc. was complete. As a result of the sale, Cable Michigan has no ongoing support services relationship with RCN and CTE.

The consolidated financial statements have been prepared using the historical basis of assets and liabilities and historical results of operations of all wholly and majority owned subsidiaries. However, the historical financial information presented herein reflects periods during which the Company did not operate as an independent company and accordingly, certain assumptions were made in preparing such financial information. Such information, therefore, may not necessarily reflect the results of operations, financial condition or cash flows of the Company in the future or what they would have been had the Company been an independent, public company during the reporting periods.

C-TEC's corporate services group had historically provided substantial support services such as finance, cash management, legal, human resources, insurance and risk management and its financial statements are included in the consolidated financial statements of the Company. Prior to the Distribution, the corporate office allocated the cost for these services pro rata among the business units supported primarily based on assets; contribution to consolidated earnings before interest, depreciation, amortization, and income taxes; and number of employees. In the opinion of management, the method of allocating these costs is reasonable; however, the costs of these services remaining with the Company after allocation to C-TEC's other business units are not necessarily indicative of the costs that would have been incurred by the Company on a stand-alone basis. It is not practicable to estimate the expenditures for allocated support

services that RCN would have incurred on a stand-alone basis. The historical expense levels for these services after allocation to CTE and Cable Michigan were approximately \$8,000 for both 1996 and the nine months ending September 30, 1997. The Company expects that its expense levels for these services on a forward-looking basis will exceed the historical levels due to growth and increasing complexity of the business. Also included in the Company's consolidated financial statements are the financial statements of the corporate financial services company which invests excess cash of, and advances funds to, the Company and prior to the Distribution, C-TEC. The financial services company charges interest expense on outstanding advances and pays interest income on excess cash invested for affiliates.

The consolidated financial statements include the accounts of all wholly-owned subsidiaries. All material intercompany transactions and balances have been eliminated. The Company has a 40% interest in Megacable, a Mexican cable television system operator and accounts for its investment by the equity method. The RCN-BECOCOM joint venture which the Company controls and in which the minority investors do not possess significant veto rights is consolidated. The Starpower joint venture is accounted for by the equity method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Temporary Cash Investments -

For purposes of reporting cash flows, the Company considers all highly liquid investments purchased with an original maturity of three months or less to be temporary cash investments. Temporary cash investments are stated at cost which approximates market.

Short Term Investments and Investments Restricted for Debt Service -

Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determination at each balance sheet date in accordance with Statement of Financial Accounting Standards No. 115 - "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1998 and 1997, marketable debt and equity securities have been categorized as available for sale. The Company states its short term investments at cost, which approximates market. Investments restricted for debt service have been categorized as held to maturity since management has the positive intent and ability to hold such securities to maturity. At December 31, 1998, investments restricted for debt service are comprised of U.S. Treasury notes and Federal Agency notes and are stated at cost, which approximates market.

Property, Plant and Equipment and Depreciation -

Property, plant and equipment reflects the original cost of acquisition or construction, including related payroll and costs such as taxes, fringe benefits, and certain general administrative costs.

Depreciation is provided on the straight-line method based on the useful lives of the various classes of depreciable property. The average estimated lives of depreciable property, plant and equipment are:

	Lives

Telecommunications Network	5-22.5 years
Computer Equipment	3-10 years
Buildings and leasehold improvements	5-45 years
Furniture, fixtures and vehicles	3-10 years
Other	5-10 years

Repairs of all property, plant and equipment and minor replacements and renewals are charged to expense as incurred. Major replacements and betterments are capitalized. Gain or loss is recognized on major retirements and dispositions.

Intangible Assets -

Intangible assets are amortized on a straight-line basis over the expected period of benefit ranging from 1 to 15 years.

Accounting for Impairments -

The Company follows the provisions of Statement of Financial Accounting Standards No. 121 - "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). No impairment losses have been recognized by the Company pursuant to SFAS 121.

Revenue Recognition -

Local telephone service revenue is recorded as earned based on tariffed rates. Long distance telephone service revenue is recorded based on minutes of traffic processed and tariffed rates or contracted fees. Revenues from cable programming services are recorded in the month the service is provided. Internet access service revenues are recorded based on contracted fees.

Advertising Expense -

Advertising costs are expensed as incurred. Advertising expense charged to operations was \$28,841, \$12,203 and \$1,441 in 1998, 1997 and 1996, respectively.

Debt Issuance Costs -

Debt Issuance Costs are amortized over the life of the note. Debt Issuance costs charged to operations were \$2,816 and \$408 in 1998 and 1997, respectively.

Stock Based Compensation -

The Company applies Accounting Principles Board Opinion No. 25 - "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its stock plans. The Company has adopted the disclosure - only provisions of Statement of Financial Accounting Standards No. 123 - "Accounting for Stock-Based Compensation" ("SFAS 123").

Income Taxes -

The Company and its subsidiaries report income for federal tax purposes on a consolidated basis. Prior to the Distribution, the Company and its subsidiaries were included in the consolidated federal income tax return of C-TEC. Income tax expense is allocated to subsidiaries on a separate return basis except that the Company's subsidiaries receive benefit for the utilization of net operating losses and investment tax credits included in the consolidated return even if such losses and credits could not have been used on a separate return basis.

The Company accounts for income taxes using Statement of Financial Accounting Standards No. 109 - "Accounting for Income Taxes."

Foreign Currency Translation -

The Company has a 40% interest in Megacable. For purposes of determining its equity in the earnings of Megacable, the Company translates the revenues and expenses of Megacable into U.S. dollars at the average exchange rates that prevailed during the period. Assets and liabilities are translated into U.S. dollars at the rates in effect at the end of the fiscal period. Prior to 1997, the Company's share of the gains or losses that result from this process are shown in the cumulative translation adjustment account in the common shareholders' equity section of the balance sheet. Effective January 1, 1997, since the three-year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is treated for accounting purposes as having a highly inflationary economy through December 31, 1998 since the three-year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is treated for accounting purposes as having a highly inflationary economy. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. The Company's proportionate share of gains and losses resulting from transactions of Megacable, which are made in currencies different from its own, are included in income as they occur.

Earnings Per Share -

The Company has adopted Statement of Financial Accounting Standards No. 128 - Earnings Per Share ("SFAS 128"). Basic earnings (loss) per share is computed based on net income (loss) divided by the weighted average number of shares of common stock outstanding during the period.

Diluted earnings (loss) per share is computed based on net income (loss) divided by the weighted average number of shares of common stock outstanding during the period after giving effect to convertible securities considered to be dilutive common stock equivalents. The conversion of stock options during periods in which the Company incurs a loss from continuing operations is not included since the effect is anti-dilutive.

Comprehensive Income -

In June 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standard No. 130 - "Reporting Comprehensive Income" ("SFAS 130"). This statement, which establishes standards for reporting and disclosure of comprehensive income, is effective for interim and annual periods beginning after December 15, 1997. The Company primarily has two components of comprehensive income, cumulative translation adjustments and unrealized appreciation on investments. Since the cumulative foreign currency translation adjustment was unchanged during 1998 the only applicable adjustment required to determine comprehensive income was the unrealized appreciation on investments which approximates \$1,113 at December 31, 1998. The amount of other comprehensive loss for the year ended December 31, 1998 was (\$204,329).

3. EARNINGS PER SHARE

The number of stock options which would have been converted in 1998 and have a dilutive effect if the Company had income from continuing operations is 3,198,493.

For periods prior to October 1, 1997, during which the Company was a wholly-owned subsidiary of C-TEC, earnings (loss) per share was calculated by dividing net income (loss) by the number of average common shares of C-TEC outstanding, based upon a distribution ratio of one share of Company common equity for each share of C-TEC common equity owned.

The following table is a reconciliation of the numerators and denominators of the basic and diluted per share computations:

Years Ended December 31,	1998	1997	1996
	-----	-----	-----
(Loss) income before extraordinary charge and cumulative effect of change in accounting principle	\$ (204,801)	\$ (49,181)	\$ (5,989)
	=====	=====	=====
Basic (loss) earnings per average common share:			
Weighted average shares outstanding	61,187,354	54,965,716	54,918,394
(Loss) income per average common share before extraordinary charge and cumulative effect of change in accounting principle	\$ (3.35)	\$ (0.89)	\$ (0.11)
Diluted (loss) earnings per average common share:			
Weighted average shares outstanding	61,187,354	54,965,716	54,918,394
Dilutive shares resulting from stock options	-	-	-
	-----	-----	-----
	61,187,354	54,965,716	54,918,394
	=====	=====	=====
(Loss) per average common share before extraordinary charge and cumulative effect of change in accounting principle	\$ (3.35)	\$ (0.89)	\$ (0.11)

4. BUSINESS COMBINATIONS

In February 1998, the Company acquired Erols Internet, Inc. ("Erols"). The total approximate consideration was \$36,000 in cash including out of pocket costs of approximately \$1,400 and the assumption and repayment of debt of approximately \$5,100 and RCN Common Stock with a fair value of approximately \$45,000 at the time of issuance. Additionally, the purchase price includes approximately \$11,000 representing the fair value of Erols stock options which were converted to RCN stock options in connection with the acquisition. The transaction was accounted for by the purchase method of accounting.

RCN contributed to Starpower approximately 60% of the subscribers and related unearned revenue acquired in the acquisition of Erols. (Note 7). RCN contributed to RCN-BECOCOM approximately 1% of the subscribers and related unearned revenue acquired in the acquisition of Erols.

Goodwill of approximately \$ 35,000 was recorded in connection with the acquisition of Erols and contribution to Starpower. Such goodwill includes the value assigned to certain current products and technologies, primarily residential dial-up and dedicated Internet access, and Internet advertising. Such goodwill is being amortized over approximately four years.

In February 1998, the Company acquired Ultranet Communications, Inc. ("Ultranet"). The total approximate consideration was \$7,700 in cash including cash payments aggregating approximately \$503 to certain holders of Ultranet stock options and RCN Common Stock with a fair value of approximately \$26,200 at the time of issuance. Additionally, the purchase price includes approximately \$1,900 representing the fair value of UltraNet stock options which were converted to RCN stock options in connection with the acquisition. The transaction was accounted for by the purchase method of accounting.

RCN contributed to RCN-BECOCOM approximately 30% of the subscribers acquired in the acquisition of Ultranet.

Goodwill of approximately \$31,100 was recorded in connection with the acquisition of Ultranet and contribution to RCN-BECOCOM. Such goodwill includes the value assigned to certain current products and technologies, primarily residential dial-up and high speed Internet access. Such goodwill is being amortized over approximately four years.

In connection with the acquisitions of Erols and UltraNet, RCN has allocated \$13,228 for Erols and \$5,065 for UltraNet to in-process research and development ("IPR&D"). Specifically, four projects were identified which qualified as IPR&D by definition of not having achieved technological feasibility and representing technology which at the point of acquisition offered no alternative use than the defined project. The fair value of the IPR&D projects associated with these acquisitions is based upon a discounted cash flow analysis modified to represent only that portion of the project associated with completed research and developments efforts at the date of acquisition. The IPR&D valuation charge was measured by the stage of completion method. The expected completion percentages are estimated based on the latest available financial information at the date of acquisition and were established on a project by project basis primarily calculated by dividing the costs incurred to date by the total expected R&D expenses specific to the project. The significant assumptions utilized by management were as follows:

Cash flow projections, utilizing risk adjusted discount rates of between 35% and 40% for Erols projects, commenced in 1998, and were expected to grow significantly in 1999 and 2000. Cash flow projections, utilizing risk adjusted discount rates of between 30% and 33% for UltraNet projects, were expected to commence in 1999, growing significantly in 2000 and 2001. The IPR&D projections are founded on significant assumptions with regard to timing of market entrance, levels of penetration, and costs of provisioning.

RCN is constructing new telecommunications networks. The margins on products expected to result from acquired in-process technologies in some cases represent higher margins than RCN's margins on existing products primarily due to the efficiencies in delivering multiple products, including bundled-service offerings, over a single state of the art high capacity fiber optic network. For both the Erols and the UltraNet acquisitions, RCN identified the R&D development projects to include -

- Cable Modem Internet access for subscribers, consisting of projects to develop the hardware, systems and software to permit subscribers to be offered high-speed Internet access through direct cable connection. The remaining development effort is concerned with technical standards for this service and with the design and integration of this product into RCN's cable and fiber optic network. RCN management estimated that this project for both acquisitions was approximately 70% complete and that each had approximately \$250 of direct development expense remaining to be spent in 1998 and 1999, with planned revenues from this service expected to begin thereafter.

- Internet Telephony, representing projects to develop the potential for dial-up telephone service through the Internet. This service area presented significant technical challenges as well as political, commercial and market challenges to be faced before service could be offered to subscribers. Since at the acquisition date neither hardware nor systems have been acquired or developed in support of this new product, a high degree of development activity remains. RCN management estimated that this project for both acquisitions was only approximately 20% complete and that the remaining development cost at the date of acquisition was approximately \$1,000 in 1998, \$2,000 in 1999 and \$5,000 in 2000 with revenues from this service expected to begin thereafter.

- E-Commerce Systems, consisted of the companies' efforts to develop a suitable system that would permit subscribers to conduct commercial activities over the Internet. Following evaluation of commercially-available packages, none were capable of meeting subscriber needs and development of the suitable system was undertaken. RCN management estimated that the project for both acquisitions was approximately 90% complete and that each had about \$25 of development expense remaining to be spent in 1998 with revenues from this service expected to begin thereafter.

- High-speed shared office Internet access, representing a blending of fiber optic and Internet networking technologies, was under development as a package to be offered to commercial clients. While the technical challenges

were still being addressed at the acquisition date, there was no certainty that this system would result in a competitive product offering in the market. The management of RCN estimated that the project for both acquisitions was approximately 75% complete and that each had less than \$25 of development expense remaining to be spent in 1998 with revenues from this service expected to begin thereafter.

Relative to the qualification of these projects as IPR&D projects under the meaning within Statement of Financial Accounting Standards No. 2 ("SFAS 2"), each represented at the date of acquisition a development project associated with new and uncertain technology that was incomplete and had not reached technical feasibility. Further, the technology under development in each of these areas was not seen to present opportunities for alternative future use should the contemplated development project fail to achieve completion. In each of the above projects, the uncertainty associated with each, in the absence of a successful product introduction, may result in the possible abandonment of the project and the loss of both invested development funds and the profit contributions that such projects were expected to bring to the business as a whole.

In June 1998, the Company acquired Interport Communications Corp. ("Interport"). The total approximate consideration for the transaction was \$1,300 in cash and RCN Common Stock with a fair value of approximately \$8,500 at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$7,200 has been allocated to goodwill. Such goodwill is being amortized over approximately four years.

In June 1998, the Company acquired Lancit Media Entertainment, Ltd. ("Lancit"), a producer of high quality children's programming. The total approximate consideration for the transaction was \$400 in cash and RCN Common Stock with a fair value of approximately \$7,400 at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$9,500 has been allocated to goodwill. Such goodwill is being amortized over approximately five years.

In July 1998, the Company acquired Javanet, Inc. ("Javanet"). The total approximate consideration for the transaction was \$3,700 in cash and RCN Common Stock with a fair value of approximately \$13,400 at the time of issuance. The transaction was accounted for by the purchase method of accounting. Approximately \$14,800 has been allocated to goodwill. Such goodwill is being amortized over approximately three years.

RCN contributed to RCN-BECOCOM approximately 6% of the subscribers acquired in the acquisition of Javanet.

In August 1996, FNY Holding Company, Inc., formerly a wholly-owned subsidiary of C-TEC ("FNY") acquired from Kiewit Telecom Holdings, C-TEC's controlling shareholder at the time, an 80.1% interest in Freedom New York, LLC and all related rights and liabilities ("Freedom") for cash consideration of approximately \$29,000. In addition, FNY assumed liabilities of approximately \$7,600. (In March 1996, Freedom had acquired the wireless cable television business of Liberty Cable Television). The acquisition was accounted for as a purchase, and accordingly, Freedom is included in the Company's consolidated financial statements since September 1996. The full fair value of assets acquired and liabilities assumed has been reflected in the Company's financial statements with minority interest reflecting the separate 19.9% ownership.

FNY allocated the purchase price paid on the basis of the fair value of property, plant and equipment and identifiable intangible assets acquired and liabilities assumed. There was no excess cost over fair value of net assets acquired.

Contingent consideration of \$15,000 was payable in cash and was to be based upon the number of net eligible subscribers, as defined in the Acquisition Agreement, in excess of 16,563 delivered to the Company. The contingent consideration is not included in the acquisition cost total above but was to have been recorded when and if the future delivery of subscribers occurred. In addition, FNY paid \$922 to Kiewit Telecom Holdings which represents compensation for foregone interest on the amount invested by Kiewit Telecom Holdings in Freedom. This amount has been charged to operations.

In March 1997, the Company paid \$15,000 in full satisfaction of contingent consideration payable for the original acquisition of Freedom. Additionally, pursuant to the terms of the Freedom Operating Agreement, the assets of RCN Telecom Services of New York, Inc., a wholly-owned subsidiary of RCN, were contributed to Freedom, in which the Company had an 80.1% ownership interest prior to such contribution. Subsequent to this contribution, the Company paid \$15,000 to acquire the minority ownership of Freedom. These amounts were primarily allocated to excess cost over fair value of net assets acquired and are being amortized over a period of approximately six years. The Company also paid \$10,000 to terminate a marketing services agreement between Freedom and an entity controlled by Freedom's former minority owners. The Company charged this amount to operations for the quarter ended March 31, 1997.

The following unaudited pro forma summary presents information as if the acquisitions of Erols, Ultraset, Interport, Javanet and Lancit had occurred at the beginning of 1997 and as if the acquisition of Freedom had occurred at the beginning of 1996. The pro forma information is provided for information purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the consolidated entities.

December 31,	1998	Years Ended 1997	1996
	-----	-----	-----
(Unaudited) Proforma Data:			
Sales	\$ 226,272	\$ 159,611	\$110,116
(Loss) from continuing operations before extraordinary items	\$ (220,271)	\$ (106,338)	\$ (20,189)
Net (loss)	\$ (220,912)	\$ (109,548)	\$ (16,807)
Earnings Per Share:			
(Loss) from continuing operations before extraordinary items	\$ (3.53)	\$ (1.80)	\$ (.37)
Net (loss)	\$ (3.54)	\$ (1.86)	\$ (.31)

5. SHORT-TERM INVESTMENTS

Short-term investments, stated at cost, include the following at December 31, 1998 and 1997:

	1998	1997
	-----	-----
Federal Agency notes	\$126,580	\$110,966
Commercial Paper	85,234	43,859
Corporate debt securities	417,378	222,785
Certificates of deposit	14,997	37,993
U.S. Treasury notes	84,399	-
Asset backed securities	163,860	-
	-----	-----
Total	\$892,448	\$415,603
	=====	=====

At December 31, 1998, short term investments with an amortized cost of \$606,493 have contractual maturities of one to three years. All remaining short term investments have contractual maturities under one year.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at December 31,

	1998	1997
Telecommunications plant	\$398,746	\$234,628
Computer equipment	43,439	3,841
Buildings, leasehold improvements and land	22,653	16,607
Furniture, fixtures and vehicles	31,430	24,077
Construction in process	104,161	28,195
Other	1,250	411
Total property, plant and equipment	601,679	307,759
Less accumulated depreciation	(153,304)	(107,419)
Property, plant and equipment, net	\$ 448,375	\$200,340
	=====	=====

Depreciation expense was \$39,000, \$24,257 and \$19,372 for the years ended December 31, 1998, 1997 and 1996, respectively.

7. INVESTMENTS AND JOINT VENTURES

Investments at December 31, are as follows:

	1998	1997
Megacable	\$ 67,978	\$ 70,363
Starpower Communications, LLC	61,495	-
Other	56	61
Total Investments	\$129,529	\$ 70,424
	=====	=====

At December 31, 1998 and 1997, the Company has a 50% interest in Starpower and a 40% interest in Megacable. The Company accounts for these investments on the equity method.

a. RCN-BECOCOM

The Company and Boston Edison Company ("BECO"), through wholly-owned subsidiaries, are 51% and 49% partners (see Note 20), respectively, in RCN-BECOCOM, a joint venture with a term expiring in the year 2060. RCN-BECOCOM was organized to own and operate an advanced fiber optic telecommunications network and to provide, in the market in and around Boston, Massachusetts, voice, video and data services, as well as the communications support component of energy related customer services offered by BECO.

RCN manages the business of RCN-BECOCOM pursuant to the terms of a management agreement with an initial term expiring on December 31, 2001.

BECO has transferred to RCN-BECOCOM, an indefeasible right of use of certain of its network facilities through the year 2060.

During 1998, the Company contributed to RCN-BECOCOM the Internet business in the RCN-BECOCOM market, acquired in acquisitions, including approximately 30% of the subscribers acquired from UltraNet, 1% of the subscribers acquired from Erols and 6% of the subscribers acquired from Javanet. The total value of the Internet businesses contributed to the joint venture was agreed to in arms-length negotiations between the joint venture partners, based on the proportion of subscribers contributed to RCN-BECOCOM to total subscribers acquired from UltraNet, Erols and Javanet, respectively.

BECO has the right to convert its ownership interest in RCN-BECOCOM into RCN Common stock pursuant to specific terms and conditions.

b. Starpower

The Company and PEPCO, through wholly-owned subsidiaries, are each 50% partners in Starpower, a joint venture with a perpetual term.

Starpower was formed to construct, own, lease, operate and market a network for the selling of voice, video, data and other telecommunications services to all potential commercial and residential customers in the Washington, D.C. Market.

A subsidiary of RCN provides support services including customer service, billing, marketing and certain administrative, accounting and technical support services, each of which are provided at cost.

During 1998, the Company contributed to Starpower the Internet business in the Starpower market, acquired in the acquisition of Erols, including approximately 60% of the subscribers acquired from Erols, and related unearned revenue. The total value of the Internet business contributed to the joint venture was agreed to in arms-length negotiations between the joint venture partners, based on the proportion of subscribers contributed to Starpower to total subscribers acquired from Erols.

c. Megacable

The basis of the Company's investment in Megacable exceeded its underlying equity in the net assets of Megacable when acquired in 1995 by approximately \$94,000 which excess is being amortized on a straight-line basis over 15 years. At December 31, 1998, the unamortized excess over the underlying equity in the net assets was \$69,605. The Company recorded its proportionate share of (losses) and amortization of excess cost over net assets of (\$2,385), (\$3,869) and (\$2,190) in 1998, 1997 and 1996, respectively.

Effective January 1, 1997 since the three-year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is being treated for accounting purposes under Statement of Financial Accounting Standards No. 52 - "Foreign Currency Translation", as having a highly inflationary economy through December 31, 1998. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. Exchange gains (losses) of \$(768), \$(12), and \$247 in 1998, 1997, and 1996, respectively, including translation losses in 1998 and 1997, are included in the respective statements of operations through the Company's proportionate share of losses of Megacable.

The following table reflects the summarized financial position and results of operations of Megacable as of and for the years ended December 31, 1998 and 1997:

	(U.S. Dollars)	
	1998	1997
Assets	\$ 96,410	\$ 76,323
Liabilities	\$ 18,629	\$ 8,347
Stockholders' equity	\$ 77,781	\$ 67,976
Sales	\$ 37,480	\$ 30,441
Costs and expenses	\$ 27,624	\$ 23,389
Foreign currency transaction gains (losses)	\$ (1,921)	\$ (31)
Net income	\$ 9,739	\$ 6,653

8. INTANGIBLE ASSETS

Intangible assets consist of the following at December 31,

	Amortization period	1998	1997
	-----	-----	-----
Franchises and subscriber lists	2-10 years	\$ 85,984	\$ 79,273
Acquired current products/technologies	4 years	72,629	-
Noncompete agreements	5-8 years	11,100	11,209
Goodwill	3-10 years	57,447	42,787
Building access rights	3-4 years	15,295	15,197
Other intangible assets	1-15 years	24,576	1,469
		-----	-----
Total intangible assets		267,031	149,935
Less accumulated amortization		(97,313)	(53,388)
		-----	-----
Intangible assets, net		\$169,718	\$ 96,547
		=====	=====

Amortization expense charged to operations in 1998, 1997 and 1996 was \$50,088, \$28,948 and \$19,509, respectively.

9. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets consist of the following at December 31:

	1998	1997
	-----	-----
Note and interest receivable - Mazon Corporativo, S.A. de C.V.	\$18,373	\$17,682
Debt issuance costs	27,112	19,743
Prepaid professional services	-	938
Other	1,771	2,675
	-----	-----
Total	\$47,256	\$41,038
	=====	=====

10. DEBT

a. Long-term debt

Long-term debt outstanding at December 31 is as follows:

	1998	1997
	-----	-----
Revolving Credit Agreement	\$ -	\$ 3,000
Term Credit Agreement	100,000	100,000
Senior Notes 10% due 2007	225,000	225,000
Senior Discount Notes 11 1/8% due 2007	398,827	358,103
Senior Discount Notes 9.8% due 2008	382,216	-
Senior Discount Notes 11% due 2008	158,573	-
Capital Leases	2,517	-
	-----	-----
Total	1,267,133	686,103
Due within one year	4,097	-
	-----	-----
Total Long-Term Debt	\$1,263,036	\$ 686,103
	=====	=====

The 11% Senior Discount Notes were issued under an indenture dated June 24, 1998 (the "11% Indenture") between the Company and The Chase Manhattan Bank, as Trustee. The 11% Senior Discount Notes are general senior obligations of the Company, limited to \$256,755 aggregate principal amount at maturity and will mature on July 1, 2008. The 11% Senior Discount Notes were issued at a

discount to yield gross proceeds of \$150,000. The 11% Senior Discount Notes will not bear cash interest prior to January 1, 2003.

The 11% Senior Discount Notes are redeemable, in whole or in part, at any time on or after July 1, 2003, at the option of the Company. The 11% Senior Discount Notes have redemption prices starting at 105.5% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

The 9.8% Senior Discount Notes were issued under an indenture dated February 6, 1998 (the "9.8% Indenture") between the Company and The Chase Manhattan Bank, as Trustee. The 9.8% Senior Discount Notes are general senior obligations of the Company, limited to \$567,000 aggregate principal amount at maturity and will mature on February 15, 2008. The 9.8% Senior Discount Notes were issued at a discount to yield gross proceeds of \$350,588. The 9.8% Senior Discount Notes will not bear cash interest prior to February 15, 2003.

The 9.8% Senior Discount Notes are redeemable, in whole or in part, at any time on or after February 15, 2003 at the option of the Company. The 9.8% Senior Discount Notes have redemption prices starting at 104.9% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

In October 1997, pursuant to Rule 144A of the Securities Exchange Act of 1933, the Company completed an offering of 10% Senior Notes with an aggregate principal amount of \$225,000 and 11 1/8% Senior Discount Notes with an aggregate principal amount at maturity of \$601,045, both due 2007, to qualified institutional buyers as defined in Rule 144A. The Senior Discount Notes were issued at a discount and generated gross proceeds to the Company of \$350,000. In December 1997, the Company commenced an SEC registered Exchange Offer of its 10% Senior Notes due 2007, Series B for any and all outstanding 10% Senior Notes due 2007, Series A and its 11 1/8% Senior Discount Notes due 2007, Series B for any and all outstanding 11 1/8% Senior Discount Notes due 2007 Series A. The Exchange Offer closed in January of 1998. All outstanding notes were exchanged.

The 10% Senior Notes were issued under an indenture dated October 17, 1997 (the "10% Indenture") between the Company and The Chase Manhattan Bank, as Trustee. The 10% Senior Notes are general senior obligations of the Company which mature on October 15, 2007 and are collateralized by a pledge of the Escrow Account representing funds that, together with the future proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments. Interest on the 10% Senior Notes is payable in cash semi-annually in arrears on each April 15 and October 15, commencing April 15, 1998.

The 10% Senior Notes are redeemable, in whole or in part, at any time on or after October 15, 2002 at the option of the Company. The 10% Senior Notes have redemption prices starting at 105% of the principal amount and declining to 100% of the principal amount, plus any accrued interest.

The 11 1/8% Senior Discount Notes were issued under an indenture dated October 17, 1997 (the "11 1/8% Indenture") between the Company and The Chase Manhattan Bank, as Trustee. The 11 1/8% Senior Discount Notes are general senior obligations of the Company, limited to \$601,045 aggregate principal amount at maturity and will mature on October 15, 2007. The 11 1/8% Senior Discount Notes were issued at a discount to yield gross proceeds of \$350,000. The 11 1/8% Senior Discount Notes will not bear cash interest prior to October 15, 2002.

The 11 1/8% Senior Discount Notes are redeemable, in whole or in part, at any time on or after October 15, 2002 at the option of the Company. The 11 1/8% Senior Discount Notes have redemption prices starting at 105.562% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

The 9.8% Senior Discount Notes, the 11% Senior Discount Notes, the 10% Senior Notes and the 11 1/8% Senior Discount Notes contain certain covenants that,

among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations. At December 31, the Company was restricted from making any dividend payments under the terms of the Indentures.

Certain subsidiaries of the Company, including RCN Cable, have in place a \$125,000 credit agreement comprised of two credit facilities. The first is a five year revolving credit facility in the amount of \$25,000 which provides credit availability through June 30, 2002. Revolving loans may be repaid and reborrowed from time to time. The second is a term credit facility in the amount of \$100,000 which is to be repaid over six years in quarterly installments from September 30, 1999 through June 30, 2005. Interest only is due through September 29, 1999. The interest rate is based on either a LIBOR or Base Rate option, at the election of the Company (6.55% at December 31, 1998). The credit agreement is collateralized by a pledge by the Company of its stock in RCN Cable and may, in the future, be collateralized by pledges of stock of subsidiaries of the Company. At December 31, 1998, the entire \$100,000 term credit facility is outstanding and none of the revolving credit facility is outstanding. RCN Cable used a portion of its initial borrowings under the credit facilities to prepay higher priced Senior Secured Notes. This early extinguishment of the Senior Secured Notes in 1997 resulted in an extraordinary charge of \$3,210, net of taxes of \$1,728. The credit agreement contains restrictive covenants which, among other things, require the Company to maintain certain debt to cash flow and interest coverage ratios and place certain limitations on additional debt and investments. The Company does not believe that these covenants materially restrict its activities.

Contractual maturities of long-term debt are as follows:

Year Ending December 31,	Aggregate Amounts
1999	\$ 3,750
2000	\$11,250
2001	\$16,250
2002	\$17,500
2003	\$19,374

b. Short-term debt

At December 31, 1998, the Company had a line of credit for \$10,000 at Libor plus 1% (6.07% at December 31, 1998). Short-term unsecured borrowings may be made under this line of credit. The amounts available under this line of credit are reduced by outstanding letters of credit (\$3,810 at December 31, 1998). Therefore, at December 31, 1998, the amount available under this line of credit was \$6,190. This line of credit is cancelable at the option of the banks or the Company. There are no commitment or facility fees associated with maintaining availability of the above-mentioned line of credit.

11. INCOME TAXES

The (benefit) provision for income taxes is reflected in the Consolidated Statements of Operations as follows:

	1998	1997	1996
Current:			
Federal	\$ -	\$ (11,795)	\$ 5,730
State	1,149	1,449	1,102
Total Current	1,149	(10,346)	6,832
Deferred:			
Federal	(4,410)	(10,161)	(4,751)
State	(1,737)	(342)	(1,000)
Total Deferred	(6,147)	(10,503)	(5,751)
Amortization of ITC	-	-	(102)
Provision (benefit) for income taxes:			
Before extraordinary item	(4,998)	(20,849)	979
Extraordinary item	-	(1,728)	-
Cumulative effect of change in accounting principle	-	-	-
Total (benefit) provision for income taxes	\$ (4,998)	\$ (22,577)	\$ 979

At December 31, 1998 and 1996, the Company had tax related balances due to affiliates of \$150 and \$817 respectively.

At December 31, 1997 the Company had tax related balances due from affiliates of \$3,186.

Temporary differences that give rise to a significant portion of deferred tax assets and liabilities at December 31, are as follows:

	1998	1997
Net operating loss carryforwards	\$ 78,963	\$ 10,078
Alternative minimum tax credits	85	167
Employee benefit plans	746	1,031
Reserve for bad debt	1,794	844
Start-up costs	825	586
Investment in unconsolidated entity	6,265	3,985
Accruals for nonrecurring charges and contract settlements	909	2,368
Deferred revenue	10,401	-
Other, net	6,734	1,823
Total deferred tax assets	106,722	20,882
Property, plant and equipment	(18,177)	(14,759)
Intangible assets	(6,618)	(11,253)
All other	(2,428)	(1,257)
Total deferred liabilities	(27,223)	(27,269)
Subtotal	79,499	(6,387)
Valuation allowance	(82,068)	(8,404)
Total deferred taxes	\$ (2,569)	\$ (14,791)

During 1998, the Company generated federal net operating losses in the amount of \$127,523 and acquired separate return limitation year (SRLY) net operating losses from the 1998 acquisitions of \$24,052, which results in a deferred tax asset totaling \$53,051. In the opinion of management, the Company is not certain of the realization of all of its deferred tax assets. Thus, a valuation allowance has been provided against the net federal deferred tax asset. A valuation allowance has also been provided, as in past years, against the state net operating losses which, in the opinion of management, are also uncertain as to their realization.

The net change in the valuation allowance for deferred tax assets during 1998 was an increase of \$73,664.

Net operating losses will expire as follows:

	Federal	State
1999-2013	\$ 23,756	\$ 291,868
2017-2018	136,037	4,897
	-----	-----
Total	\$ 159,793	\$ 296,765
	=====	=====

The provision (benefit) for income taxes is different from the amounts computed by applying the U.S. statutory federal tax rate of 35%. The differences are as follows:

	For the Years Ended December 31,		
	1998	1997	1996
	-----	-----	-----
(Loss) before (benefit) provision for income taxes and extraordinary item	\$ (210,440)	\$ (70,030)	\$ (5,010)
	=====	=====	=====
Federal income tax benefit at statutory rate	\$ (73,654)	\$ (24,511)	\$ (1,753)
State income taxes net of federal income tax benefit	(382)	719	66
Investment tax credits amortized	-	-	(102)
Federal valuation allowance	45,035	-	-
Write down of acquired R&D costs	6,403	-	-
Amortization of goodwill	5,580	830	779
Contribution to subsidiary - Goodwill	3,744	-	-
Estimated nondeductible expenses	10,472	1,913	1,564
Adjustment to prior year accrual	(25)	(197)	421
Other, net	(2,171)	397	4
	-----	-----	-----
Total (benefit) provision for income taxes	\$ (4,998)	\$ (20,849)	\$ 979
	=====	=====	=====

12. STOCKHOLDERS' EQUITY AND STOCK PLANS

The Company has authorized 100,000,000 shares of \$1 par value common stock and 200,000,000 shares of \$1 par value Class B nonvoting common stock. The Company also has authorized 25,000,000 shares of \$1 par value preferred stock. At December 31, 1998, 65,477,493 shares of common stock are issued and 64,920,493 shares of common stock are outstanding. At December 31, 1997, 54,989,870 shares of common stock are issued and outstanding.

In June 1998, the Company completed a public offering of 6,794,500 shares of RCN Common Stock, par value \$1.00 per share, with a price to the Public of \$19.50 per share. Of the 6,794,500 shares offered, 6,098,355 were offered by the Company and 696,145 shares were offered by a Selling Stockholder. The net proceeds to the Company were approximately \$112,866 after deducting issuance costs.

In March 1998, the Company's Board of Directors approved a two-for-one stock split, payable in the form of a 100% stock dividend. The record date for the stock dividend was March 20, 1998. Stockholders of record at the market close on

that date received an additional share of RCN common stock for each share held. The distribution date for the stock dividend was April 3, 1998. All share and per share data, stock option data, and market prices of the Company's common stock have been restated to reflect this stock dividend.

In connection with the Distribution, the Company Board adopted the 1997 RCN Corporation Stock Option Plan ("the 1997 Plan"), designed to provide equity based compensation opportunities to key employees when shareholders of the Company have received a corresponding benefit through appreciation in the value of RCN Common Stock.

The 1997 Plan contemplates the issuance of incentive stock options, as well as stock options that are not designated as incentive stock options, performance-based stock options, stock appreciation rights, performance share units, restricted stock, phantom stock units and other stock-based awards (collectively, "Awards"). Up to 5,000,000 shares of Common Stock, plus 3,040,100 shares of Common Stock issuable in connection with the Distribution related option adjustments, may be issued pursuant to Awards granted under the 1997 Plan.

Unless earlier terminated by the Company Board, the 1997 Plan will expire on the tenth anniversary of the Distribution. The Company Board or the Compensation Committee may, at any time, or from time to time, amend or suspend and, if suspended, reinstate, the 1997 Plan in whole or in part.

Prior to the Distribution, certain employees of RCN were granted stock option awards under C-TEC's stock option plans. In connection with the Distribution, 3,040,100 options covering Common Stock were issued. Each C-TEC option was adjusted so that each holder would currently hold options to purchase shares of CTE Common Stock, RCN Common Stock and Cable Michigan Common Stock. The number of shares subject to, and the exercise price of, such options were adjusted to take into account the Distribution and to ensure that the aggregate intrinsic value of the resulting RCN, Cable Michigan and CTE options immediately after the Distribution was equal to the aggregate intrinsic value of the C-TEC options immediately prior to the Distribution.

Information relating to stock options is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding December 31, 1995	\$ 2,408,000	
Granted	190,000	
Exercised	58,000	
Canceled	272,000	
Outstanding December 31, 1996	2,268,000	\$ 7.10
Granted	4,862,100	\$14.31
Exercised	20,000	\$ 8.07
Canceled	3,000	\$ 8.36
Outstanding December 31, 1997	7,107,100	\$11.95
Granted	2,527,424	\$14.81
Exercised	408,389	\$ 4.82
Canceled	373,993	\$15.22
Outstanding December 31, 1998	\$ 8,852,142	\$12.96
Shares exercisable December 31, 1998	\$ 2,886,222	\$ 8.87

The following table summarizes stock options outstanding and exercisable at December 31, 1998:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
1.30-6.50	665,717	8.3	\$ 3.43	481,102	\$ 3.24
6.58-8.40	2,744,800	6.4	\$ 7.35	1,596,920	\$ 7.13
12.00-19.25	4,466,125	9.0	\$ 15.36	772,200	\$ 15.32
20.13-29.81	975,500	9.3	\$ 24.44	16,000	\$ 22.75
	8,852,142	8.2		2,886,222	

No compensation expense related to employee stock option grants was recorded in 1998 as the option exercise prices were equal to fair market value on the date granted.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black Scholes option pricing model with weighted average assumptions for dividend yield of 0% for 1998, 1997 and 1996; expected volatility of 78.9% for 1998, 38.6% prior to the Distribution and 49.8% subsequent to the Distribution for 1997 and 39.5% for 1996; risk-free interest rate of 4.72%, 6.52% and 5.95% for 1998, 1997 and 1996, respectively; and expected lives of 5 years for 1998, 1997 and 1996.

The weighted-average fair value of options granted during 1998 was \$17.53.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net earnings and earnings per share were as follows:

	1998	1997	1996
Net earnings - as reported	\$(205,442)	\$(52,391)	\$(5,989)
Net earnings - pro forma	\$(214,586)	\$(54,419)	\$(6,612)
Basic and diluted earnings per share - as reported	\$ (3.36)	\$ (0.95)	\$ (0.11)
Basic and diluted earnings per share - pro forma	\$ (3.51)	\$ (0.99)	\$ (0.12)

The Company has an Executive Stock Purchase Plan ("ESPP"). Under the ESPP, participants may purchase shares of RCN Common Stock in an amount of between 1% and 20% of their annual base compensation and between 1% and 100% of their annual bonus compensation provided, however, that in no event shall the participant's total contribution exceed 20% of the sum of their annual compensation, as defined by the ESPP. Participant's accounts are credited with the number of share units derived by dividing the amount of the participant's contribution by the average price of a share of RCN Common Stock at approximately the time such contribution is made. The share units credited to a participant's account do not give such participant any rights as a shareholder with respect to, or any rights as a holder or record owner of, any shares of RCN Common Stock. Amounts representing share units that have been credited to a participant's account will be distributed, either in a lump sum or in installments, as elected by the participant, following the earlier of the participant's termination of employment or three calendar years following the date on which the share units were initially credited to the participant's account. It is anticipated that, at the time of distribution, a participant will receive one share of RCN Common Stock for each share unit being distributed.

Following the crediting of each share unit to a participant's account, a matching share of Common Stock is issued in the participant's name. Each matching share is subject to forfeiture as provided in the ESPP. The issuance of matching shares will be subject to the participant's execution of an escrow agreement. A participant will be deemed to be the holder of, and may exercise all the rights of a record owner of, the matching shares issued to such participant while such matching shares are held in escrow.

Prior to the Distribution, certain participants in the ESPP were participants in a C-TEC ESPP, with terms substantially similar to the RCN ESPP. Shares of restricted C-TEC Common Stock awarded under the C-TEC ESPP and share units awarded under the C-TEC ESPP that relate to C-TEC Common Stock were adjusted so that following the Distribution, each such participant was credited with an aggregate equivalent value of restricted shares of common stock of Commonwealth Telephone Enterprises, the Company and Cable Michigan.

Amounts contributed under the ESPP will be subject to the claims of the Company's creditors and creditors of certain affiliates of the Company.

The number of shares which may be distributed under the RCN ESPP as matching shares or in payment of share units is 500,000. At December 31, 1998, there were 147,446 RCN ESPP shares arising from participants' contributions and 147,452 matching shares. The Company recognizes the cost of the matching shares over the vesting period. At December 31, 1998, deferred compensation cost relating to matching shares was \$1,027. Expense recognized in 1998 and 1997 was \$615 and \$80, respectively. Matching shares are included in weighted average shares outstanding for purposes of computing earnings per share.

13. PENSIONS AND EMPLOYEE BENEFITS

Prior to the Distribution, the Company's financial statements reflect the costs experienced for its employees and retirees while included in the C-TEC plans.

Through December 31, 1996, substantially all employees of the Company were included in a trustee noncontributory defined benefit pension plan, maintained by C-TEC. Upon retirement, employees are provided a monthly pension based on length of service and compensation. C-TEC funds pension costs to the extent necessary to meet the minimum funding requirements of ERISA. Substantially, all employees of C-TEC's Pennsylvania cable television operations (formerly Twin County Trans Video, Inc.) were covered by an underfunded plan which was merged into C-TEC's overfunded plan on February 28, 1996.

The information that follows relates to the entire C-TEC noncontributory defined benefit plan. The components of C-TEC's pension cost are as follows:

	1996

Benefits earned during the year (service cost)	\$ 2,365
Interest cost on projected benefit obligation	3,412
Actual return on plan assets	(3,880)
Other components - net	(1,456)

Net periodic pension cost	\$ 441
	=====

The following assumptions were used in the determination of the consolidated projected benefit obligation and net periodic pension cost:

	December 31, 1996

Discount rate	7.5%
Expected long-term rate of return on plan assets	8.0%
Weighted average long-term rate of compensation increases	6.0%

The Company's allocable share of the consolidated net periodic pension costs, based on the Company's proportionate share of consolidated annualized salaries as of the valuation date, was approximately \$158 for 1996. This amount is reflected in operating expenses. As discussed below, no pension cost (credit) was recognized in 1997 or 1998.

In connection with the restructuring, C-TEC completed a comprehensive study of its employee benefit plans in 1996. As a result of this study, effective

December 31, 1996, in general, employees of the Company no longer accrue benefits under the defined benefit pension plans and became fully vested in their benefit accrued through that date. C-TEC notified affected participants in December 1996. In December 1996, C-TEC allocated pension plan assets of \$6,984 and the related liabilities to a separate plan for employees who no longer accrue benefits after lump sum distributions. The allocation of assets and liabilities resulted in a curtailment/settlement gain of \$4,292. The Company's allocable share of this gain was \$3,437. This gain results primarily from the reduction of the related projected benefit obligation. The curtailed plan has assets in excess of the projected benefit obligation. Such excess amounts to \$3,917 which, along with unrecognized items of \$1,148 results in prepaid pension cost of \$2,769, which is included in "Prepayments and other" in the accompanying 1997 consolidated balance sheet. The net assets from the curtailed plan were distributed to the Company in 1998.

C-TEC sponsors a 401(k) savings plan which, prior to the Distribution, covered substantially all employees of the Company who were not covered by collective bargaining agreements. Contributions made by the Company to the 401(k) plan were based on a specific percentage of employees contributions. Contributions charged to expense were \$354 in 1996. Contributions charged to expense in 1997 prior to the Distribution were \$515.

In connection with the Distribution, RCN established a 401(k) savings plan that will also qualify as an ESOP (the "ESOP"). Contributions charged to expense were \$1,255 and \$306 in 1998 and 1997, respectively. Additionally, expense related to contributions accrued under the ESOP for 1998 was approximately \$1,000.

The Company provides certain postemployment benefits to former or inactive employees of the Company who are not retirees. These benefits are primarily short-term disability salary continuance. The Company accrues the cost of postemployment benefits over employees' service lives. The Company uses the services of an enrolled actuary to calculate the expense. Prior to the Distribution, C-TEC allocated the cost of these benefits to the Company based on the Company's proportionate share of consolidated annualized salaries. The Company reimbursed C-TEC for its allocable share of the consolidated postemployment benefit cost. The net periodic postemployment benefit cost was approximately \$543, \$458 and \$539 in 1998, 1997 and 1996, respectively.

14. COMMITMENTS AND CONTINGENCIES

a. The Company had various purchase commitments at December 31, 1998 related to its 1999 construction budget.

b. Total rental expense, primarily for office space and equipment, was \$10,475, \$3,505 and \$3,632 for 1998, 1997 and 1996, respectively. At December 31, 1998, rental commitments under noncancelable leases, excluding annual pole rental commitments of approximately \$807 that are expected to continue indefinitely, are as follows:

Year	Aggregate Amounts
1999	\$ 8,104
2000	\$ 6,667
2001	\$ 7,805
2002	\$ 5,304
2003	\$ 4,976
Thereafter	\$16,978

c. The Company has outstanding letters of credit aggregating \$3,810 at December 31, 1998.

d. The Company has entered into various noncancelable contracts for network services. Future obligations under these agreements are as follows:

Year	Network Services
1999	\$3,410
2000	\$3,000
2001	\$2,750

e. In the normal course of business, there are various legal proceedings outstanding. In the opinion of management, these proceedings will not have a material adverse effect on the financial position or results of operations or liquidity of the Company.

f. The Company has agreed to indemnify Cable Michigan and CTE and their respective subsidiaries against any and all liabilities which arise primarily from or relate primarily to the management or conduct of the business of the Company prior to the effective time of the Distribution. The Company has also agreed to indemnify Cable Michigan and CTE and their respective subsidiaries against 30% of any liability which arises from or relates to the management or conduct prior to the effective time of the Distribution of the businesses of C-TEC and its subsidiaries and which is not a true CTE liability, a true Cable Michigan liability or a true Company liability.

The Tax Sharing Agreement, by and among the Company, Cable Michigan and CTE (the "Tax Sharing Agreement"), governs contingent tax liabilities and benefits, tax contests and other tax matters with respect to tax returns filed with respect to tax periods, in the case of the Company, ending or deemed to end on or before the Distribution Date. Under the Tax Sharing Agreement, Adjustments (as defined in the Tax Sharing Agreement) to taxes that are clearly attributable to the Company Group, the Cable Michigan Group, or the CTE Group will be borne solely by such group. Adjustments to all other tax liabilities will be borne 50% by CTE, 30% by the Company and 20% by Cable Michigan.

Notwithstanding the above, if as a result of the acquisition of all or a portion of the Capital stock or assets of the Company, the Distribution fails to qualify as a tax-free distribution under Section 355 of the Code, then the Company will be liable for any and all increases in tax attributable thereto.

g. Under the Starpower Amended and Restated Operating Agreement, the Company is committed to make quarterly capital contributions aggregating the following in the years ended December 31:

1999	\$33,028
2000	\$36,030
2001	\$ 9,005

h. If, within five years after the Distribution, the ESOP portion of the 401(k) Plan does not hold shares representing at least 3% of the number of shares of Company Common Stock outstanding immediately after the Distribution as increased by the number of shares issuable to BECO pursuant to the Exchange Agreement (collectively, "Outstanding Company Common Stock") with a market value at such time of not less than \$24,000, RCN will issue to the ESOP, in exchange for a note from the ESOP (the "ESOP Note"), the amount of Company Common Stock necessary to increase the ESOP's holdings of Company Common Stock to that level, provided, however, that RCN is not obligated to issue shares to the ESOP in excess of 5% of the number of shares of Outstanding Company Common Stock.

As of December 31, 1998, the ESOP does not hold any shares of outstanding Company Common Stock; however, the Company has accrued a contribution to the ESOP of approximately \$1,000 relative to 1998.

15. AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company had the following transactions with affiliates during the years ended December 31, 1998, 1997 and 1996:

	1998	1997	1996
Corporate office costs allocated to affiliates	\$ 9,946	\$12,091	\$12,362
Cable staff and customer service costs allocated to Cable Michigan	3,137	3,489	3,577
Interest income on affiliate notes	-	8,688	15,119
Interest expense on affiliate notes	-	537	354
Long-distance terminating access charge expense from CTE	1,556	1,312	728
Royalty fees charged by CTE	-	669	859
Revenue from engineering services	-	-	296
Expenses allocated to unconsolidated joint venture partner	14,681	-	-
Terminating revenues from CTE	13,322	1,576	-
Other affiliate expenses	1,598	2,199	1,980

At December 31, 1998 and 1997, the Company has accounts receivable from related parties of \$6,919 and \$9,829, respectively, for these transactions. At December 31, 1998 and 1997, the Company has accounts payable to related parties of \$7,153 and \$3,748, respectively, for these transactions.

16. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables, cash and temporary cash investments, and short-term investments.

The Company places its cash, temporary cash investments and short-term investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The Company also periodically evaluates the creditworthiness of the institutions with which it invests. The Company does, however, maintain invested balances in excess of federally insured limits.

The Company's trade receivables reflect a customer base primarily centered in the Boston to Washington, D.C. corridor of the United States. The Company routinely assesses the financial strength of its customers. As a consequence, concentrations of credit risk are limited.

The Company is a 50% partner in the Starpower joint venture, which is not consolidated in the Company's financial statements under generally accepted accounting principles.

17. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Cash and temporary cash investments

The carrying amount approximates fair value because of the short maturity of these instruments.

b. Short-term investments

Short-term investments consist of commercial paper, U.S. Treasury Notes, asset-backed securities, corporate debt securities, certificates of deposit and federal agency notes. Short-term investments are carried at amortized cost which approximates fair value.

c. Long-term investments

Long-term investments consist of investments accounted for under the equity method for which disclosure of fair value is not required. The note and interest receivable are carried at cost plus accrued interest which management believes approximates fair value.

d. Investments restricted for debt service

Investments restricted for debt service consist of funds placed in escrow from the proceeds of the 10% Senior Notes which, together with the proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments. Investments restricted for debt service are carried at amortized cost. The fair value of investments restricted for debt service is based on quoted market prices.

e. Long-term debt

The fair value of fixed rate long-term debt was estimated based on the Company's current incremental borrowing rate for debt of the same remaining maturities. The fair value of floating rate debt is considered to be equal to the carrying value since the debt reprices at least every six months and the Company believes that its credit risk has not changed from the time the floating rate debt was borrowed and therefore, it would obtain similar rates in the current market.

f. Letter of credit

The contract amount of letters of credit represents a reasonable estimate of their value since such instruments reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

The estimated carrying fair value of the Company's financial instruments is as follows at December 31:

	1998		1997	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and temporary cash investments	\$120,126	\$120,126	\$222,910	\$222,910
Short-term investments	\$892,448	\$892,448	\$415,603	\$415,603
Note and interest receivable	\$ 18,373	\$ 18,373	\$ 17,682	\$ 17,682
Investments restricted for debt service	\$ 43,306	\$ 43,072	\$ 61,911	\$ 61,983
Financial Liabilities:				
Fixed rate long-term debt:				
Senior Notes 10%	\$225,000	\$216,000	\$225,000	\$233,438
Senior Discount Notes 11.125%	\$398,827	\$351,611	\$358,103	\$377,156
Senior Discount Notes 9.8%	\$382,216	\$306,180	-	-
Senior Discount Notes 11.0%	\$158,573	\$138,750	-	-
Floating rate long-term debt:				
Revolving Credit Agreement	-	-	\$ 3,000	\$ 3,000
Term Credit Agreement	\$100,000	\$100,000	\$100,000	\$100,000
Unrecognized financial instruments:				
Letters of credit	\$ 3,810	\$ 3,810	\$ 3,060	\$ 3,060

18. SEGMENT INFORMATION

In June 1997 the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard No. 131 - "Disclosure about Segments of an Enterprise and Related Information" ("SFAS 131"). This statement, which establishes standards for the reporting of information about operating segments and requires the reporting of selected information about operating segments in interim and year end financial statements, is effective for fiscal years beginning after December 15, 1997. If applicable, this statement would only require additional disclosures in the Company's consolidated financial statements and as such, its adoption will not have any impact on the Company's consolidated financial position or results of operations. The Company's operations involve developing an advanced fiber network to provide a bundled service package of voice, video and data services to new customers in high density markets and migrating as many customers as is economically justified which were served by the Company's previously separate lines of business, for which profitability was separately measurable and monitored, to the single source network. While the Company's chief decision makers monitor the revenue streams of the various products, operations are managed and financial performance is evaluated based upon the delivery of multiple services to customers over a single network. This allows the Company to leverage its network costs to maximum profitability. It is management's belief that the Company operates as one reportable operating segment which contains many shared expenses generated by the Company's various revenue streams and that any segment

allocation of shared expenses incurred on a single network to multiple revenue streams would be impractical and arbitrary; furthermore, the Company currently does not make such allocations internally. The Company's chief decision makers do, however, monitor financial performance in a way which is different from that depicted in the historical general purpose financial statements in that such measurement includes the consolidation of all joint ventures, including Starpower which is not consolidated under generally accepted accounting principles. Such information, however, does not represent a separate segment under generally accepted accounting principles and therefore it is not separately disclosed.

19. QUARTERLY INFORMATION (Unaudited)

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	\$ 40,138	\$ 49,808	\$ 59,172	\$ 62,822
Operating (loss) before depreciation, amortization and nonrecurring charges	\$ (8,317)	\$ (9,619)	\$ (16,578)	\$ (16,898)
Operating (loss)	\$ (44,741)	\$ (28,319)	\$ (40,724)	\$ (45,009)
Loss before cumulative effect of change in accounting principle	\$ (41,785)	\$ (43,795)	\$ (54,430)	\$ (64,791)
Loss before cumulative effect of change in accounting principle per average common share	\$ (0.74)	\$ (0.75)	\$ (0.84)	\$ (1.00)
Common Stock				
High	\$ 30.63	\$ 29.38	\$ 24.31	\$ 25.00
Low	\$ 15.88	\$ 19.25	\$ 12.38	\$ 8.75
1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	\$ 29,677	\$ 31,029	\$ 31,148	\$ 35,443
Operating income (loss) before depreciation, amortization and nonrecurring charges	\$ 4,153	\$ 850	\$ (4,332)	\$ (8,341)
Operating (loss)	\$ (18,038)	\$ (12,415)	\$ (18,012)	\$ (22,410)
Loss before extraordinary charge	\$ (11,444)	\$ (8,806)	\$ (11,815)	\$ (17,116)
Loss before extraordinary charge per average common share	\$ (0.21)	\$ (0.16)	\$ (0.21)	\$ (0.31)
Common Stock				
High	N/A	N/A	\$ 16.63	\$ 21.63
Low	N/A	N/A	\$ 12.44	\$ 12.50

The quarterly financial information for the respective quarters presented above has been restated for the effects of a revision in the acquired in-process research and development expenses arising from the acquisition of Erol's and Ultramet.

20. SUBSEQUENT EVENTS

In February 1999, BECO and the Company entered into an Exchange Agreement relative to BECO's exercise of its right to convert approximately one-half of its ownership interest in RCN-BECOCOM into RCN common stock (Note 7). The transaction was valued as of January 20, 1998, the date on which BECO gave notice to us of its intent to convert this ownership interest. The Exchange Agreement provided for the conversion of such ownership interest into 1,107,539 shares of RCN common stock. In accordance with the terms of the Operating Agreement, BECO has continued to invest in RCN-BECOCOM as if retaining a 49% interest and will continue to do so as long as BECOCOM does not dispose of the Exchange Shares.

On March 18, 1999, the Company announced that Hicks, Muse, Tate & Furst, through Hicks, Muse, Tate & Furst Equity Fund IV, L.P., signed a commitment to purchase up to \$250 million of a new issue of Series A 7% Senior Convertible Preferred Stock ("Series A Preferred Stock") of the Company in a private placement transaction. The Series A Preferred Stock will have an annual dividend rate of 7% payable quarterly in cash or additional shares of Series A Preferred Stock at the option of the Company and will have an initial conversion price of \$39.00 per share (which represents a 30% premium over the average five-day closing price of the Common Stock of the Company). The Series A Preferred Stock is convertible into Common Stock of the Company at any time. The issue has a final maturity of 15 years, but may be called by the Company after four years. In connection with the placement of Series A Preferred Stock, the Company agreed to provide Hicks Muse Fund IV with the right to appoint one director to the Company's Board of Directors so long as Hicks Muse Fund IV owns at least 50% of its initial investment and agreed to provide Hicks Muse Fund IV with certain registration rights.

The Company also announced on March 18, 1999 that it had entered into a commitment letter with The Chase Manhattan Bank ("Chase") pursuant to which Chase has agreed to provide an aggregate principal amount of \$1 billion of senior secured credit facilities to certain of the Company's wholly-owned subsidiaries. The facilities will be comprised of a seven-year senior secured revolving credit facility in an amount of \$250 million, a seven-year senior secured multi-draw term loan facility in an amount of \$350 million and an eight-year senior secured single-draw term loan facility in an amount of \$400 million. All borrowings under the facilities will be pari passu and will be collateralized under a common collateral package covering substantially all of the assets of the Company and its domestic subsidiaries.

RCN has also received a commitment for \$1,000,000 of senior collateralized credit facilities from The Chase Manhattan Bank. The facilities will be structured to provide significant long-term capital and upon closing will be available to RCN in its entirety.

21. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

In December 1998 the American Institute of Certified Public Accountants issued Statement of Position 98-5 - "Reporting on the Costs of Start-up Activities" ("SOP 98-5"). SOP 98-5 requires that all start-up costs, including amounts previously capitalized as start-up and organization costs, be expensed. The Company adopted SOP 98-5 in 1998 and expensed the amount of unamortized organization costs previously capitalized. The resulting charge of \$641 is reflected in the 1998 Statement of Operations as the cumulative effect of a change in accounting principle.

REPORT OF MANAGEMENT

The integrity and objectivity of the financial information presented in these financial statements is the responsibility of the management of RCN Corporation.

The financial statements report on management's accountability for Company operations and assets. To this end, management maintains a system of internal controls and procedures designed to provide reasonable assurance that the Company's assets are protected and that all transactions are accounted for in conformity with generally accepted accounting principles. The system includes documented policies and guidelines, augmented by a comprehensive program of internal and independent audits conducted to monitor overall accuracy of financial information and compliance with established procedures.

PRICEWATERHOUSECOOPERS LLP, independent accountants, conducts a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements presented herein.

The Board of Directors meets its responsibility for the Company's financial statements through its Audit Committee which is comprised exclusively of directors who are not officers or employees of the Company. The Audit Committee recommends to the Board of Directors the independent auditors for election by the shareholders. The Committee also meets periodically with management and the independent and internal auditors to review accounting, auditing, internal accounting controls and financial reporting matters. As a matter of policy, the internal auditors and the independent auditors periodically meet alone with, and have access to, the Audit Committee.

\s\ Bruce C. Godfrey

Bruce C. Godfrey
Executive Vice President
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of
RCN Corporation

In our opinion, the consolidated financial statements listed in the index appearing under Item 14(a)(1) on page 34 present fairly, in all material respects, the financial position of RCN Corporation and Subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 14 (a)(2) on page 34, respectively present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

\s\ PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

March 8, 1999

except Note 20, as to which the date is March 18, 1999

RCN CORPORATION
LIST OF SUBSIDIARIES

Exhibit 21

Name	State of Incorporation	PERCENTAGE OWNED
RCN Corporation	DE	100%
RCN Services, Inc	PA	100%
TEC Air, Inc.	DE	100%
RCN Financial Management, Inc.	DE	100%
ENET Holding, Inc.	DE	100%
UNET Holding, Inc.	DE	100%
Interport Communications Corp	NY	100%
Port Telecom Corporation	DE	100%
Erde Network Systems Corporation	DE	100%
JMP Communications Corporation	DE	100%
Lancit Media Entertainment, Ltd.	NY	100%
Frame Accurate, Inc.	NY	100%
Lancit Copyright Corporation	DE	100%
The Strategy Licensing Company, Inc.	CT	100%
JavaNet, Inc.	DE	100%
North America Internet, Inc.	CT	100%
C-TEC Financial Services, Inc.	NV	100%
RCN Cable Systems, Inc.	DE	100%
C-TEC Cable System Services, Inc.	PA	100%
RCN of New Jersey, Inc.	PA	100%
RCN of Southeast New York, Inc.	PA	100%
RCN Telecom Services of Pennsylvania, Inc.	PA	100%
RCN Telecom Services of Southeast New York, Inc.	NY	100%
Fiberfone of Pennsylvania, Inc	PA	100%
Fiberfone of New Jersey, Inc.	NJ	100%
Fiberfone of Michigan, Inc.	MI	100%
C-TEC Fiber Systems of New Jersey, Inc.	NJ	100%
RCN Long Distance Company	PA	100%
RCN International Holdings, Inc.	DE	100%
RCN Telecom Services, Inc.	DE	100%
RCN Operating Services, Inc.	NJ	100%
RCN Telecom Services of Illinois, Inc.	IL	100%
RCN Telecom Services of Maryland, Inc.	MD	100%
RCN Telecom Services of Massachusetts, Inc.	MA	100%
RCN Telecom Services of Michigan, Inc.	MI	100%
RCN Telecom Services of New York, Inc.	NY	100%
RCN Telecom Services of Washington, Inc.	WA	100%
RCN Telecom Services of Delaware, Inc.	DE	100%
RCN Telecom Services of California, Inc.	CA	100%
RCN Telecom Services of Philadelphia, Inc.	PA	100%
RCN Telecom Services of New Jersey, Inc.	NJ	100%
RCN Telecom Services of Virginia, Inc.	VA	100%
RCN Telecom Services of Washington, D.C., Inc.	DC	100%
RCN Telecom Services of Maine, Inc.	ME	100%
RCN Telecom Services of New Hampshire, Inc.	NH	100%
RCN Telecom Services of Vermont, Inc.	VT	100%
RCN Telecom Services of Rhode Island, Inc.	RI	100%
RCN Telecom Services of Connecticut, Inc.	CT	100%
RCN Telecom Service of Nevada, Inc.	NV	100%
RCN Telecom Services of Arizona, Inc.	AZ	100%
FNH Holding Company, Inc.	NY	100%
RCN Corporate Services, Inc.	NJ	100%
RCN Financial Services, Inc.	DE	100%
Freedom New York L.L.C.	DE	100%
RCN-BecoCom, LLC	MA	51%
Starpower Communications, LLC	DE	50%

EXHIBIT 23

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of RCN Corporation on Form S-3 (File Nos. 333-71525, 333-61223 and 333-63889) and on Form S-8 (File Nos. 333-37959 and 333-38137) of our report dated March 8, 1999, except Note 20, as to which the date is March 18, 1999, on our audits of the consolidated financial statements and financial statement schedules of RCN Corporation and Subsidiaries as of December 31, 1998 and 1997, and for the years ended December 31, 1998, 1997, and 1996, which report is included in this Annual Report on Form 10-K.

/s/ PricewaterhouseCoopers LLP

PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
March 31, 1999

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Thomas P. O'Neill, III do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ Thomas P. O'Neill, III (SEAL)

Thomas P. O'Neill, III

Witness:

/s/ Christine M. Walsh

Christine M. Walsh

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, James Q. Crowe do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998

/s/ James Q. Crowe (SEAL)

James Q. Crowe

Witness:

/s/ Dinah Sink

Dinah Sink

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, David C. McCourt do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ David C. McCourt (SEAL)

David C. McCourt

Witness:

/s/ Blair Turner

Blair Turner

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Michael B. Yanney do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 27th day of March, 1998.

/s/ Michael B. Yanney (SEAL)

Michael B. Yanney

Witness:

/s/ C.L. Buckingham

C.L. Buckingham

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Richard R. Jaros do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 27th day of March, 1998.

/s/ Richard R. Jaros (SEAL)

Richard R. Jaros

Witness:

/s/ Lori Jaros

Lori Jaros

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Alfred Fasola do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th of March, 1998.

/s/ Alfred Fasola (SEAL)

Alfred Fasola

Witness:

/s/ Susan Fasola

Susan Fasola

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Stuart E. Graham do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ Stuart E. Graham (SEAL)

Stuart E. Graham

Witness:

/s/ Camille D'Alessandro

Camille D'Alessandro

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Eugene Roth do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 24th day of March, 1998.

/s/ Eugene Roth (SEAL)

Eugene Roth

Witness:

/s/ Janet Kaye

Janet Kaye

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Thomas J. May do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 27th day of March, 1998.

/s/ Thomas J. May (SEAL)

Thomas J. May

Witness:

/s/ Carol O'Rourke

Carol O'Rourke

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Walter Scott, Jr. do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ Walter Scott, Jr. (SEAL)

Walter Scott, Jr.

Witness:

/s/ Julie Haack

Julie Haack

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Michael J. Mahoney do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 23rd day of March, 1998.

/s/ Michael J. Mahoney (SEAL)

Michael J. Mahoney

Witness:

/s/ Kathleen Sparrowe

Kathleen Sparrowe

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS

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1997

FORM 10-K
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For the fiscal year ended December 31, 1997

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

Commission File No. 0-22825

RCN CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3498533.
(I.R.S. Employer
Identification No.)

105 Carnegie Center, Princeton, New Jersey
(Address of principal executive offices)

08540
(Zip Code)

Registrant's telephone number including area code: 609-734-3700
Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value \$1.00 per share
(Title of Class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

X Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. (X)

Number of shares of the Registrant's Stock (\$1.00 par value) outstanding at February 28, 1998

28,889,584 Common Stock

Aggregate market value of Registrant's voting stock held by non-affiliates at February 28, 1998 computed by reference to closing price as reported by NASDAQ for Common Stock (\$58.75 per share)

\$ 914,684,566 Common Stock

Documents Incorporated by Reference

1. Proxy Statement for 1998 Annual Meeting of Shareholders is incorporated by reference into Part I and Part III of this Form 10-K.

PART I

ITEM 1. BUSINESS

THE COMPANY

Prior to September 30, 1997, the Company was operated as part of C-TEC Corporation ("C-TEC"). On September 30, 1997, C-TEC distributed 100 percent of the outstanding shares of common stock of its wholly owned subsidiaries, RCN Corporation ("RCN" or the "Company") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's Common Stock and C-TEC's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C-TEC, RCN and Cable Michigan (the "Distribution Agreement"). See "Relationship Among RCN, CTE and Cable Michigan." RCN consists primarily of C-TEC's high growth, bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor, its existing New York, New Jersey and Pennsylvania cable television operations, a portion of its long distance operations and its international investment in Megacable, S.A. de C.V. ("Megacable"). Cable Michigan, Inc. consists of C-TEC's Michigan cable television operations, including its 62% ownership in Mercom, Inc. As part of C-TEC's restructuring, C-TEC changed its name to Commonwealth Telephone Enterprises, Inc. ("CTE").

RCN is developing advanced fiber optic networks to provide a wide range of telecommunications services including local and long distance telephone, video programming and data services (including high speed Internet access), primarily to residential customers in selected markets in the Boston to Washington, D.C. corridor. The region, one of the most densely populated in the United States, represents approximately 4% of the geography of the U.S., but accounts for over 26% of the telecommunications market based upon the number of telephone access lines. The Company believes that of the estimated 22 million homes in the Boston to Washington, D.C. corridor, approximately 9 million homes are located in high-density urban and suburban residential areas that will support development of an advanced fiber optic network on an attractive economic basis. RCN believes that its capability to deliver multiple services (telephone, video programming and Internet access) to any given customer on its networks will provide it with competitive advantages over other competitors. RCN's strategy is to become the leading single-source provider of voice, video and data services to residential customers in each of its markets by offering individual or bundled service options, superior customer service and competitive prices.

RCN's initial advanced fiber optic networks have been established in New York City and, through a joint venture with Boston Edison Company ("BECO"), in Boston and surrounding communities. RCN has also entered into a joint venture named Starpower Communications, L.L.C. ("Starpower") with Pepco Communications, L.L.C. ("Pepco Communications"), an indirect wholly owned subsidiary of Potomac Electric Power Company ("PEPCO"), to develop an advanced fiber network in the Washington, D.C. area. In February 1998, RCN acquired Boston and Washington, D.C.'s largest internet service providers ("ISPs"), Ultranet Communications, Inc. ("Ultranet"), and Erols Internet, Inc. ("Erols"), respectively. RCN also benefits from a strategic relationship with MFS Communications Company, Inc. (now a subsidiary of WorldCom, Inc.) ("MFS/WorldCom") in New York City and Boston and from its interconnection and resale agreements with incumbent telephone service providers including Bell Atlantic. RCN believes that these joint ventures and relationships provide it with a number of important advantages including access to rights of way and use of existing fiber optic facilities, the ability to enter its target markets quickly and efficiently and a reduction in the up-front capital investment required to develop its networks. In addition, the Company's joint venture partners provide access to additional assets, equity capital and established customer bases. The Company also benefits from its relationship with its largest shareholder, Peter Kiewit Sons', Inc. ("PKS"), the founder of MFS Communications Company, Inc. (now a subsidiary of WorldCom, Inc., "MFS/WorldCom"), and from the experience gained by certain of the Company's key employees who participated in the development of MFS Communications Company, Inc.

As of December 31, 1997, the Company had approximately 267,600 connections which were delivered through a variety of owned and leased facilities including hybrid fiber/coaxial cable systems, a wireless video

system and advanced fiber optic networks. In addition, the Company gained approximately 325,000 Internet service customers as a result of the acquisitions of Ultranet and Erols. The Company is deploying advanced fiber optic networks specifically designed to provide high speed, high capacity telecommunications services for all new network facilities. RCN also intends to upgrade certain of its hybrid fiber/coaxial cable systems to enable them to provide the same range of voice, video and data services, including bundled service options. Since it formally commenced operation of its advanced fiber optic networks in New York City and Boston in September 1996, RCN has built or acquired, through its joint venture with BECO and long term lease arrangements, approximately 400 route miles of fiber optic cable and added approximately 15,100 customer connections to its advanced fiber optic networks. In addition, during the same period the Company added approximately 29,700 wireless video, resold telephone and other connections, the majority of which represent customers that RCN expects to migrate to its advanced fiber optic networks. At December 31, 1997, RCN had approximately 82,700 total connections attributable to customers in the New York City and Boston markets (of which approximately 42,600 were wireless video service and other connections and approximately 24,900 were resold telephone connections) and had approximately 184,900 connections attributable to its hybrid fiber/coaxial cable systems in the states of New York (outside New York City), New Jersey and Pennsylvania, all within 75 miles of New York City. Because it delivers multiple services, RCN reports the total number of its various service connections (for local telephone, video programming and Internet access) rather than the number of customers.

RCN's extensive operating experience in both the telephone and video industries and in the design and development of telecommunications facilities provides it with expertise in systems operation and development, an established infrastructure for customer service and billing for both voice and video services and established relationships with providers of equipment and video programming. In addition, the Company's management team and board of directors benefit from experience gained in connection with the management of C-TEC, which prior to September 30, 1997 owned and operated RCN. C-TEC has 100 years of experience in the telephone business and nearly 25 years of experience in the cable television business. Both C-TEC and certain members of management also have extensive experience in the design and development of advanced telecommunications facilities.

RCN seeks to exploit competitive opportunities which have resulted from widespread changes in the U.S. telecommunications industry. RCN believes that density is a critical factor in the effective economic deployment of its networks, and that the Boston to Washington, D.C. corridor is a particularly attractive market for developing advanced fiber optic facilities due to population density, favorable demographics and the aging infrastructure of the incumbent service providers' network facilities in this region. The Company applies a subscriber-driven investment strategy focusing on subscriber density, proximity to the Company's advanced fiber optic networks and network development costs, in order to determine if the number of potential connections in a target area will permit network development on an attractive economic basis.

BUSINESS STRATEGY

The Company believes that the opportunity to effectively deploy advanced fiber optic networks and to compete with incumbent telephone and cable television service providers results from several key factors, including the broad deregulation of the telecommunications industry pursuant to the Telecommunications Act of 1996 (the "1996 Act"), the need for more advanced, higher capacity networks to meet growing consumer demands for new communications products and services and the superior technology of the Company's networks. In order to achieve its goal of becoming the leading provider of telecommunications, video and data services to residential customers in its target markets, RCN is pursuing the following key strategies:

Developing Advanced Fiber Optic Networks. RCN's advanced fiber optic networks are specifically designed to provide a single source for high speed, high capacity voice, video programming and data services. RCN believes that its high capacity advanced fiber optic networks provide RCN with certain competitive advantages such as increased capacity (including the ability to offer bundled voice, video and data services) and generally superior signal quality and network reliability relative to the typical networks of the incumbent service providers. By using advanced fiber optic networks capable of delivering multiple services, RCN is able to address a larger number of potential subscriber connections in its target markets than incumbent service providers which typically provide only single or limited services.

Focusing on Residential Customers in High-Density Markets. RCN seeks to be the first operator of an advanced fiber optic network providing voice, video and data services to residential customers in each of its target markets. RCN believes that it is unique in its markets in offering a wide range of bundled voice, video and data services to customers in residential areas and in striving to connect residential customers directly to its advanced fiber optic networks. RCN also believes that residential customers will be attracted to lower prices, broader service offerings, enhanced levels of customer care and consumer choice. Although the Company's primary focus is on residential customers, RCN also serves certain commercial accounts which are located on or in close proximity to its networks.

Implementing Subscriber-Driven Investment Strategy. RCN attempts to efficiently deploy its capital by tying facility development to the procurement of customer connections. In order to promote its presence in its markets and to develop a subscriber base for its advanced fiber optic networks, the Company may provide telephone services to customers located near its advanced fiber networks by first reselling services, and then by establishing leased facilities (such as unbundled local loops), in advance of constructing or extending its networks. RCN also provides wireless video services to approximately 38,000 customers in New York City with a view to extending the advanced fiber optic network to service many of these existing customers. In addition, RCN intends to extend its network to cover the primary areas currently served by Erols and Ultranet.

Utilizing Strategic Alliances and Existing Facilities to Speed and Reduce Cost of Entry. By utilizing strategic alliances, RCN is able to enter the market quickly and efficiently and to reduce the up-front capital investment required to develop its networks. Through alliances with companies such as BECO, Pepco Communications and MFS/WorldCom, which provide or are expected to provide RCN with extensive fiber optic networks or other assets, by utilizing certain components of its own existing cable television infrastructure, and through the strategic acquisitions of Ultranet and Erols, RCN has been able to expedite and reduce the cost of market entry and business development and has created the opportunity to leverage existing customer relationships.

Offering Bundled Voice, Video and Data Services. RCN believes that, as a full service voice, video and data programming provider, it will be able to offer a single-source package of voice, video and data services, individually or on a bundled basis, which is not yet generally available from any incumbent telephone, cable or other service provider. In addition, services provided over RCN's advanced fiber optic networks are generally priced at competitive rates as compared to the incumbent service providers.

Providing Superior Customer Service. RCN seeks to provide superior customer service as compared to incumbent service providers, with service features such as a 24-hour-a-day call center and quality control system, on-time service guarantees and bundled service offerings, providing the consumer with added choice-and convenience.

RCN SERVICES

RCN provides a wide range of local and long distance telephone, video programming and data services, both individually and in bundled service options.

RCN provides these services through a range of facilities including its advanced fiber optic networks in New York City and Boston, a wireless video system in New York City, its hybrid fiber/coaxial cable systems in the states of New York (outside New York City), New Jersey and Pennsylvania, and resale local and long distance telephony services.

Connections. The following table summarizes the development of RCN's subscriber base:

	12/31/96	3/31/97	As of 6/30/97	9/30/97	12/31/97
Connections (1)					
Advanced Fiber Optic Networks					
Voice	--	--	370	1,909	3,214
Video	--	--	1,060	4,870	11,784
Internet	--	--	81	326	150
Subtotal	--	--	1,511	7,105	15,148
Resold Voice	1,875	2,315	4,672	10,953	24,900
Wireless Video & Other (2)	40,162	43,616	46,668	46,053	42,681
Total RCN Telecom	42,037	45,931	52,851	64,111	82,729
Hybrid Fiber/Coaxial Cable Operations (3)	179,932	180,169	181,790	183,145	184,938
Total connections	221,969	226,100	234,641	247,256	267,667

- (1) Because RCN delivers multiple services, the Company accounts for its customer activity by the number of individual local telephone, video programming or Internet access services, or "connections", purchased. Consequently, a single customer purchasing local telephone, video programming and Internet access constitutes three connections.
- (2) Includes approximately 38,000 wireless connections. RCN classifies connections provided over advanced fiber optic networks within the "Other" category until the relevant network is capable of providing voice, video and data services, including local telephone service through an RCN switch. "Other" also includes, among other things, wireline video connections serving the University of Delaware (4,474 connections at December 31, 1997).
- (3) In August 1997, RCN commenced offering resold local phone service, long distance and Internet access to customers in the area served by its Hybrid Fiber/Coaxial Cable Systems in the Lehigh Valley area.

Set forth below is a brief description of RCN's services:

Voice. RCN offers full-featured local exchange telephone service, including standard dial tone access, enhanced 911 access, operator services and directory assistance in competition with the incumbent local exchange providers and CLECs. In addition, RCN offers a wide range of value-added services, including call forwarding, call waiting, conference calling, speed dial, calling card, 800-numbers and voice mail. RCN also provides Centrex service and associated features. RCN's local telephone rates are generally competitive with the rates charged by the incumbent providers. At December 31, 1997 RCN had approximately 3,200 telephone service connections on its advanced fiber optic networks and approximately 24,900 customers for resold telephone service.

RCN Long Distance provides long distance telephone services, including outbound, inbound, calling card, and operator services. These services are offered to residential and business customers. As of December 31, 1997 RCN

Long Distance had approximately 13,595 customers. In the future RCN intends to offer long distance telephone service predominantly to customers whom it expects will eventually be connected to its own facilities.

Video Services. RCN offers a diverse line-up of high quality basic, premium and pay-per-view video programming. Depending on the system, RCN offers from 61 to 110 channels. RCN's basic video programming package provides extensive channel selection featuring all major cable and broadcast networks. RCN's premium services include HBO, Cinemax, Showtime and The Movie Channel, as well as supplementary channels such as HBO 2, HBO 3 and Cinemax 2. RCN's StarCinema, available on the Company's advanced fiber optic networks, utilizes the latest "impulse" technology allowing convenient impulse pay-per-view ordering of the latest hit movies and special events instantly from the customer's remote. RCN's "Music Choice" offers 30 different commercial-free music channels delivered to the customer's stereo in digital CD quality sound.

As of December 31, 1997, RCN had approximately 11,800 subscribers for its video programming services provided over advanced fiber optic networks in New York City and Boston. As of such date, RCN also had approximately 38,000 connections attributable to the wireless video system and approximately 184,900 connections attributable to the hybrid fiber/coaxial cable systems.

RCN also acts as a provider of DirecTV direct broadcast satellite service to multiple dwelling units ("MDUs") in New York City. DirecTV allows RCN to deliver an additional 175 channels of programming including exclusive sports programming.

Internet Access and Data Transmission. RCN's StarPass Internet service provides access for personal computers to RCN's advanced fiber optic network for a reliable high speed connection to provide access to electronic mail, World Wide Web, Internet chat lines and newsgroups and remote access and file transfer services. RCN provides data transmission services over its advanced fiber optic network either via two-way dial-up modem over traditional telephone lines or via cable modem utilizing RCN's high capacity network. RCN also offers private line point-to-point data transmission services such as DS-1 and DS-3 with the capability to provide higher speed connections as well. Following the recent Erols and Ultramet acquisitions, RCN believes it is the largest regional provider of Internet services in the Northeast.

Migration of Customers to Advanced Fiber Networks

RCN provides wireless video services to customers located near its advanced fiber optic network in New York City and provides resale telephone service with a view to extending the advanced fiber optic network and fully activating RCN's own telephone switches to service many of those customers. As RCN's advanced fiber optic network is extended into these areas or buildings, customers receiving wireless video service in New York City will be switched to the advanced fiber optic network from the wireless video network, and the wireless video equipment will be used to provide service to other customers in off-network premises. Similarly, as the advanced fiber optic network is developed and switches are deployed, voice customers will be switched to the advanced fiber optic network from resale accounts, thereby allowing RCN to gain additional revenue (and larger margins) from originating and terminating access fees and to control the related services and service quality.

STRATEGIC RELATIONSHIPS

RCN has developed a number of strategic alliances and relationships in order to provide it with early entry and to reduce the cost of entry into the market for telecommunications services. RCN expects to continue to pursue opportunities that may be afforded by entering into strategic alliances to facilitate network expansion and entry into new markets.

Fiber Agreements. RCN, through its affiliates, has entered into Fiber Agreements (the "Fiber Agreements"), each dated May 8, 1997, with MFS/WorldCom, which owns or has the right to use certain fiber optic network facilities (the "Fiber Optic Facilities") in the Boston, Massachusetts and Borough of Manhattan, New York, New York markets (the "Service Areas"). Pursuant to the Fiber Agreements, MFS/WorldCom (i) will construct and provide extensions connecting the Fiber Optic Facilities to buildings designated by RCN (the "Extensions") and (ii) has granted to RCN the right to use certain dedicated fibers in the Fiber Optic Facilities and the Extensions, except

that RCN may not use such facilities to deliver telephone services to commercial customers in the Service Areas. In return, RCN has reimbursed MFS/WorldCom for the costs MFS/WorldCom incurred to install, construct and acquire the Fiber Optic Facilities constructed prior to March 31, 1997. RCN has further agreed to pay all of the costs MFS/WorldCom incurs to (i) install, construct and acquire the Fiber Optic Facilities constructed between March 31, 1997 and May 8, 1998 and the Extensions, and (ii) maintain, and support RCN's use of, the Fiber Optic Facilities and the Extensions. Unless earlier terminated upon the occurrence of certain events set forth therein, including a change of control of RCN, the Fiber Agreements terminate by their terms on January 1, 2007, provided that (i) at such time the parties may agree to extend the Fiber Agreements for up to 10 years or enter into other alternative arrangements, and (ii) under certain circumstances, MFS/WorldCom is required to transfer the Extensions to RCN.

BECO Joint Venture

In September 1996, RCN and BECO, through wholly owned subsidiaries, entered into a letter of intent to form a joint venture to utilize 126 fiber miles of BECO's fiber optic network to deliver RCN's comprehensive communications package in Greater Boston. The venture, in the form of an unregulated entity with a term expiring in the year 2060, was formed pursuant to a joint venture agreement dated December 23, 1996 (the "Boston Joint Venture Agreement") providing for the organization and operation of RCN-BECOCOM, LLC ("RCN-BECOCOM"). RCN-BECOCOM is a Massachusetts limited liability company organized to own and operate an advanced fiber optic telecommunications network (the "Network") and to provide, in the market in and around Boston, Massachusetts (the "Boston Market"), voice, video and data services, as well as the communications support component of energy related customer services offered by BECO (collectively, the "Boston Services"). RCN, through RCN Massachusetts, owns 51% of the equity interest in RCN-BECOCOM and BECO, through a subsidiary, owns the remaining 49% interest. This joint venture with BECO is reflected on RCN's financial statements on a consolidated basis.

The closing of the transactions contemplated by the Boston Joint Venture Agreement occurred on June 17, 1997. At the closing, (i) RCN transferred to RCN-BECOCOM its business of providing Boston Services; (ii) BECO transferred to RCN-BECOCOM access to and use of certain existing BECO facilities; (iii) RCN and BECO made initial cash capital contributions to RCN-BECOCOM; and (iv) the parties and/or their affiliates executed and delivered (a) the Amended and Restated Operating Agreement of RCN-BECOCOM dated as of June 17, 1997 (the "Operating Agreement"); (b) the Construction and Indefeasible Right of Use Agreement dated as of June 17, 1997 between BECOCOM, LLC and RCN-BECOCOM (the "IRU Agreement"); (c) the Management Agreement (the "Management Agreement") dated as of June 17, 1997 among RCN Operating Services, Inc. and BECOCOM, Inc.; (d) the Exchange Agreement dated as of June 17, 1997 (the "Exchange Agreement"); and (e) the Joint Investment and Noncompetition Agreement dated as of June 17, 1997 among RCN Massachusetts, BECOCOM, Inc. and RCN-BECOCOM (the "Joint Investment Agreement").

Pursuant to the Operating Agreement, RCN and BECO are required to make any additional capital contributions required by RCN-BECOCOM's annual budget on a 51%/49% basis. The annual budget will be prepared by RCN and is subject to review by each member of RCN-BECOCOM. RCN will manage the business of RCN-BECOCOM; however, certain extraordinary actions require the consent of both parties. In addition, the Operating Agreement provides that if a deadlock arises relating to a merger, reorganization, issuances of equity, liquidation or bankruptcy, amendments to the organizational documents or an expansion of operations of RCN-BECOCOM beyond those contemplated by the Operating Agreement, the disputing party will either sell its interest or purchase the other party's interest in the joint venture. Neither RCN nor BECO may

transfer its interest in RCN-BECOCOM until June 17, 2000 without the other's written consent. After such date, each party has the right to purchase the interest proposed to be sold by the other party. If a party proposes to sell more than 33% of its interest, the other party has "tag-along" rights to sell a proportionate share of its interest. In the event a member's interest becomes less than 25%, the other members have the option to purchase such interest at fair market value. Upon a change in control of either RCN Massachusetts or BECOCOM, the other party has the right to purchase all of the equity interest in RCN-BECOCOM for fair market value, as determined by an appraisal proceeding.

RCN will manage the business of RCN-BECOCOM pursuant to the terms of the Management Agreement and, in consideration therefor, will receive reimbursement for its reasonable costs, and a performance-based fee (based on factors including the number of subscribers and operating cash flow) to be determined by agreement of RCN and RCN-BECOCOM. The initial term of the agreement expires on December 31, 2001. The agreement provides for automatic successive three-year renewal periods, unless notice is given ninety days before the end of the period.

Pursuant to the IRU Agreement, BECO will, for certain agreed upon fees, (i) provide construction services to build out the Network, (ii) make available to RCN-BECOCOM (a) all of the available capacity of BECO's existing fiber backbone, and (b) the ability to use BECO's real estate, poles, easements and other interests for the construction and operation of the Network and (iii) maintain the Network. BECO's construction obligations expire on June 17, 2007 and the term of the IRU Agreement generally expires on December 31, 2060. One year before each respective expiration date, BECO agrees to commence good-faith negotiations to extend construction obligations beyond June 17, 2007 and to allow continued use of BECO's facilities beyond December 31, 2060.

Under the Joint Investment Agreement, BECO will have the right to acquire up to a 20% equity interest in any joint venture between RCN and an electric utility company formed to provide any services similar to the Boston Services in New England outside the Boston Market. BECO's joint investment right shall terminate (i) upon BECO's stake in RCN-BECOCOM dropping below a 1/3 interest and (ii) on the later to occur of (a) June 17, 2002 or (b) two years after RCN's stake in RCN-BECOCOM falls below a 1/3 interest. The agreement also provides that neither RCN, BECO nor their affiliates will be permitted to be involved in any other enterprise providing services similar to the Boston Services in the Boston Market. This covenant not to compete will survive for a period of two years after either party is no longer a member of RCN-BECOCOM.

Pursuant to the Exchange Agreement, BECO had the right at the time of the Distribution, and has the right every two years thereafter, to convert its ownership interest in RCN-BECOCOM into the Common Stock of RCN pursuant to specific terms and conditions, including exercise periods, appraisal procedures and restrictions specifically set forth in the Exchange Agreement. Although BECO exercised its conversion rights, BECO will remain obligated to make 49% of all cash contributions by the parties and any cash contributions made after conversion will result in it owning a portion of RCN-BECOCOM based on the value of RCN-BECOCOM at the time of the contribution. BECO may exercise its conversion rights in whole or in part from time to time. BECO has notified RCN that it has elected to exercise its option to the full extent permitted by the Exchange Agreement with respect to 1997. RCN and BECO are presently in discussions with respect to the calculation of the agreed upon value for the exercise of such option. BECO's right to convert its joint venture interest into Company Common Stock is subject to certain limitations designed to ensure that the conversion does not jeopardize the tax free nature of the Distribution. In the event BECO is unable to convert any portion of its interest as a result of such limitations, BECO has the right to require RCN to purchase such portion. Subject to certain restrictions set forth in the Exchange Agreement, BECO will also be entitled, upon exchanging its investment interest in RCN-BECOCOM for Company Common Stock, to customary registration rights with respect to such shares.

RCN expects to benefit from the ability to utilize BECO's large fiber optic network, its focus on innovative technology, its sales and marketing expertise and its reach into the market. In the future, the venture may expand into energy management and property monitoring services. Starting in Boston, the joint venture partners will consider further expansion into surrounding markets. RCN anticipates that as a result of its access to the extensive BECO network, RCN's reliance on and utilization of MFS/WorldCom facilities in Boston will be reduced significantly.

Starpower Joint Venture

On August 1, 1997, RCN Telecom Services, Inc., a subsidiary of RCN, and Potomac Capital Investment Corporation ("PCI"), a wholly owned subsidiary of PEPCO, entered into a letter of intent (the "Letter of Intent") to form a joint venture to own and operate a communications network to provide voice, video, data and other communications services to residential and commercial customers in the greater Washington, D.C., Virginia and Maryland area (the "Washington, D.C. Market"). Starpower, an unregulated limited liability company with a perpetual term, was formed on October 28, 1997 by RCN Telecom Services of Washington, D.C., Inc. ("RCN Washington") and Pepco Communications. Starpower was formed to construct, own, lease, operate and market a network for the selling of voice, video, data and other telecommunications services (the "Relevant Business") to all potential commercial and residential customers in the Washington, D.C. Market. RCN, through RCN Washington, owns 50% of the equity interest in Starpower and PCI, through Pepco Communications, owns the remaining 50% interest. Starpower is accounted for by RCN under the equity method of accounting.

The closing (the "Starpower Closing") of the Starpower joint venture occurred on December 19, 1997. At the closing, RCN Washington transferred to Starpower all its right, title and interest in and to (i) all customer accounts of RCN Long Distance in the Washington, D.C. Market, (ii) its business plan in the Washington, D.C. Market and experience with respect to the Relevant Business, (iii) all building access agreements covering any property located in the Washington, D.C. Market, (iv) the Support Services Agreement (as described below) and (v) the benefit of certain agreements pursuant to the Assignment of Benefits Agreement (as described below). The documents signed at the Starpower Closing were the Amended and Restated Operating Agreement of Starpower dated as of December 18, 1997 by and between Pepco Communications and RCN Washington ("Amended and Restated Operating Agreement"), Fiber Use Agreement dated as of December 18, 1997 between PEPCO and Starpower ("Fiber Use Agreement"), Agency Agreement dated as of December 18, 1997 by and between RCN Washington, RCN Telecom Services of Maryland, Inc., RCN Telecom Services of Virginia, Inc. and Starpower ("Agency Agreement"), Non-competition Agreement dated as of December 18, 1997 by and among RCN Telecom Services, Inc., PCI and Starpower ("Non-competition Agreement"), Assignment of Benefits Agreement dated as of December 18, 1997 by and between RCN Washington and Starpower ("Assignment of Benefits Agreement"), Support Services Agreement dated as of December 18, 1997 by and between RCN Operating Services, Inc. and Starpower ("Support Services Agreement"), Guarantee dated as of December 18, 1997 by PCI on behalf of Pepco Communications in favor of Starpower, Guarantee dated as of December 18, 1997 by RCN on behalf of RCN Washington and other RCN obligors in favor of Starpower and Contribution Agreement dated as of December 18, 1997 by and between RCN Washington and Starpower ("Contribution Agreement"). RCN Washington and Pepco Communications also each paid \$12.5 million in cash in January 1998 as their initial capital contributions.

Pursuant to the Amended and Restated Operating Agreement, RCN Washington and Pepco Communications are each required to make additional capital contributions in accordance with a schedule set forth in such agreement on a 50%/50% basis. Failure of either RCN Washington or Pepco Communications to make a scheduled capital contribution or to vote in favor of certain additional capital contributions may result in the recalculation of equity interests. The business and affairs of Starpower is to be managed by RCN Washington and Pepco Communications. So long as RCN Washington and Pepco Communications maintain a 50%/50% equity interest in the joint venture, each of RCN Washington and Pepco Communications will appoint three members to the operating committee, the approval of which is required for any business action. Certain fundamental business actions, such as mergers, acquisitions, sales of substantially all of the assets, liquidation and amendments to the certificate of organization or any agreement signed at the Starpower Closing, require the unanimous approval of the operating committee regardless of whether the parties continue to maintain a 50%/50% ownership interest. Failure to reach agreement may trigger a deadlock event. In the event a deadlock arises within the first three years of the joint venture, the proposed action shall be deemed rejected. If the deadlock arises thereafter, the disputing party may give a notice to

the other party offering to sell its membership or to purchase all membership interests from the other party; the offeree has the obligation to elect to buy or sell its interest. Subject to certain exceptions, neither RCN Washington nor Pepco Communications may sell any interest in Starpower for four years. Thereafter, RCN Washington or Pepco Communications may sell any of its membership interests with the written consent of the other subject to a right of first offer by the other party. RCN Washington shall be restricted from transferring its interest if Pepco Communications can demonstrate that such assignment would have a material adverse impact on Starpower's business. Upon a change of control of RCN Washington or Pepco Communications, which the other party has reason to believe will have a material adverse effect on Starpower, the other party may offer to sell its membership interests or to acquire such party's membership interests or accept the change of control. The offeree has the right to elect to buy or sell its interest. If a party proposes to sell its interest to a third party, the other party has "tag-along" rights to sell a proportionate share of its interest. Both RCN Washington and Pepco Communications may transfer their membership interests to certain affiliates.

Under the Fiber Use Agreement, PEPCO agreed, for certain agreed upon fees, (i) to provide construction services to develop a network and (ii) to grant Starpower an indefeasible right of use of certain facilities and an irrevocable right to install, maintain, use and operate its strand fiber connections to leased facilities. Starpower has the right, at the end of the term, to purchase not less than the whole network at the fair market value less the amount previously paid by Starpower with respect to such facilities. The initial term is ten years and the agreement may be renewed four times.

Under the Support Services Agreement, a subsidiary of RCN will provide support services including customer service, billing, marketing, and certain administrative, accounting and technical support services, each of which shall be provided at cost. The Support Services Agreement also contains certain indemnity provisions.

Under the Non-competition Agreement, for so long as either RCN Washington or Pepco Communications owns an interest in Starpower, neither party nor any of their affiliates may compete with any Relevant Business in the Washington, D.C. Market. Neither RCN Washington nor Pepco Communications shall attempt to solicit, divert or accept business from the customers of Starpower for any Relevant Business in the Washington, D.C. Market or solicit any individual who is employed by Starpower.

Starpower agreed, in the Agency Agreement, to serve as RCN Washington's exclusive agent for the provision of telephony services in the Washington, D.C. Market until Starpower receives sufficient authorization for it to provide telephony services in the Washington, D.C. Market. All revenues and customers under this Agency Agreement belong to Starpower. Starpower must indemnify RCN Washington for any tax liability resulting from its obligations under this Agency Agreement. The Agency Agreement also contains certain other indemnity provisions.

Pursuant to the Assignment of Benefits Agreement, RCN Washington assigned the benefits of all of the agreements (the "Assigned Agreements") with suppliers of programming and entertainment, voice, video and data services, telecommunications equipment and other products and services useful in the conduct of the Relevant Business in the Washington, D.C. Market to Starpower. RCN Washington may not transfer or assign its interest in the Assigned Agreements if doing so would have a material adverse effect on Starpower's ability to conduct the Relevant Business in the Washington, D.C. Market. In addition, RCN Washington may not amend, modify or assign the Assigned Agreements without the prior written consent of Starpower and Starpower has the right to terminate any agreement amended, modified or assigned without its consent. RCN Washington has agreed to take all reasonable steps necessary to obtain consent for Starpower to use programming agreements prior to the date Starpower begins offering OVS services. The Assignment of Benefits Agreement expires on December 19, 1998 and Starpower has certain renewal rights. Starpower may terminate the Assignment of Benefits Agreement on 60 days notice.

RCN has agreed to unconditionally guarantee the due and punctual performance and discharge all of its affiliates' material covenants, warranties, undertakings and other obligations under the agreements signed at the Starpower Closing. PCI has agreed to unconditionally guarantee the due and punctual performance and discharge by Pepco Communications of all its material covenants, warranties, undertakings and other obligations under the Operating Agreement.

RECENT ACQUISITION TRANSACTIONS

Merger with Erols Internet, Inc.

Erols is a leading regional ISP with approximately 293,000 residential and business subscribers as of December 31, 1997 in targeted markets, including New York City, Philadelphia, Washington, D.C. and Boston. Erols currently operates 57 physical points of presence ("POPs") throughout its geographic markets, and also currently utilizes 32 "Virtual POPs," which permit subscribers located adjacent to, but outside of the local calling areas of, physical POPs to dial into the Erols network on a local basis through arrangements with the relevant local exchange carrier ("LEC"). Erols offers a broad range of Internet-based services, including (i) Global Trader, Erols' turn-key e-commerce product for small businesses, (ii) Internet security services, including security consulting and virtual private networks, and (iii) Web hosting, design and development services.

On January 21, 1998, RCN entered into the Agreement and Plan of Merger (the "Erols Merger Agreement") among RCN, Erols, Erol Onaran, Gold & Appel Transfer, S.A., a British Virgin Islands corporation ("Gold & Appel"), and ENET Holding, Inc., a Delaware corporation and a wholly owned subsidiary of RCN ("ENET"), to acquire all of the outstanding shares of common stock of Erols. On February 20, 1998 Erols merged with and into ENET (the "Erols Merger"), with ENET as the surviving corporation. The total consideration paid by RCN in the Erols Merger was \$29.2 million in cash, 1,730,648 shares of RCN Common Stock plus the assumption and repayment of \$5.8 million of debt (including repayment of accrued interest). Additionally, the Company is converting approximately 999,000 Erols stock options to approximately 699,000 RCN stock options with an average exercise price of \$3.424 per share.

The Erols Merger Agreement contains customary representations, warranties, and covenants by each party, which representations and warranties will survive until March 31, 1999, except for certain specified representations and warranties which will survive indefinitely or until the expiration of the applicable statute of limitations. Pursuant to the Erols Merger Agreement, each party has agreed to provide indemnification from damages arising out of any misrepresentation or breach of warranty, covenant or agreement made or to be performed by such party pursuant to the Erols Merger Agreement. In addition, Erol Onaran has agreed to provide indemnification from damages arising out of any misrepresentation or breach of warranty, covenant or agreement made or to be performed by Erols on or before the Effective Time, subject to certain thresholds and limitations, and arising from certain matters set forth in the Erols Merger Agreement.

Pursuant to the Erols Merger Agreement, at the Effective Time both an escrow agreement (the "Erols Escrow Agreement") and a registration rights agreement (the "Erols Registration Rights Agreement") were executed and delivered. Under the terms of the Erols Escrow Agreement, RCN delivered to the Erols Escrow Agent an aggregate of approximately \$5.84 million in cash and 93,210 shares of RCN Common Stock to be held, invested and distributed by the Erols Escrow Agent pursuant to the Erols Escrow Agreement. Under the terms of the Erols Registration Rights Agreement, Erol Onaran and Gold & Appel will each receive customary demand and piggy-back registration rights, subject to certain limitations as set forth in the Erols Registration Rights Agreement.

RCN expects to contribute to Starpower, the joint venture with Pepco Communications, the subscribers acquired in the acquisition of Erols located in the Washington, D.C. area in which Starpower operates. The joint venture partners of Starpower are currently negotiating the terms of such contribution. On February 20, 1998, approximately 61% of all of Erols' subscribers were located in the relevant Washington, D.C. area. RCN anticipates that PCI will make a contribution equal to the value of such subscribers.

Merger With Ultranet Communications, Inc.

Ultranet is a leading ISP in the Boston area with more than 32,000 residential and business customers in New England. Ultranet provides Internet service to over 500 schools, and is presently building a network which will provide access throughout New Hampshire's universities and colleges. Ultranet has a wide network of 42 POPs. Services Ultranet offers to subscribers include (i) virtual hosting, which gives customers a corporate presence on the Internet, (ii) firewall security, which provides high quality control in monitoring access to documents and visitors to the customer's websites, and (iii) UltraFax, which allows customers to send faxes from their desktops. Ultranet also offers its customers access to its network via an 800 number which allows access from every major city in the world.

On January 21, 1998, RCN, UNET Holdings, Inc., a wholly-owned subsidiary of RCN, and Ultranet entered into an Agreement and Plan of Merger (the "Ultranet Merger Agreement"). The transaction was completed in February 1998. The total consideration for the acquisition was approximately \$7.3 million in cash, approximately 890,384 shares of RCN Common Stock and \$3.0 million in deferred compensation. Additionally, the Company is converting approximately 63,500 Ultranet stock options to 117,052 RCN stock options at an average exercise price of \$1.825 per share and making cash payments aggregating approximately \$.5 million to certain other holders of UltraNet stock options.

RCN also agrees to indemnify Ultranet and its directors, officers and stockholders from and against liabilities or expenses incurred (i) in connection with the severance benefits under any severance arrangement applying to any former employee of Ultranet employed by RCN after the Ultranet Merger is consummated, (ii) relating to a former employee's employment and/or termination by RCN after the Ultranet Merger is consummated and (iii) incurred by an indemnified person with respect thereto.

RCN expects to contribute to its joint venture with BECO the subscribers acquired in the acquisition of Ultranet located in the Boston area in which the BECO joint venture operates as well as 1.36% (or all of Erols' subscribers located in Boston) of the subscribers acquired in the acquisition of Erols. On February 27, 1998, approximately 27% of all of Ultranet's subscribers were located in the relevant Boston area. RCN anticipates that BECO will make a corresponding contribution to the joint venture in the form of a note in the principal amount of 49/51 of the agreed value of the subscribers contributed by RCN.

Indemnification and Noncompetition Agreement

Certain stockholders holding at least 95% of the Ultranet Common Stock, Series A Preferred Stock and Series B Preferred Stock executed an Indemnification and Noncompetition Agreement (the "Indemnification Agreement") which provides that certain representations and warranties included in the Ultranet Merger Agreement will survive the consummation of the merger. Such stockholders agree to indemnify RCN, severally and on a pro rata basis, and RCN agrees to indemnify the stockholders against all losses incurred by any of them arising out of any breach of any tax representation in the Ultranet Merger Agreement insofar as such breach causes the merger not to qualify as a reorganization or any material failure to perform any of its covenants or agreements contained in the Ultranet Merger Agreement. The maximum amount of indemnification by the stockholders on one hand and by RCN on the other hand is \$7.5 million plus certain amounts up to \$2.5 million with respect to breach of tax representations.

The Indemnification Agreement will provide that the stockholders will not knowingly take any action which would cause the merger not to qualify as a reorganization. Certain employees will also agree not to engage in any activity which would compete with Ultranet in the geographic region identified as the "Boston-Washington" corridor for a period ending the earlier of five years after the consummation of the merger or one year after his or her termination (or two years in the case of termination for cause or voluntary termination).

As a result of the expansion of the Company's Internet business, the Company is exposed to certain uncertainties regarding Internet businesses. The Company's Internet business will depend in part upon the continuing development and expansion of the Internet and the market for Internet access. Important issues concerning business and personal use of the Internet (including security, reliability, cost, ease of use, access and quality of service) remain unresolved and may significantly affect the acceptance of the Internet for commerce and communication and the growth of Internet use. Internet network infrastructure is vulnerable to computer viruses and other similar disruptive problems caused by its users, other Internet users or other third parties. Computer viruses and other problems could lead to interruptions of, delays in, or cessation of service, by the Company, as well as corruption of the Company's or its subscribers' computer systems. In addition, there can be no assurance that subscribers or others will not assert claims of liability against the Company as a result of events such as computer viruses, other inappropriate uses or security breaches. The Company's ability to provide Internet service will depend in part on its ability to provide sufficient capacity, both at the level of particular POPs (affecting only subscribers attempting to use that POP) and in connection with system-wide services (such as e-mail and news services, which can affect all subscribers). In addition, the Company will be dependent in part on the availability of equipment such as modems, servers and other equipment. Furthermore, ISPs participate in the Internet through contractual "peering arrangements" with Internet companies. These contractual arrangements are not subject to regulation and could be subject to revision in terms, conditions or costs over time.

Acquisition of Lancit Media Entertainment, Ltd.

On February 27, 1998, RCN entered into an Agreement and Plan of Merger ("Lancit Merger Agreement") with Lancit Media Entertainment, Ltd., a New York corporation ("Lancit"), and LME Acquisition Corporation, a New York corporation and a wholly owned subsidiary of RCN ("LME"). Pursuant to the Lancit Merger Agreement, LME will merge with and into Lancit, with Lancit surviving the merger and becoming a wholly owned subsidiary of RCN (the "Lancit Merger"). Lancit is a producer of high-quality children's programming, which has won 11 Emmy Awards. The consummation of the Lancit Merger is subject to customary conditions, including the approval by Lancit shareholders of the Lancit Merger.

HYBRID FIBER/COAXIAL CABLE SYSTEMS

RCN's hybrid fiber/coaxial cable systems were operated by C-TEC prior to the Distribution. The following table summarizes the development of the hybrid fiber/coaxial cable systems over the last five years:

	1993	1994	AS OF DECEMBER 31, 1995	1996	1997
Homes passed	118,216	119,761	282,836	283,940	290,612
Basic subscribers	87,660	92,140	176,131	179,932	184,938
Basic penetration	74.2%	76.9%	62.3% (1)	63.4%	63.6%
Average monthly revenue per subscriber for last month period	\$ 40.98	\$ 37.67	\$ 36.73 (1)	\$ 39.99	\$ 43.08

(1) Decline in basic penetration levels and average monthly revenue per subscriber in 1995 reflects the acquisition of the Pennsylvania cable systems, which are in a market in which a competing franchisee also offers service.

The service areas for these cable television networks enjoy favorable customer demographics. The New York and New Jersey systems primarily serve high growth affluent bedroom communities in suburban New York City, with 28,411 and 76,127 connections at December 31, 1997 respectively. The system in New York State serves ten

municipalities in Dutchess, Putnam and Westchester Counties, approximately 45 miles north of New York City. The New Jersey system serves 31 contiguous municipalities in Hunterdon, Mercer, Morris and Somerset Counties, approximately 50 miles west of Manhattan. The Pennsylvania system, which is the largest competitive cable television system in the United States, serves Pennsylvania's Lehigh Valley area including the cities of Allentown, Bethlehem and Easton, and virtually all of Lehigh and Northampton Counties, and is located less than 10 miles west of the Company's New Jersey system.

INTERCONNECTION

Because access to the public switched telephone network is an essential component of any regional or national telecommunications network, interconnection is critical to RCN's ability to provide voice and data services. Bell Atlantic and the other incumbent local exchange carriers ("LECs") and independent telephone companies are required to provide interconnection to competitive local exchange carriers ("CLECs") such as RCN pursuant to the facilities-based interconnection requirements of Section 251 of the 1996 Act. Under the 1996 Act, the Regional Bell Operating Companies' ("RBOC's") ability to offer long-distance service between local access and transport areas ("LATA") is contingent upon their ability to create an environment allowing economically-efficient competition in their local markets for both business and residential services.

RCN has achieved interconnection through comprehensive telephone service co-carrier interconnection agreements with Bell Atlantic and Sprint-New Jersey covering their service areas in ten states and the District of Columbia in the Northeast and New England-Middle Atlantic corridor areas. These agreements will remain in effect regardless of the outcome of the proceedings regarding Section 251 regulations of the Federal Communications Commission ("FCC"). RCN's interconnection agreements with Bell Atlantic cover its service areas in the states of Massachusetts, New York, Vermont, New Hampshire, Maine, Rhode Island, Delaware, Maryland, New Jersey, Pennsylvania and Virginia and the District of Columbia. The agreement with Sprint-New Jersey covers its service area in the State of New Jersey. All of these agreements have been approved by the state regulatory commissions pursuant to Section 252 of the Communications Act of 1934, as amended by the 1996 Act (the "Communications Act"). RCN believes it has more interconnection agreements with incumbent LECs than any other company focused primarily on the residential telecommunications market.

The terms of RCN's interconnection agreements with the incumbent LECs include the following provisions: (i) interconnection at any technically feasible point within their networks, equal in quality to what the incumbent LEC provides to itself or to affiliates; (ii) exchange of all local traffic at a fully reciprocal and identical rate; (iii) receipt by RCN of access charges for long distance calls made to and from its customers, including full "pass through" to RCN of such compensation on number portability; (iv) interim number portability arrangements to allow customers to keep their telephone numbers when they switch carriers; (v) unbundled network elements, including local loop transmission from the incumbent LEC's central offices to the customer's premises distinct from local switching or other services; (vi) nondiscriminatory access to 911 and emergency 911 services; directory assistance services to allow RCN's customers to obtain telephone numbers; operator call completion services and white pages directory listings for RCN's customers; and (vii) access to the poles, ducts, conduits and rights-of-way owned or controlled by the incumbent LEC at nondiscriminatory rates. The interconnection agreements generally have an initial term of three years and are cancelable thereafter at 90 days' notice.

RESALE ARRANGEMENTS

Resale of Bell Atlantic Local Telephone Services

RCN provides local telephone service on a resale basis to customers not connected to the advanced fiber optic facilities. As of December 31, 1997 RCN had 24,900 customers for local telephone services provided through agreements to act as a reseller of Bell Atlantic local telephone services. RCN offers its resale customers competitive telephone rates and RCN's superior customer service. Resale customers are billed by RCN and RCN personnel provision customer service requests by coordinating with the incumbent LECs on the customers' behalf.

RCN has entered into agreements to act as a reseller of Bell Atlantic local telephone services, which enable RCN to grow its subscriber base by offering telephone services in advance of connecting the customers to an

advanced fiber optic network. RCN's agreements with Bell Atlantic allow RCN to purchase at a "wholesale" discount (the amount of which is determined by regulatory commissions in each state) any telephone services that those companies offer to their end users, such as local exchange services, vertical features including Caller ID, Call Waiting, etc., and regional toll calls. The agreements provide that RCN will be entitled to the most favorable terms and conditions, including wholesale discounts, available to any telecommunications carrier reselling similar services.

Long Distance Resale

RCN Long Distance provides long distance telephone services, including private line, operator and calling card services, to residential and business customers throughout the United States. Such services are provided through an owned and leased switching network utilizing leased interconnection facilities and long distance resale. RCN provides on network origination and termination of long distance telephone services throughout the Mid-Atlantic and New England states. For call origination and completion throughout the rest of the country, RCN has various resale agreements. Specifically, RCN has contracted with Level 3 Communications, Inc. ("LCI") for 800/888 origination, Frontier for off network origination of outbound calling and various carriers for terminating calls.

DirectTV

In October 1996, RCN signed an agreement with DirectTV to deliver DirectTV's high-power direct broadcast satellite service to multiple dwelling units ("MDUs") in New York City. DirectTV allows RCN to offer an additional 175 channels of programming including exclusive sports programming.

CUSTOMER SERVICE AND BILLING

RCN has implemented a flexible, customer-service oriented approach which RCN believes differentiates it from the mass-market strategy of the incumbent providers. RCN provides customer service 24 hours a day, seven days a week from established central call centers. The facilities utilize state of the art technology which allows communication with subscribers, field technicians and the Company's field offices. The largest of these facilities is located in Dallas, Pennsylvania and handles the majority of the customer service calls.

RCN's advanced fiber optic network is continuously monitored for quality control and capacity issues, pursuant to a control system featuring 16 alarm monitor points per hub site and automated housekeeping alarms.

Billing services for video are provided by CableData while RCN telephony billing services are provided by Consolidated Communications Systems and Services. At the present time, RCN customers receive separate billing statements for video and telephone service although RCN intends to offer a single billing option in the future.

Account piracy is monitored by ongoing field audits and, in RCN's advanced fiber optic networks, through use of state of the art scrambling systems. Potential new customers are generally screened for credit history before being authorized for service. RCN employs a full-time credit and collection staff as well as a group that seeks to minimize toll fraud by detecting and monitoring suspicious calling patterns.

PROGRAMMING AND SUPPLIERS

RCN has secured license arrangements with all of its desired programming suppliers, some of which provide volume discount pricing structures and/or offer marketing support to the Company. Many of these arrangements are extensions of long-standing agreements entered into by or on behalf of the Company's hybrid fiber/coaxial cable systems, and some are newly negotiated based upon RCN's "open video system" ("OVS") certifications. RCN has generally obtained these license arrangements on terms and conditions that it considers favorable.

RCN programming arrangements include arrangements for basic video channels, premium channels including multi-plexing, pay-per-view movies and events, adult entertainment, electronic program guide services and digital music services, as well as retransmission arrangements for relevant network broadcasters.

The Company generally pays a monthly fee per subscriber per channel for programming purchased from its suppliers. Programming costs increase in the ordinary course of the Company's business as a result of increases in the number of subscribers, expansion of the number of channels provided to customers and contractual rate increases from programming suppliers. The Company anticipates that future contract renewals for video providers such as the Company will result in programming costs exceeding current levels, particularly for sports programming.

A wide range of national manufacturers are the primary sources of supplies, equipment and materials utilized in the development and enhancement of the Company's networks. RCN has entered into Master Purchase Agreements with certain equipment suppliers which enable it to purchase video and switching equipment on terms which it considers favorable. The Company anticipates that the costs for these supplies, equipment and materials will be significant in future periods. The amount of such costs will depend on numerous factors, many of which are beyond the Company's control.

RCN LONG DISTANCE

RCN Long Distance Company, a wholly-owned subsidiary of RCN, provides switched-based resale long distance services to customers on the advanced fiber optic network as well as other customers. RCN Long Distance operates the long distance business formerly operated by C-TEC, except within the Commonwealth Service Territory. During 1996, RCN obtained certification in forty-seven states. RCN Long Distance also provides local telephone service to commercial customers. As of December 31, 1997 RCN Long Distance had approximately 13,595 long distance customers.

INTERNATIONAL

The Company owns a 40% interest in Megacable, the second largest cable television provider in Mexico. Megacable owns 22 wireline cable systems, and one multi-channel multipoint distribution service ("MMDS") cable system, in Mexico, principally on the Pacific and Gulf coasts and including Guadalajara, the second largest city in Mexico, Hermosillo, the largest city in the state of Sonora and Veracruz, the largest city in the state of Veracruz. At December 31, 1997 Megacable's wireline systems passed approximately 635,350 homes and served approximately 209,300 subscribers. Megacable had revenues of \$23.2 million for the years ended December 31, 1996 and \$30.4 million for the year ended December 31, 1997.

Additionally, Megacable presently holds a 99% interest in Megacable Comunicaciones de Mexico S.A. ("MCM"). MCM has received a license from the Mexican government to allow it to build a fiber optic network in Mexico City, Monterrey and Guadalajara. MCM intends to use this network to provide local voice and high-speed data service in these cities, principally to commercial customers in Mexico City.

COMPETITION

Overview

RCN competes with a wide range of service providers for each of the services that it provides. Virtually all markets for voice and video services are extremely competitive, and RCN expects that competition will intensify in the future. In each of the markets in which it offers voice and video programming services, RCN faces significant competition often from larger, better-financed incumbent local telephone carriers and cable companies, and RCN often competes directly with incumbent providers which have historically dominated their respective local telephone and cable television markets. These incumbents presently have numerous advantages as a result of their historic monopoly control of their respective markets. However, RCN believes that most existing and potential competitors will, at least initially, provide narrower service offerings over limited delivery platforms as compared to the wide range of voice, video and data services that will be provided over RCN's fiber-based networks, thereby providing RCN with an opportunity to achieve important market penetration.

With respect to local telephone services, RCN competes with the incumbent LECs, and alternative service providers including CLECs. Commercial mobile radio services providers, including cellular carriers (such as Bell

Atlantic Mobile Services), personal communications services ("PCS") carriers (such as Sprint Spectrum), and enhanced specialized mobile radio services ("ESMRS") providers (such as NextTel), may also become a source of competitive local and long distance telephone service. However, RCN believes these operators may primarily use competitive access services to transport their calls among their radio transmitter/receiver sites through networks that avoid the incumbent LECs with whom they compete.

With respect to long distance telephone services, RCN faces, and expects to continue to face, significant competition from the interexchange carriers ("IXCs"), including AT&T, Sprint and MCI, which account for the majority of all long distance revenue. The major long distance service providers benefit from established market share and from established trade names brought about by nationwide advertising. RCN, however, regards its long-distance service as a complementary service rather than a principal source of revenue. Certain IXCs, including AT&T, MCI and Sprint, have also announced their intention to offer local services in major U.S. markets using their existing infrastructure in combination with resale of incumbent LEC service, lease of unbundled local loops or other providers' services.

All of the Company's video services face competition from alternative methods of receiving and distributing television signals and from other sources of news, information and entertainment such as off-air television broadcast programming, newspapers, movie theaters, live sporting events, interactive online computer services and home video products, including videotape cassette recorders. Among the alternative video distribution technologies are home satellite dish earth stations ("HSDs") which enable individual households to receive many of the satellite-delivered program services formerly available only to cable subscribers. Furthermore, the Cable Television Consumer Protection and Competition Act of 1992 ("1992 Act") contains provisions, which the FCC has implemented with regulations, to enhance the ability of cable competitors to purchase and make available to HSD owners certain satellite-delivered cable programming at competitive costs. RCN faces additional competition from private satellite master antenna television ("SMATV") systems that serve condominiums, apartment and office complexes and private residential developments. The FCC and Congress have adopted policies providing a more favorable operating environment for new and existing technologies that provide, or have the potential to provide, substantial competition to the Company's various video distribution systems. These technologies include, among others, DBS service whereby signals are transmitted by satellite to receiving facilities located on customer premises. The Company expects that its video programming services will face growing competition from current and new DBS service providers. RCN also competes with wireless program distribution services such as multi-channel multipoint distribution service ("MMDS") which use low-power microwave frequencies to transmit video programming over-the-air to subscribers. The Company is unable to predict whether wireless video services will have a material impact on its operations.

Other new technologies, including Internet-based services, may become competitive with services that RCN can offer. Advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring. Thus, it is not possible to predict the effect that ongoing or future developments might have on the video industry or on the operations of the Company.

RCN believes that among the existing competitors, the incumbent LECs, incumbent cable providers and the CLECs provide the most direct competition to RCN in the delivery of "last mile" connections for voice and video services.

Incumbent LECs

In each of its target markets for advanced fiber optic networks, RCN faces, and expects to continue to face, significant competition from the incumbent LECs (including Bell Atlantic in New York City and Boston), which currently dominate their local telephone markets. RCN competes with the incumbent LECs in its markets for local exchange services on the basis of product offerings (including the ability to offer bundled voice and video services), reliability, state-of-the-art technology and superior customer service, as well as price. RCN believes that its advanced fiber optic networks provide superior technology for delivering high-speed, high-capacity voice, video and data services as compared to the primarily copper wire based networks of the incumbent LECs. However, the incumbent LECs have begun to expand the amount of fiber facilities in their networks and to prepare to re-enter the long distance telephone service market and, in addition, have long-standing relationships with their customers.

In addition, under the 1996 Act, and ensuing federal and state regulatory initiatives, barriers to local exchange competition are being removed. The introduction of such competition, however, also establishes the predicate for the incumbent RBOCs, such as Bell Atlantic, to provide in-region interexchange long distance services. The incumbent RBOCs are currently allowed to offer "incidental" long distance service in-region and to offer out-of-region long distance service. Once the incumbent RBOCs are allowed to offer in-region long distance services, they will also be in a position to offer single source local and long distance service similar to that offered by RCN and proposed by the three largest IXCs (AT&T, MCI and Sprint). The Company expects that the increased competition made possible by regulatory reform will result in certain pricing and margin pressures in the telecommunications services business.

RCN has sought, and will continue to seek, to provide a full range of local voice services in competition with incumbent LECs in its service areas. The Company expects that competition for local telephone services will be based primarily on quality, capacity and reliability of network facilities, customer service, response to customer needs, service features and price, and will not be based on any proprietary technology. As a result of the comparatively recent installation of RCN's advanced fiber optic networks, its dual path architecture and the state-of-the-art technology used in its networks, RCN may have capital cost and service quality advantages over some currently available local networks relied upon by the incumbent LECs, as well as the competitive advantage provided by the ability to deliver a bundled voice and video service.

The 1996 Act permits the incumbent LECs and others to provide a wide variety of video services directly to subscribers in competition with RCN. Various LECs currently are providing video services within and outside their telephone service areas through a variety of distribution methods, including both the deployment of broadband wire facilities and the use of wireless transmission facilities. The Company cannot predict the likelihood of success of video service ventures by LECs or the impact on the Company of such competitive ventures.

Incumbent Cable Television Service Providers

Certain of RCN's video service businesses compete with incumbent wireline cable companies in their respective service areas. In particular, RCN's advanced fiber optic networks compete for cable subscribers with the major wireline cable operators in New York City and Boston, primarily Time-Warner Cable in New York City and Cablevision in Boston. RCN's wireless video service in New York City competes primarily with Time-Warner Cable. RCN believes that the expanded capacity and fiber-to-node architecture of its advanced fiber optic networks in New York City and Boston make it better equipped to provide high-capacity communications services than coaxial cable based networks utilizing "tree and branch" architecture. RCN's Pennsylvania hybrid fiber/coaxial cable television system competes with an alternate service provider, Service Electric, which also holds a franchise for the relevant service area.

Since cable television systems generally operate pursuant to franchises granted on a non-exclusive basis, and the 1992 Act prohibits franchising authorities from unreasonably denying requests for additional franchises and permits franchising authorities to operate cable systems, well-financed businesses from outside the cable industry (such as the public utilities that own certain of the poles on which cable is attached) may become competitors for franchises or providers of competing services.

CLECs and Other Competitors

RCN also faces, and expects to continue to face, competition from other potential competitors in certain of the markets in which RCN offers its services. Other CLECs such as Teleport Communications Group, compete for local telephone services, although they have to date focused primarily on the market for commercial customers rather than residential customers. In addition, potential competitors capable of offering private line and special access services also include other smaller long distance carriers, cable television companies, electric utilities, microwave carriers, wireless telephone system operators and private networks built by large end-users, including Winstar, Dualstar and New Vision. However, RCN believes that, at least initially, it is relatively unique in its markets in offering bundled voice, video and data services to customers in residential areas, and in striving to connect residential customers directly to its advanced fiber optic network.

Internet Services

The market for Internet access services is extremely competitive and highly fragmented. No significant barriers to entry exist, and accordingly competition in this market is expected to intensify. The Company competes (or in the future may compete) directly or indirectly with (i) national and regional ISPs; (ii) established online services; (iii) computer software and technology companies; (iv) national telecommunications companies; (v) LECs; (vi) cable operators; and (vii) nonprofit or educational ISPs, and some of these present or potential future competitors have or can be expected to have substantially greater market presence and financial, technical, marketing and other resources than the Company. Certain of the Company's online competitors, including America Online, the Microsoft Network and Prodigy, have introduced unlimited access to the Internet and their proprietary content at flat rates, and certain of the LECs have also introduced competitive flat-rate pricing for unlimited access (without a set-up fee for at least some period of time). Bell Atlantic has recently filed with the Federal Communications Commission (the "FCC") a petition for an exemption from a regulation prohibiting it from building a high-speed network. Bell Atlantic's petition requests that such network, which would serve as an Internet backbone, not be subject to pricing and other regulatory restriction. The network would span the states from Maine to Virginia. There can be no assurance that competition will not lead to pricing pressures in the Internet business.

New Technologies

Other new technologies may become competitive with services that RCN can offer. Cellularvision, a provider of local multipoint distribution service ("LMDS"), recently began offering wireless Internet and video programming services in New York City and has announced plans to offer telephone service in the future. Advances in communications technology as well as changes in the marketplace and the regulatory and legislative environment are constantly occurring. In addition, a continuing trend toward business combinations and alliances in the telecommunications industry may also create significant new competitors to RCN. The Company cannot predict whether competition from such developing and future technologies or from such future competitors will have a material impact on its operations.

REGULATION

The telephone and video programming transmission services offered by the Company are subject to federal, state and local government regulation. The 1996 Act, which became effective in February 1996, introduced widespread changes in the regulation of the communications industry, including the local telephone, long distance telephone, data services, and television entertainment segments in which the Company operates. The 1996 Act was intended to promote competition and decrease regulation of these segments of the industry. The law delegates to both the FCC and the states broad regulatory and administrative authority to implement the 1996 Act.

Telecommunications Act of 1996

The 1996 Act eliminates many of the pre-existing legal barriers to competition in the telephone and video programming communications businesses, preempts many of the state barriers to local telephone service competition that previously existed in state and local laws and regulations, and sets basic standards for relationships between telecommunications providers.

Among other things, the 1996 Act removes barriers to entry in the local exchange telephone market by preempting state and local laws that restrict competition and by requiring LECs to provide nondiscriminatory access and interconnection to potential competitors, such as cable operators, wireless telecommunications providers, and long distance companies. In addition, the 1996 Act provides relief from the earnings restrictions and price controls that have governed the local telephone business for many years. The 1996 Act will also, once certain thresholds are met, allow incumbent RBOCs to enter the long distance market within their own local service regions.

Regulations promulgated by the FCC under the 1996 Act require LECs to open their telephone networks to competition by providing competitors interconnection, access to unbundled network elements and retail services at wholesale rates. As a result of these changes, companies such as RCN are now able to interconnect with the incumbent LECs in order to provide local exchange services. Numerous parties appealed certain aspects of these

regulations, and the appeals were consolidated in the United States Court of Appeals for the Eighth Circuit. On July 18, 1997, the Eighth Circuit found constitutional challenges to certain practices implementing cost provisions of the Telecommunications Act that were ordered by certain state PUCs to be premature; vacated significant portions of the FCC's nationwide pricing rules; and confined the use of combined unbundled network elements to instances where the requesting carrier itself would do the combining. On October 14, 1997, the Eighth Circuit issued a decision vacating additional FCC rules that will likely have the effect of increasing the cost of obtaining the use of combinations of an incumbent LEC's unbundled network elements. On January 26, 1998, the Supreme Court granted a writ of certiorari under which it will review the July 18 Eighth Circuit decision; it is expected (but not yet certain) that the Court will hear arguments on this case in the fall of 1998. The Eighth Circuit decisions create uncertainty about the rules governing pricing and terms and conditions of interconnection agreements, and could make negotiating and enforcing such agreements more difficult and protracted and may require renegotiation of existing agreements. Prior to the Eighth Circuit decisions, the Company had entered into interconnection agreements with Bell Atlantic, covering all of its target market area, that are generally consistent with the FCC guidelines, and those agreements remain in effect notwithstanding the reversal of the FCC rules. There can be no assurance, however, that the Company will be able to obtain or enforce future interconnection agreements, or obtain renewal of existing agreements, on terms acceptable to the Company.

Certain Bell Operating Companies ("BOCs") have also raised constitutional challenges to restrictions in the 1996 Act preventing BOCs from entering the long distance market in their home region. On December 31, 1997, the U.S. District Court for the Northern District of Texas issued a decision (the "SBC Decision") finding that Sections 271 to 275 of the 1996 Act are unconstitutional. *SBC Communications, Inc., et al. v. Federal Communications Commission, et al.*, Civil Action No. 7:97-CV-163-X. These sections of the Act impose restrictions on the lines of business in which the RBOCs may engage, including establishing the conditions they must satisfy before they may provide in-region interLATA telecommunications services. The District Court has stayed the SBC Decision pending appeal. If the stay is lifted, the RBOCs (including Bell Atlantic, which was permitted to intervene in the case) would be able to provide interLATA services immediately without satisfying the statutory conditions. Although the Company believes the factual assumptions and legal reasoning in the SBC Decision are erroneous and therefore the decision will likely be reversed on appeal, there can be no assurance of this outcome. If the SBC Decision were upheld on appeal it may have an unfavorable effect on the Company's business for at least two reasons. First, RBOCs currently have an incentive to foster competition within their service areas so that they can qualify to offer interLATA services. The SBC Decision removes this incentive by allowing RBOCs to offer interLATA service without regard to their progress in opening their local markets to competition. However, the SBC Decision would not affect other provisions of the Act which create legal obligations for all ILECs to offer interconnection and network access, and therefore will not impair the Company's ability to compete in local exchange markets. Second, the Company is legally able to offer its customers both long distance and local exchange services, which the RBOCs currently may not do. This ability to offer "one-stop shopping" gives the Company a marketing advantage that it would no longer enjoy if the SBC Decision were upheld on appeal. The Company cannot predict either the outcome of these or future challenges to the 1996 Act, any related appeal of regulation or court decision, or the eventual effect on its business or the industry in general.

The 1996 Act also makes far-reaching changes in the regulation of the video programming transmission services offered by RCN, including changes to the regulations applicable to video operators, the elimination of restrictions on telephone company entry into the video business, and the establishment of a new OVS regulatory structure for telephone companies and others to offer such services. Under the 1996 Act, local telephone companies, including both incumbent LECs such as Bell Atlantic, and CLECs such as RCN, may provide service as traditional cable television operators subject to municipal cable television franchises, or they may opt to provide their programming over non-franchised open video systems subject to certain conditions, including, but not limited to, making available a portion of their channel capacity for use by unaffiliated program distributors and satisfying certain other requirements, including providing capacity for public, educational and government channels, and payment of a gross receipts fee equivalent to the franchise fee paid by the incumbent cable television operator. RCN is one of the first CLECs to provide television programming over an advanced fiber optic network pursuant to the OVS regulations implemented by the FCC under the 1996 Act. As discussed below, RCN is currently providing OVS service in the City of Boston, in the City of New York and in a number of communities surrounding Boston. Starpower is negotiating similar agreements in Washington and surrounding communities.

Regulation of Voice Services

RCN's voice business is subject to regulation by the FCC at the federal level with respect to interstate telephone services (i.e., those that originate in one state and terminate in a different state). State regulatory commissions have jurisdiction over intrastate communications (i.e., those that originate and terminate in the same state).

State Regulation of Intrastate Local and Long Distance Telephone Services. RCN's intrastate telephone services in Boston, New York City, and the Lehigh Valley are (and Starpower's similar services in the Washington area will be) regulated by the public service commissions or comparable agencies of the various states in which these services are offered. RCN subsidiaries have received either permanent or interim authority to offer intrastate telephone services, including local exchange service, in Massachusetts, New York, Pennsylvania, Maryland, the District of Columbia, and Virginia (as well as in some neighboring jurisdictions where the Company does not currently operate but may expand in the future). Starpower has filed separately applications for similar authority in Maryland, the District of Columbia, and Virginia. Starpower's application in Maryland has been granted. RCN's resale agreements with Bell Atlantic have been approved, pursuant to Section 252 of the Communications Act, by state regulatory commissions in Delaware, the District of Columbia, Maine, Maryland, Massachusetts, New York, New Jersey, New Hampshire, Pennsylvania, Rhode Island, Vermont, and Virginia.

RCN Long Distance Company is authorized to offer intrastate long distance services in Pennsylvania, New York and Massachusetts and, in addition, has received state regulatory authority to offer such services in 45 other states nationwide. Pursuant to such authorizations, RCN Long Distance Company is permitted to resell intrastate long distance services both to other carriers, including RCN's local operating subsidiaries and Starpower for resale to their end user subscribers, and to its own end user customers.

FCC Regulation of Interstate and International Telephone Services. RCN, through several of its subsidiaries, including RCN Long Distance Company, may also provide domestic interstate telephone services nationwide pursuant to tariffs on file at the FCC, and has been authorized by the FCC under Section 214 of the 1996 Act to offer worldwide international services as well. RCN is authorized to resell in-state long-distance services in 48 states (all except Alaska and Hawaii), and, where required, has registered with or obtained licenses or certificates from state regulatory agencies for the provision of this service.

Local Regulation of Telephone Services. Municipalities also regulate limited aspects of RCN's voice business by, for example, imposing various zoning requirements and, in some instances, requiring telecommunications licenses, franchise agreements and/or installation permits for access to local streets and rights-of-way. In New York City, for example, RCN will be required to obtain a telephone franchise in order to provide voice services using its advanced fiber optic network facilities located in the streets of New York City (although services may be provided over certain leased or resold facilities pending receipt of a franchise).

Regulation of Video Services

Open Video Systems. In February 1997, RCN subsidiaries were certified to operate OVS networks in the five boroughs of New York City and, as part of the BECO joint venture, in Boston and 47 surrounding communities. Initiation of OVS services is subject to completion of an open enrollment period for non-affiliated video programmers to seek capacity on the systems and upon negotiation of certain agreements with local governments. The initial open enrollment period for both the New York City and Boston area systems has expired. RCN executed an agreement with the City of Boston on June 2, 1997, and initiated OVS service in the City on that day. Pursuant to its agreement with the City of Boston, RCN will be required to pay a fee to the City equal to 5% of video revenues. RCN has entered into similar OVS agreements or is in the process of negotiating agreements with certain other Boston-area municipalities, either to offer OVS services or franchised cable television services. RCN executed an agreement with the City of New York on December 29, 1997, and has initiated OVS service in the Borough of Manhattan pursuant to that agreement.

In areas where it offers video programming services as an OVS operator, RCN is required to hold a 90-day open enrollment period every three years, during which times RCN will be required to offer capacity on its network to other VPPs. Under the OVS regulations, RCN must offer at least two-thirds of its capacity to unaffiliated parties, if demand for such capacity exists during the open enrollment period. In certain areas, RCN is in discussions with local municipal authorities to explore the feasibility of obtaining a cable franchise in lieu of an OVS agreement, and will consider providing RCN video service pursuant to franchise agreements rather than OVS certification, if franchise agreements can be obtained on terms and conditions acceptable to RCN. However, RCN will consider the relative benefits of OVS certification versus local franchise agreements, including the possible imposition of universal service requirements, before making any such decisions. In addition, the current FCC rules concerning OVS are subject to appeal in the United States Court of Appeals and, to the extent that certain favorable aspects of the FCC's rules are overturned on appeal, the determination of whether to operate as an OVS provider versus as a franchised cable television operator may be affected. Moreover, the incumbent cable television provider in Boston, Cablevision Systems, has requested that the FCC permit it to obtain capacity on RCN's Boston area OVS network, and Time Warner, the incumbent cable television provider in certain communities in the Boston area, has made a similar filing at the FCC with respect to its request for capacity on the Boston OVS network. RCN will continue to oppose these requests, but to the extent that the FCC were to grant any such request(s), such a result would likely affect the Company's determination as to whether to operate as an OVS provider versus as a franchised cable television operator.

Prior to its certification as an OVS provider, RCN offered limited video programming services using the video dial tone ("VDT") services offered by MFS/WorldCom in Manhattan and the City of Boston. In February 1997, the FCC held that MFS/WorldCom's facilities did not qualify as video dialtone facilities entitled to an extension of time to comply with the newly adopted OVS rules; nonetheless, the FCC did not direct MFS/WorldCom and RCN to cease video programming distribution operations over the MFS/WorldCom platform. One of the incumbent cable television companies in New York City has filed a complaint with the New York Public Service Commission challenging the former (pre-OVS) operations of RCN and WorldCom under the VDT framework, which remains pending before that Commission.

Wireless Video Services. RCN's 18 GHz wireless video services in New York City are distributed using microwave facilities provided by Bartholdi Cable pursuant to temporary authorizations issued to Bartholdi Cable by the FCC. Bartholdi Cable has agreed to provide transmission services to RCN until RCN has either converted the wireless video subscribers to its advanced fiber optic network facilities or has obtained FCC authority to provide such services pursuant to its own wireless radio licenses. In addition, Bartholdi Cable has agreed to transfer to RCN the transmission equipment on demand. Bartholdi Cable's obligation to provide transmission services is subject to

Bartholdi Cable having licenses from the FCC to provide such services. The qualifications of Bartholdi Cable to hold certain of the licenses needed to provide transmission services to RCN are at issue in an FCC proceeding in which an Initial Decision was released on March 6, 1998. In the Initial Decision, the Administrative Law Judge found Bartholdi unqualified with respect to 15 such licenses. The Initial Decision will become effective 50 days after its release unless Bartholdi, as expected, files exceptions to the Initial Decision within 30 days of its release or the Commission elects to review the case on its own motion. Because of the uncertainty as to Bartholdi Cable's right in the future to offer transmission services to RCN, the Company filed its own license applications at the FCC for all of the microwave transmission paths which are currently being used by Bartholdi Cable to provide transmission services to RCN and, in light of the increased uncertainties resulting from the Initial Decision in the FCC proceeding involving certain of Bartholdi's licenses, the Company expects now actively to pursue its license applications. While the Company expects to receive authorizations to transmit over these microwave paths, there can be no assurance that RCN will be able to offer wireless video services pursuant to its own FCC licenses or that the FCC's investigation will be resolved favorably. The failure to obtain such license or resolve such proceedings would materially adversely affect the Company's wireless video operations in New York City.

There can be no assurance that RCN will be able to obtain or retain all necessary authorizations needed to construct advanced fiber optic network facilities, to convert its wireless video subscribers to an advanced fiber optic network or to offer wireless video services pursuant to its own FCC licenses.

Hybrid Fiber/Coaxial Cable. RCN's hybrid fiber/coaxial cable systems are subject to regulation under the Cable Television Consumer Protection and Competition Act of 1992, as amended (the "1992 Act"), which provides, among other things, for rate regulation for cable services in communities that are not subject to "effective competition," certain programming requirements, and broadcast signal carriage requirements that allow local commercial television broadcast stations to require a cable system to carry the station. Local commercial television broadcast stations may elect once every three years to require a cable system to carry the station ("must-carry"), subject to certain exceptions, or to withhold consent and negotiate the terms of carriage ("retransmission consent"). A cable system generally is required to devote up to one-third of its activated channel capacity for the carriage of local commercial television stations whether pursuant to the mandatory carriage or retransmission consent requirements of the 1992 Act. Local non-commercial television stations are also given mandatory carriage rights. The FCC recently issued rules establishing standards for digital television ("DTV"). Among other provisions, the FCC's rules require television stations to simulcast their NTSC and DTV signals for a period of years. During this simulcast period, it is unclear whether must-carry rules will apply to DTV signals. The Communications Act permits franchising authorities to require cable operators to set aside certain channels for public, educational and governmental access programming. Cable systems with 36 or more channels must designate a portion of their channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator.

On September 8, 1997, the Company was notified by the FCC that it has ruled that certain of the Company's upper levels of service for its New Jersey systems are regulated levels of service and that the Company's rates for such levels of service have exceeded the allowable rates under the FCC rate regulation rules which have been effective since September 1993. The Company had treated these levels of service as unregulated. The Company intends to contest this decision. The Company does not believe that the ultimate resolution of this matter will have a material impact on its results of operations or financial condition.

Because a cable communications system uses local streets and rights-of-way, such cable systems are generally subject to state and local regulation, typically imposed through the franchising process. The terms and conditions of state or local government franchises vary materially from jurisdiction to jurisdiction and generally contain provisions governing cable service rates, franchise fees, franchise term, system construction and maintenance obligations, customer service standards, franchise renewal, sale or transfer of the franchise, territory of the franchisee and use and occupancy of public streets and types of cable services provided. Local franchising authorities (state or local, depending on the practice in individual states) may award one or more franchises within their jurisdictions and prohibit non-grandfathered cable systems from operating without a franchise in such jurisdictions. The Communications Act also provides that in granting or renewing franchises, local authorities may establish requirements for cable-related facilities and equipment, but not for video programming or information services other than in broad categories. The Communications Act limits the payment of franchise fees to \$1

of revenues derived from cable operations and permits the cable operator to obtain modification of franchise requirements by the franchise authority or judicial action if warranted by changed circumstances.

RCN's ability to provide franchised cable television services is dependent to a large extent on its ability to obtain and renew its franchise agreements from local government authorities on generally acceptable terms. RCN currently has 91 franchise agreements relating to the hybrid fiber/coaxial cable systems in New York (outside New York City), New Jersey and Pennsylvania. These franchises typically contain many conditions, such as time limitations on commencement and completion of construction, conditions of service, including the number of channels, the provision of free service to schools and certain other public institutions, and the maintenance of insurance and indemnity bonds. These franchises provide for the payment of fees to the issuing authorities and generally range from 3% to 5% of revenues. The duration of these outstanding franchises presently varies up to the year 2011. To date, all of RCN's cable franchises have been renewed or extended, generally at or prior to their stated expirations and on acceptable terms. Approximately 39 of RCN's hybrid fiber/coaxial cable systems' franchises are due for renewal within the next three years. No assurance can be given that RCN will be able to renew its franchises on acceptable terms. No one franchise accounts for more than 7% of RCN's total revenue. RCN's five largest franchises account for approximately 27% of RCN's total revenue.

The hybrid fiber/coaxial cable systems are also subject to certain service quality standards and other obligations imposed by the FCC and, where effective competition has not been demonstrated to exist, to rate regulation by the FCC as well. RCN's cable television system in Pennsylvania has been operating in a competitive cable environment for almost 30 years, with approximately 80% of the homes passed having access to an alternate cable operator, Service Electric Cable TV. As a result, the Company's Pennsylvania cable system is exempt from many FCC cable television regulations, including rate regulation. Its other cable television systems in New York State and New Jersey currently remain subject to FCC rate regulation. With the passage of the 1996 Act, however, all cable systems rates will be deregulated as effective competition is shown to exist in the franchise area, or by March 31, 1999, whichever date is sooner. RCN anticipates that the remaining provisions of the 1992 Act that do not relate to rate regulation, such as the provisions relating to retransmission consent and customer service standards, will remain in place and may serve to reduce the future operating margins of RCN's hybrid fiber/coaxial cable television businesses as video programming competition develops in its cable television service markets.

The Communications Act requires the FCC to regulate the rates, terms and conditions imposed by public utilities for cable systems' use of utility pole and conduit space unless state authorities can demonstrate that they adequately regulate pole attachment rates. In the absence of state regulation, the FCC administers pole attachment rates on a formula basis. In some cases, utility companies have increased pole attachment fees for cable systems that have installed fiber optic cables and that are using such cables for the distribution of non-video services. The FCC concluded that, in the absence of state regulation, it has jurisdiction to determine whether utility companies have justified their demand for additional rental fees and that the Communications Act does not permit disparate rates based on the type of service provided over the equipment attached to the utility's pole. The 1996 Act and the FCC's implementing regulations modify the current pole attachment provisions of the Communications Act by immediately permitting certain providers of telecommunications services to rely upon the protections of the current law and by requiring that utilities provide cable systems and telecommunications carriers with nondiscriminatory access to any pole, conduit or right-of-way controlled by the utility. The FCC has recently adopted new regulations to govern the charges for pole attachments used by companies provided telecommunications services, including cable operators. These new pole attachment rate regulations will become effective five years after enactment of the 1996 Act, and any increase in attachment rates resulting from the FCC's new regulations will be phased in equal annual increments over a period of five years beginning on the effective date of the new FCC regulations. The ultimate outcome of these rulemakings and the ultimate impact of any revised FCC rate formula or of any new pole attachment rate regulations on the Company or its businesses cannot be determined at this time.

The 1992 Act, the 1996 Act and FCC regulations preclude any satellite video programmer affiliated with a cable company, or with a common carrier providing video programming directly to its subscribers, from favoring an affiliated company over competitors and require such programmers to sell their programming to other multichannel video distributors. These provisions limit the ability of program suppliers affiliated with cable companies or with common carriers providing satellite delivered video programming directly to their subscribers to offer exclusive programming arrangements to their affiliates. The Communications Act also includes provisions, among others,

concerning horizontal and vertical ownership of cable systems, customer service, subscriber privacy, marketing practices, equal employment opportunity, obscene or indecent programming, regulation of technical standards and equipment compatibility.

In addition to the FCC regulations noted above, there are other FCC regulations covering such areas as equal employment opportunity, syndicated program exclusivity, network program non-duplication, registration of cable systems, maintenance of various records and public inspection files, microwave frequency usage, lockbox availability, sponsorship identification, antenna structure notification, tower marking and lighting, carriage of local sports broadcast programming, application of rules governing political broadcasts, limitations on advertising contained in non-broadcast children's programming, consumer protection and customer service, ownership of home wiring, indecent programming, programmer access to cable systems, programming agreements, technical standards, consumer electronics equipment compatibility and closed captioning. The FCC has the authority to enforce its regulations through the imposition of substantial fines, the issuance of cease and desist orders and/or the imposition of other administrative sanctions, such as the revocation of FCC licenses needed to operate certain transmission facilities often used in connection with cable operations.

Other bills and administrative proposals pertaining to cable television have previously been introduced in Congress or considered by other governmental bodies over the past several years. It is probable that there will be legislative proposals in the future by Congress and other governmental bodies relating to the regulation of communications services.

Cable television systems are subject to federal compulsory copyright licensing covering the retransmission of television and radio broadcast signals. In exchange for filing certain reports and contributing a percentage of their basic revenues to a federal copyright royalty pool, cable operators can obtain blanket licenses to retransmit the copyrighted material on broadcast signals.

The data services business, including Internet access, is largely unregulated at this time (apart from federal, state, and local laws and regulations applicable to businesses in general). However, there can be no assurance that this business will not become subject to regulatory restraints. Some jurisdictions have sought to impose taxes and other burdens on providers of data services, and to regulate content provided via the Internet and other information services. RCN expects that proposals of this nature will continue to be debated in Congress and state legislatures in the future. In addition, although the FCC has on several occasions rejected proposals to impose additional costs on providers of Internet access service and other data services to the extent they use local exchange telephone network facilities for access to their customers, similar proposals may well be considered by the FCC or Congress in the future.

The foregoing does not purport to describe all present and proposed federal, state, and local regulations and legislation affecting the telephone, video programming and internet access industries. Other existing federal regulations, copyright licensing, and, in many jurisdictions, state and local franchise requirements, are currently the subject of judicial proceedings, legislative hearings and administrative proposals which could change, in varying degrees, the manner in which communications companies operate. The ultimate outcome of these proceedings, and the ultimate impact of the 1996 Act or any final regulations adopted pursuant to the new law on RCN or its businesses cannot be determined at this time.

RELATIONSHIP AMONG RCN, CTE AND CABLE MICHIGAN

The Distribution Agreement defines certain aspects of the relationship among CTE, RCN and Cable Michigan and provides for the allocation of certain assets and liabilities among CTE, RCN and Cable Michigan. CTE, RCN and Cable Michigan have also entered into a Tax Sharing Agreement dated as of September 5, 1997 (the "Tax Sharing Agreement") to define certain aspects of their relationship with respect to taxes and to provide for the allocation of tax assets and liabilities.

Indemnification

RCN, CTE and Cable Michigan have agreed to indemnify one another against certain liabilities. RCN has agreed to indemnify CTE and its subsidiaries at the time of the Distribution (collectively, the "CTE Group") and the respective directors, officers, employees and affiliates of each person in the CTE Group (collectively, the "CTE Indemnitees") and Cable Michigan and its subsidiaries at the time of the Distribution (collectively, the "Cable Michigan Group") and the respective directors, officers, employees and affiliates of each person in the Cable Michigan Group (collectively, the "Cable Michigan Indemnitees") from and against any and all damage, loss, liability and expense ("Losses") incurred or suffered by any of the CTE Indemnitees or the Cable Michigan Indemnitees, respectively, (i) arising out of, or due to the failure of RCN or any of its subsidiaries at the time of the Distribution (collectively, the "RCN Group") to pay, perform or otherwise discharge any of the RCN Liabilities (as defined below), (ii) arising out of the breach by any member of the RCN Group of any obligation under the Distribution Agreement or any of the other Distribution Documents and (iii) in the case of the CTE Indemnitees, arising out of the provision by the CTE Group of the services described below to the RCN Group except to the extent that such Losses result from the gross negligence or willful misconduct of a CTE Indemnitee. "RCN Liabilities" refers to (i) all liabilities of the RCN Group under the Distribution Agreement or any of the other Distribution Documents, (ii) all other liabilities of RCN, CTE or Cable Michigan (or their respective subsidiaries), except as specifically provided in the Distribution Agreement or any of the other Distribution Documents and whether arising before, on or after the Distribution Date, to the extent such liabilities arise primarily from or relate primarily to the management or conduct of the RCN Businesses prior to the effective time of the Distribution (the liabilities in clauses (i) and (ii) collectively, the "True RCN Liabilities") and (iii) 30% of the Shared Liabilities (as defined below).

Cable Michigan has agreed to indemnify the RCN Group and the respective directors, officers, employees and affiliates of each person in the RCN Group (collectively, the "RCN Indemnitees") and the CTE Indemnitees from and against any and all Losses incurred or suffered by any of the RCN Indemnitees or the CTE Indemnitees, respectively, (i) arising out of, or due to the failure of any person in the Cable Michigan Group to pay, perform or otherwise discharge any of the Cable Michigan Liabilities (as defined below), (ii) arising out of the breach by any member of the Cable Michigan Group of any obligation under the Distribution Agreement or any of the other Distribution Documents, (iii) in the case of the CTE Indemnitees, arising out of the provision by the CTE Group of services to the Cable Michigan Group except to the extent that such Losses result from the gross negligence or willful misconduct of a CTE Indemnitee and (iv) in the case of the RCN Indemnitees, arising out of the provision by RCN of the services described below to the Cable Michigan Group except to the extent that such Losses result from the gross negligence or willful misconduct of an RCN Indemnitee. "Cable Michigan Liabilities" refers to (i) all liabilities of the Cable Michigan Group under the Distribution Agreement or any of the other Distribution Documents, (ii) all other liabilities of the Cable Michigan, RCN or CTE (or their respective subsidiaries), except as specifically provided in the Distribution Agreement or any of the other Distribution Documents and whether arising before, on or after the Distribution Date, to the extent such liabilities arise primarily from or relate primarily to the management or conduct of the business of the Cable Michigan Group prior to the effective time of the Distribution (the liabilities in clauses (i) and (ii) collectively, the "True Cable Michigan Liabilities") and (iii) 20% of the Shared Liabilities (as defined below).

CTE has agreed to indemnify the Cable Michigan Indemnitees and the RCN Indemnitees from and against any and all Losses incurred or suffered by any of the Cable Michigan Indemnitees or the RCN Indemnitees, respectively, (i) arising out of, or due to the failure of any person in the CTE Group to pay, perform or otherwise discharge any of the CTE Liabilities (as defined below), (ii) arising out of the breach by any member of the CTE Group of any obligation under the Distribution Agreement or any of the other Distribution Documents and (iii) in the case of the RCN Indemnitees, arising out of the provision by RCN of the services described below to the CTE Group except to the extent that such Losses result from the gross negligence or willful misconduct of an RCN Indemnitee. "CTE Liabilities" refers to (i) all liabilities of the CTE Group under the Distribution Agreement or any of the other Distribution Documents, (ii) all other liabilities of Cable Michigan, RCN or CTE (or their respective subsidiaries), except as specifically provided in the Distribution Agreement or any of the other Distribution Documents and whether arising before, on or after the Distribution Date, to the extent such liabilities arise primarily from or relate primarily to the management or conduct of the business of the CTE Group prior to the effective time

of the Distribution (the liabilities in clauses (i) and (ii) collectively, the "True CTE Liabilities") and (iii) 50% of the Shared Liabilities (as defined below).

"Shared Liability" means any liability (whether arising before, on or after the Distribution Date) of CTE, RCN or Cable Michigan or their respective subsidiaries which (i) (a) arises from the conduct of the corporate overhead function with respect to CTE and its subsidiaries prior to the effective time of the Distribution with certain exceptions or (b) is one of certain fees and expenses incurred in connection with the Restructuring and (ii) is not a True CTE Liability, a True RCN Liability or a True Cable Michigan Liability.

RCN, Cable Michigan and CTE have also generally agreed to indemnify each other and each other's affiliates and controlling persons from certain liabilities under the securities laws in connection with certain information provided to shareholders in connection with the Distribution.

The Distribution Agreement also includes procedures for notice and payment of indemnification claims and provides that the indemnifying party may assume the defense of claims or suits brought by third parties for non-Shared Liabilities and may participate in the defense of claims or suits brought by third parties for Shared Liabilities. RCN is entitled to assume the defense of claims or suits brought by third parties for Shared Liabilities. Any indemnification paid under the foregoing indemnities is to be paid net of the amount of any insurance or other amounts that would be payable by any third party to the indemnified party in the absence of such indemnity.

The Company does not believe that any of the foregoing indemnities will have a material adverse effect on the business, financial condition or results of operations of the Company.

Employee Matters

Under the Distribution Agreement, RCN, Cable Michigan and CTE agreed generally to assume employee benefits-related liabilities with respect to its current and, in some cases, former employees. Each of RCN, Cable Michigan and CTE also agreed to an allocation of employee-related liabilities arising out of certain shared operations prior to the Distribution on the same basis as Shared Liabilities are allocated.

Services and Other Arrangements

RCN has agreed to provide or cause to be provided to the CTE Group the following services: (i) accounting, (ii) payroll, (iii) management supervision, (iv) cash management, (v) human resources and benefit plan administration, (vi) insurance administration, (vii) legal, (viii) tax, (ix) internal audit, (x) investor and public relations and (xi) other miscellaneous administrative services. The fee per year for these services will be 3.5% of the first \$175 million of revenue of the CTE Group and 1.75% of any additional revenue.

RCN has also agreed to provide or cause to be provided to the Cable Michigan Group certain specified services for a transitional period after the Distribution. The transitional services to be provided are the following: (i) customer service, (ii) marketing, (iii) accounting, (iv) payroll, (v) management supervision, (vi) cash management, (vii) human resources and benefit plan administration, (viii) insurance administration, (ix) legal, (x) tax, (xi) internal audit, (xii) programming administration, (xiii) billing, (xiv) monthly cable guides, (xv) investor and public relations, (xvi) provision of third party programming, and (xvii) other miscellaneous administrative services. Subject to certain limitations, the fee per year for services listed in items (ii)-(xiii), (xv) and (xvii) will be 4.0% of the revenues of the Cable Michigan Group plus a direct allocation of certain consolidated cable administration functions. The fee for customer service listed in item (i) along with the billing service listed in item (xiii) will be a pro rata share (based on the relative number of subscribers) of the fees and expenses incurred by RCN to provide such customer billing services and fees to the RCN Group and the Cable Michigan Group. The third party expense incurred by RCN to obtain third party programming and monthly cable guides for Cable Michigan referred to in items (xiv) and (xvi) above, are reimbursed to RCN by Cable Michigan and no additional fee is charged with respect thereto.

CTE has agreed to provide or cause to be provided to the RCN Group and the Cable Michigan Group financial data processing applications, lockbox services, storage facilities, LAN and WAN support services, building maintenance and other miscellaneous administrative services for a transitional period after the Distribution. The

fees for such services and arrangements will be an allocated portion (based on relative usage) of the cost incurred by CTE to provide such services and arrangements to all three groups.

The services will terminate upon 60 days notice by either the service provider or the relevant service recipient, except that the billing, customer service, programming administration and provision of third party programming services provided by RCN to Cable Michigan may not be terminated by RCN on less than one year advance notice to Cable Michigan. A service recipient may also terminate individual services by giving 60 days notice to the applicable service provider.

The aforementioned arrangements are not the result of arm's length negotiation between unrelated parties as Cable Michigan, CTE and RCN have certain common officers and directors. Although the transitional service arrangements in such agreements are designed to reflect arrangements that would have been agreed upon by parties negotiating at arm's length, there can be no assurance that Cable Michigan would not be able to obtain similar services at a lower cost from unrelated third parties. Additional or modified agreements, arrangements and transactions may be entered into between the Cable Michigan and either or both of CTE and RCN after the Distribution, which will be negotiated at arm's length.

Miscellaneous

The Distribution Agreement also contains provisions concerning access to information and records and rights to technology, software, intellectual property, know-how or other proprietary rights owned, licensed or held for use by the respective Groups. The Distribution Agreement provides that any dispute arising out of or in connection with the Distribution Agreement will be submitted to arbitration in accordance with the procedures described in the Agreement.

There exist relationships among CTE, RCN and Cable Michigan that may lead to conflicts of interest. Each of CTE, RCN and Cable Michigan is effectively controlled by Kiewit Telecom. In addition, the majority of the Company's named executive officers will also be acting as directors and/or executive officers of one or more group companies. See "Item 10: Directors and Executive Officers of the Registrant." The success of the Company may be affected by the degree of involvement of its officers and directors in the Company's business and the abilities of the Company's officers, directors and employees in managing both the Company and the operations of other group companies. Potential conflicts of interest will be dealt with on a case-by-case basis taking into consideration relevant factors including the requirements of NASDAQ and prevailing corporate practices.

Tax Sharing Agreement

The Tax Sharing Agreement governs contingent tax liabilities and benefits, tax contests and other tax matters with respect to tax returns filed with respect to tax periods, in the case of Cable Michigan, ending or deemed to end on or before the Distribution Date. Under the Tax Sharing Agreement, Adjustments (as defined in the Tax Sharing Agreement) to taxes that are clearly attributable to the Cable Michigan Group, the RCN Group, or the CTE Group will be allocated solely to such group. Adjustments to all other tax liabilities will generally be allocated 50% to CTE, 20% to Cable Michigan and 30% to RCN.

EMPLOYEES

As of December 31, 1997, the Company had 1,150 full-time employees including general office and administrative personnel. The Company considers relations with its employees to be good.

INDUSTRY SEGMENTS

Financial information regarding the Registrant's industry segments is set forth in Note 2 to the consolidated financial statements included herein.

ITEM 2. PROPERTIES

Overview of Advanced Fiber Optic Networks

RCN's advanced fiber optic networks in Boston and New York City are, and RCN expects that its future networks will be, designed to support voice, video and data services via a switched, fiber-rich network architecture. The Company's full service advanced fiber optic networks in Boston and New York City consist of owned or leased fiber optic cables, local and long distance digital switches, video headends, video and voice transmission and distribution equipment and associated wiring and network termination equipment. The Company's local telephone switching network (consisting of Lucent 5ESS-2000 switches) is installed and fully operational in Boston and in New York City. The networks' leased fiber optic cables make up the fiber backbone, which acts as the common signal transport medium for both digital signals (voice and data) and analog signals (video). In both New York City and Boston, the digital backbone transmission network utilizes synchronous optical network ("SONET") self-healing rings that provide high speed, redundant connections for the delivery of RCN's voice and data services. Facility connections from the backbone network to individual buildings or service areas are provided by either leased facilities provided by MFS/WorldCom, BECO or the incumbent LEC, or through RCN-owned fiber. This fiber backbone includes over 5,267 fiber miles in New York City and over 9,347 fiber miles in Boston. RCN owns two switches (one in Boston and one in New York City) and two General Instrument video headends that are installed and in service in both Boston and New York City. As of December 31, 1997, RCN had connected 493 buildings (424 in NYC and 69 in Boston) to its facilities.

Fiber optic systems are suitable for transmission of digitized voice, data, video or a combination of these types of information. The main benefits of deploying fiber in place of traditional coaxial cable or copper wire result from its greater capacity, increased functionality, smaller size and decreased requirements for periodic amplification of the signal. These factors contribute to lower installation and maintenance costs and increase the variety and quality of the service offerings. The inherent bandwidth limitations of twisted pair copper wire historically used in telephone networks present a substantial obstacle to the use of existing telephone networks to provide video programming services. Although coaxial cable provides substantially greater bandwidth than twisted pair copper wire, fiber optic cable provides substantially greater bandwidth than coaxial cable. Consequently, newly constructed fiber networks such as RCN's provide a superior platform for delivering high speed, high capacity voice, video and data services as compared to systems based on copper wire or coaxial cable networks.

The fiber cable utilized by RCN's networks has the increased capacity and bandwidth necessary for complex data and video transmission. The fiber optic cable typically contains between 12 and 288 fiber strands, each of which is capable of providing many telecommunications channels or "circuits". Depending on transmission electronics, a single pair of glass fibers on RCN's networks currently can transmit tens of thousands of simultaneous voice conversations, whereas even with multiplexing equipment a typical pair of copper wires can carry a maximum of 24 simultaneous conversations. Although the LECs commonly use copper wire in their networks, they are currently deploying fiber optic cable to upgrade portions of their copper based network, particularly in areas served by RCN. RCN expects that continuing development in communications equipment will increase the capacity of each optical fiber, thereby providing even more capacity at relatively low incremental cost.

As the Company's network is further developed, it will be dependent on certain strategic alliances and other arrangements in order to provide the full range of its telecommunication service offerings. These relationships include RCN's arrangements with MFS/WorldCom to lease portions of MFS/WorldCom's fiber optic network in

New York City and Boston, RCN's joint venture with BECO under which the Company has access to BECO's extensive fiber optic network in Greater Boston, the Starpower joint venture with Pepco Communications, a subsidiary of PEPCO, and RCN's arrangements to lease Bell Atlantic unbundled local loop and T-1 facilities. See "Strategic Relationships" and "Voice Services Advanced Fiber Optic Networks." Any disruption of these arrangements and relationships could have a material adverse effect on the Company.

Voice Services

Advanced Fiber Optic Networks. The Company's advanced fiber optic networks in New York City and Boston utilize a voice network that supports both switched and non-switched (private line) services. Individual buildings are connected to the network backbone via fiber extensions that are generally terminated on SONET equipment, which provide redundant and fail-safe interconnection between the building and the RCN central office or switch location. In situations where fiber extensions are not yet available, interim facility connections can be provided by leasing special access facilities through a leasing arrangement with MFS/WorldCom or the incumbent LEC. In this regard, RCN has in place arrangements which allow it to lease certain facilities owned by the incumbent LECs (unbundled local loops and T-1 facilities) to provide voice services. This enables RCN to provide voice and data services to off-net subscribers who are not physically connected to RCN's advanced fiber optic network. As RCN's network expands to reach more areas within a target market, subscribers served by these temporary connections will be migrated to RCN's advanced fiber optic network. Within a building (or small grouping of buildings) a voice service hub is established by installing an Integrated Digital Loop Carrier ("IDLC") device, which acts as the point of interface between the SONET backbone facility and the intra-building wiring. Each IDLC is installed with a standby power system and is capable of serving up to 672 lines. The IDLC is capable of supporting a wide range of both non-switched services (DS-1, digital data) and switched voice services and features including ISDN, Custom Calling and CLASS features. Within each building, internal wiring (twisted pair copper cable) connects the IDLC to the customer premises and the customer-owned telephone equipment. In certain instances, voice service is extended to other buildings in the building group or cluster via either fiber optic cable or twisted pair copper cable. At the time of initial wiring, RCN generally installs wiring in excess of its initial requirements, in order to meet future subscriber demand.

Video Programming

Advanced Fiber Optic Networks. There are presently two video headend locations within RCN's advanced fiber optic networks in New York City and Boston. The video headends consist of optical transmitters, optical receivers, satellite receivers, signal processors, modulators, encoding equipment and network status monitoring and automated tape distribution equipment. From the headend, the video signal is distributed to individual fiber nodes or receivers via the same fiber cable backbone used to deliver the voice and data service. The fiber cable terminates in a fiber optic receiver within an individual building or service area. From the fiber node, coaxial cable and related distribution equipment is used to distribute the video signals to the customer premises. The bandwidth of the video distribution is a minimum of 750 MHz, which is capable of supporting a minimum of 110 video channels. This distribution plant is specifically designed to be predominantly fiber-based, which increases the reliability and improves the quality of the services delivered compared to traditional cable television distribution architectures.

Wireless Video. RCN also owns and operates a "wireless video" television system (which was formerly operated as Liberty Cable Television of New York, the operations of which were acquired by RCN in 1996) using point-to-point 18GHz microwave technology. RCN is utilizing this system in New York City as an alternate platform for delivering television programming to buildings that are not yet connected to the advanced fiber optic network. RCN expects that the majority of the buildings currently served by the wireless service will ultimately be connected to the network, to the extent that connection is feasible. As buildings are connected to the RCN network, RCN will reuse the microwave equipment to provide service to other customers in off-network premises. The transmission equipment and microwave services used to provide RCN's wireless service are provided by Bartholdi Cable, which formerly operated Liberty Cable Television of New York. Bartholdi Cable has agreed to provide transmission services to RCN until RCN has either converted the subscribers to its advanced fiber optic network or has obtained FCC authority to provide such services pursuant to its own licenses. In addition, Bartholdi Cable has agreed to transfer to RCN the transmission equipment on demand. Bartholdi Cable's obligation to provide transmission services is subject to Bartholdi Cable having authority to provide such services. The qualifications of

Bartholdi Cable to hold certain of the licenses needed to provide transmission services to RCN are at issue in an FCC proceeding in which an Initial Decision was released on March 6, 1998. In the Initial Decision, the Administrative Law Judge found Bartholdi Cable unqualified with respect to 15 such licenses. The Initial Decision will become effective 50 days after its release unless Bartholdi Cable, as expected, files exceptions to the Initial Decision within 30 days of its release or the FCC elects to review the case on its own motion. Because of the uncertainty as to Bartholdi Cable's right in the future to offer transmission services to RCN, the Company has filed its own license applications at the FCC for all of the microwave transmission paths which are currently being used by Bartholdi Cable to provide transmission services to RCN and, in light of the increased uncertainties resulting from the Initial Decision in the FCC proceeding involving certain of Bartholdi Cable's licenses, the Company expects now actively to pursue its license applications. There can be no assurance that RCN will be able to obtain its own FCC license.

Hybrid Fiber/Coaxial Cable Systems. RCN owns and operates hybrid fiber/coaxial cable television networks in Pennsylvania, New Jersey and New York State (outside of New York City), all within 75 miles of New York City. These networks offer expanded bandwidth and a platform for two-way services, and have an aggregate of 658 route miles of fiber optic cable, including separate high capacity fiber optic rings with a minimum 84 fibers in Pennsylvania (covering approximately 69 route miles) designed and constructed as competitive telephony networks. The New York system includes 211 route miles of fiber optic cable serving 98 nodes from one head-end. Approximately 70% of the New York system is two-way active 750 MHz plant with 84 active channels of programming. The New Jersey system has deployed 144 route miles of fiber optic cable (over 30 miles of which is two-way active) from two head-ends, and generally operates a 400/450 MHz plant providing 62 channels of video programming. The Pennsylvania system operates 2,649 miles of coaxial cable and over 234 route miles of fiber with 43 nodes from one headend, operating at 550 MHz with 84 active channels. All of the Company's hybrid fiber/coaxial cable systems are 100% one-way addressable.

These fiber-rich networks provide a basic fiber optic platform capable of enhancement for supporting two-way services, such as high-speed Internet services, in the future. RCN is presently expanding the fiber capacity of certain of these fiber/coaxial cable television networks so that they will be capable of delivering switched two-way services in the future. In August 1997, RCN commenced offering resold local phone service, long distance and Internet access to customers in the area served by its Hybrid Fiber/Coaxial Cable Systems in Pennsylvania.

Data Services. RCN's Internet access and data transmission services are currently provided over the advanced fiber optic network via dial-up modems facilitated through the RCN voice network in on-net subscriber applications. In off-net situations, subscribers use conventional dial-up modems through the incumbent LEC network to access RCN's Internet transmission network. RCN is beginning to offer Internet and data transmission services via cable modems. Cable modems, which utilize the broadband coaxial plant, offer higher speed access for data transmission than the speeds achieved by conventional telephone dial-up technology.

Erols provides high quality Internet access services to businesses by utilizing high-speed access via ISDN, frame relay, fractional T-1, T-1 and T-3 circuits. Erols' network infrastructure currently supports modems with dial-access speeds of up to 56 Kbps. Erols provides new dial-access subscribers with its easy-to-install proprietary access software package, which incorporates a telephone dialer, an e-mail platform, a Web browser (either Netscape Communication Corporation's ("Netscape") Navigator (a registered trademark of Netscape) or Microsoft Corp.'s Microsoft(R) Internet Explorer) and SurfWatch™ software for parental control over Internet content access. This software package permits simplified access to the Internet through a "point and click" graphical user interface. After installation, the subscriber has a direct connection to the Internet using Point-to-Point Protocol and access to all of the Internet's resources, including e-mail, the World Wide Web, Usenet News service and Internet Relay Chat. Access software automatically displays the Erols World Wide Web site each time a subscriber logs on, providing Erols with the opportunity to communicate with its subscribers at the start of each session. Erols maintains "24 x 7" subscriber and technical support 365 days a year.

Erols' services currently rely on the widespread commercial use of Transmission Control Protocol/Internet Protocol ("TCP/IP"). Alternative open and proprietary protocol standards that compete with TCP/IP, including proprietary protocols developed by International Business Machines Corporation ("IBM") and Novell, Inc. have

been or are being developed. The adoption of such new industry standards could render the Company's existing services obsolete and unmarketable or require reduction in the fees charged therefor.

Erols relies on a combination of copyright, trademark and trade secret laws and contractual restrictions to establish and protect its proprietary technology. However, there can be no assurance that Erols' technology will not be misappropriated or that equivalent or superior technologies will not be developed. In addition, there can be no assurance that third parties will not assert that the Erols' services or its users' content infringe their proprietary rights. The Company has obtained authorization, typically in the form of a license, to distribute third-party software incorporated in the Erols access software product for Windows 3.1, Windows 95, Windows NT and Macintosh platforms. The Company plans to maintain or negotiate renewals of existing software licenses and authorizations. The Company may want or need to license other applications in the future.

Ultrahet utilizes K56Flex protocol to support its points of presence ("POPs"), a result of a major mid-1997 upgrade in Ultrahet transmission equipment. This advancement has empowered users to gain access to two to four times more quickly to equipment that is also more reliable. The new infrastructure takes advantage of Rockwell technology that supports the K56Flex modems (speeds up to 56 Kbps) and ISDN (speeds up to 128 Kbps). By connecting users to the Internet faster, downloading time is decreased, and in turn, telephone costs and time online.

RCN intends to extend its network to cover most of the areas currently served by Erols and Ultrahet and ultimately to migrate most of those customers to RCN's advanced fiber optic network, subject to certain regulatory approvals and the approval of RCN's joint venture partners.

ITEM 3. LEGAL PROCEEDINGS

On September 30, 1997, the Yee Family Trusts, as holders of CTE's Preferred Stock Series A and Preferred Stock Series B, filed an action against the Company, CTE and Cable Michigan and certain present and former directors of CTE in the Superior Court of New Jersey, Chancery Division. The complaint alleges that CTE's restructuring constituted a fraudulent conveyance and alleges breaches of contract and fiduciary duties and of the covenant of good faith and fair dealing in connection with the restructuring. On December 1, 1997, the complaint was amended to allege that CTE's distribution of the common stock of the Company and Cable Michigan was an unlawful distribution in violation of 15 Pa.CS. 1551(b)(2). The plaintiffs are seeking to set aside the alleged fraudulent conveyance and unspecified monetary damages. The Company believes this lawsuit is without merit and intends to contest this action vigorously. On January 9, 1998, CTE filed a Motion to Dismiss, or in the Alternative, for Summary Judgment. The plaintiffs filed their response on March 9, 1998. The Company's reply brief is due on April 6, 1998 and argument on the motion is set for April 17, 1998.

In the normal course of business, there are various legal proceedings outstanding. In the opinion of management, these proceedings will not have a material adverse effect on the results of operations or financial condition of the Company.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders of the Registrant during the fourth quarter of the Registrant's 1997 fiscal year.

EXECUTIVE OFFICERS OF THE REGISTRANT

Pursuant to General Instruction G(3) of Form 10-K, the following list is included as an un-numbered Item in Part I of this Report in lieu of being included in the definitive proxy statement relating to the Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14(A) of the Securities Exchange Act of 1934 (the "1934 Act").

Executive Officers of the Registrant

David C. McCourt, 41, has been the Chairman and Chief Executive Officer of the Company as well as a Director since September 1997. Mr. McCourt has served as a Director and Chairman and Chief Executive Officer of Cable Michigan since September 30, 1997. In addition, he is a Director and Chairman and Chief Executive Officer of Commonwealth Telephone Enterprises, Inc. ("CTE") positions he has held since October 1993. Mr. McCourt has also been President and Chief Executive Officer, as well as a Director of Kiewit Telecom Holdings, Inc. He has also been Chairman and Chief Executive Officer as well as a Director of Mercom since October 1993, Director of MFS Communications Company, Inc. from July 1990 to December 1996, President and a Director of Metropolitan Fiber Systems/McCourt, Inc., a subsidiary of MFS Telecom, Inc., since 1988, a Director of Cable Satellite Public Affairs Network ("C-SPAN") since June 1995, a Director of WorldCom, Inc. since December 1996 and a Director of Kiewit Diversified Group, Inc. now Level 3 Communications, Inc. since August 1997.

Michael J. Mahoney, 47, has been the President and Chief Operating Officer, as well as a Director of the Company since September 1997. Mr. Mahoney is also a Director of CTE, a position he has held since May 1995. Mr. Mahoney was President and Chief Operating Officer of CTE from February 1994 to September 1997, President and Chief Operating Officer of Mercom from February 1994 to October 1997 and a Director of Mercom since January 1994. In addition, he was Executive Vice President of Cable Television Group from June 1991 to March 1994 and Executive Vice President of Mercom from December 1991 to March 1994.

Dennis J. Spina, 53, has served as Director, Vice-Chairman and President of Internet Services of the Company since February 1998. Previously, he served as Chief Executive Officer of Erol's Internet Services, Inc. ("Erol's") from August 1996 to February 1998. From January 1996 until July 1996, he worked as an independent consultant in the service and distribution industry. From November 1994 to December 1995, he served as President and Chief Executive Officer of International Service systems, a company engaged in the business of janitorial and energy management. From August 1990 to October 1994, he served as President and Chief Executive Officer of Suburban Propane, Inc. ("Suburban Propane"), a division of Hanson PLC. He was hired in a turnaround capacity and also served as President and Chief Executive Officer of Petrolane, Inc. ("Petrolane"), a propane distribution company managed by Suburban Propane, from August 1990 until its sale in July 1993. From 1973 to 1990, he worked at Federal Express Corporation, ultimately serving as Vice President and Officer.

Bruce C. Godfrey, 42, has been the Executive Vice President, Chief Financial Officer, Corporate Secretary and Director of the Company since September 1997. Mr. Godfrey has also been a Director of Cable Michigan as well as its Secretary since such date. Mr. Godfrey has been a Director of CTE since November 1996, Executive Vice President and Chief Financial Officer of CTE since April 1994. He has also been Executive Vice President and Chief Financial Officer of Mercom from April 1994 to October 1997 and a Director of Mercom since May 1994 and Corporate Secretary since October 1997. Mr. Godfrey was also Senior Vice President and Principal of Daniels and Associates from January 1984 to April 1994.

Salvatore M. Quadrino, 51, has been Chief Administrative Officer of the Company since February 1998. Previously he served as Vice President, Treasurer and Chief Financial Officer since joining Erol's in September 1997. From October 1996 to August 1997, he worked as an independent financial consultant in the service and distribution industry. From October 1994 to September 1996, he served as President and Chief Executive Officer of Suburban Propane, a division of Hanson PLC, which conducted its initial public offering in March 1996, and from March to October 1996 he served as a member of Suburban Propane's Board of Supervisors. Mr. Quadrino initially was hired in a turn around capacity, served as Vice President and Chief Financial Officer of Suburban Propane from October 1990 to September 1994 and as Vice President, Chief Financial Officer and Treasurer of Petrolane from August 1990 until its sale in July 1993.

Michael A. Adams, 40, has been the President of Technology and Network Development Group of the Company and Executive Vice President of the Company since September 1997. Mr. Adams held the corresponding position at CTE from November 1996 to September 1997. Prior to that date, Mr. Adams held the following positions: Executive Vice President of Technology and Strategic Development of CTE from August 1996 to November 1996, Executive Vice President of CTE's Communications Service Group from September 1994 to June 1996, Vice President of Technology from November 1993 to September 1994, Vice President of Engineering for RCN Telecom Services Inc., a wholly owned subsidiary of RCN, from September 1992 to October 1993.

Mark Haverkate, 43, has been the Executive Vice President, Business Development of the Company since September 1997. Mr. Haverkate has also been President and Chief Operating Officer and a Director of Cable Michigan since such date. He has been President and Chief Operating Officer of Mercom, since October 1997. He was the President of RCN Development (a division of RCN) from June 1997 to September 1997 and Executive Vice President of Business Development at CTE from May 1997 to September 1997. Previously, he was President for Business Operations of RCN Telecom Services, Inc. from November 1996 to June 1997, Executive Vice President of RCN Telecom Services, Inc. from August 1996 to November 1996, Executive Vice President of CTE's Cable Television Group from July 1995 to August 1996, Executive Vice President of Development for CTE from February 1995 to July 1995, Executive Vice President for Development at Mercom from November 1995 to February 1996, Vice President of Development for CTE from December 1993 to February 1995, Vice President for Development at Mercom from December 1993 to February 1995, Vice President of CTE's Cable Television Group from October 1989 to December 1993.

Ralph S. Hromisin, CPA 37, has been Vice President and Chief Accounting Officer of the Company since September 1997. He also has been Vice President and Chief Accounting Officer of Cable Michigan, Inc. and CTE since September 1997. He served as Vice President and Corporate Controller of CTE from August 1994 to September 1997. Mr. Hromisin has been Vice President and Corporate Controller for Mercom since October 1996, Director of Corporate Accounting for CTE from March 1992 to August 1994. He also held various positions, most recently Audit Manager for Parente, Randolph, Orlando, Carey & Associates, CPA's from November 1982 to March 1992.

Kenneth R. Knudsen, 51, has been Senior Vice President of Sales & Marketing of RCN since June 1997 and Vice President of Sales and General Manager of RCN Telecom Services, Inc. from January 1996 to May 1997. Previously, Mr. Knudsen served as Chief Executive Officer and Partner of KCI Consulting, Inc. from 1994 to January 1996 and Senior Vice President of Ryan Management Group from 1993 to 1994. From 1970 to 1996 he also held Officer and Senior Management positions at Nabisco, Ocean Spray Cranberries, Frito-lay, Inc. and Procter and Gamble Company.

Paul E. Sigmund, 33, Executive Vice President of the Company since September 1997 and Executive Vice President of RCN International Holdings since 1996. Previously, Mr. Sigmund was a Vice President at Smith Barney, Inc. from 1994 to 1996; an Associate at the law firm of Skadden, Arps, Slate, Meagher & Flom from 1993 to 1994 and an Investment Associate at the International Finance Corporation/ World Bank from 1986 to 1989.

Timothy J. Stoklosa, 37, has been the Senior Vice President and Treasurer of the Company since September 1997. He also has been as Executive Vice President and Chief Financial Officer and a Director of Cable Michigan since such date. Mr. Stoklosa has been Senior Vice President of Finance of CTE since February 1997, Treasurer of CTE since August 1994 and Executive Vice President and Chief Financial Officer of Mercom since October 1997. Previously, Mr. Stoklosa was Vice President of Finance of CTE from May 1995 to February 1997, Manager of Mergers and Acquisitions at Peter Kiewit Sons, Inc. from October 1991 to August 1994 and Senior Financial Analyst of Corporate Development at Citizens Utilities Co. from February 1990 to October 1991.

PART II

Item 5. Market for the Registrant's Common Stock and Related Shareholder Matters

There were approximately 2,201 holders of Registrant's Common Stock on February 28, 1997. The Company maintains a no cash dividend policy. The Company does not intend to alter this policy in the foreseeable future. Other information required under Item 5 of Part II is set forth in Note 18 to the consolidated financial statements included in Part IV Item 14(a)(1) of this Form 10-K.

In March 1998, the Company's Board of Directors approved a two-for-one stock split, payable in the form of a 100% stock dividend. The record date for the stock split is March 20, 1998. Stockholders of record at the market close on that date will receive an additional share of RCN common stock for each share held. The distribution date for the stock dividend will be April 3, 1998. All share and per share data, stock option data, and market prices of the Company's common stock have been restated to reflect this stock split.

On February 20, 1998, RCN issued 1,730,648 shares of RCN Common Stock in connection with the merger of Erols Internet, Inc. with and into a wholly-owned subsidiary of RCN. On February 27, 1998, RCN issued 90,384 shares of RCN common stock in connection with the merger of Utranet Communications, Inc. with and into a wholly-owned subsidiary of RCN. Both of these issuances were made pursuant to the exemption from registration under Section 4(2) of the Securities Act.

Item 6. Selected Financial Data

Information required under Item 6 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Information required under Item 7 of Part II is set forth in Part IV Item 14(a)(1) of this Form 10-K.

Item 8. Financial Statements and Supplementary Data.

The consolidated financial statements and supplementary data required under Item 8 of Part II are set forth in Part IV Item 14(a)(1) of this Form 10-K.

Item 9. Disagreements on Accounting and Financial Disclosure.

During the two years preceding December 31, 1997, there has been neither a change of accountants of the Registrant nor any disagreement on any matter of accounting principles, practices, or financial statement disclosure.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required under Item 10 of Part III with respect to the Directors of Registrant is set forth in the definitive proxy statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14(a) of the 1934 Act and is hereby specifically incorporated herein by referenced thereto.

The information required under Item 10 of Part III with respect to the executive officers of the Registrant is set forth at the end of Part I hereof.

Item 11. Executive Compensation

The information required under Item 11 of Part III is set forth in the definitive Proxy Statement relating to Registrant's Annual Meeting of Shareholders to be filed by the Registrant with the Commission pursuant to Section 14(a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required under Item 12 of Part III is included in the definitive Proxy Statement relating to Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14(a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

Item 13. Certain Relationships and Related Transactions

The information required under Item 13 of Part III is included in the definitive Proxy Statement to Registrant's Annual Meeting of Shareholders to be filed by Registrant with the Commission pursuant to Section 14 (a) of the 1934 Act, and is hereby specifically incorporated herein by reference thereto.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Report on form 8-K.

Item 14 (a) (1) Financial Statements:

Consolidated Statements of Operations for the Years Ended December 31, 1997, 1996 and 1995.

Consolidated Statements of Cash Flows for Years Ended December 31, 1997, 1996 and 1995.

Consolidated Balance Sheets - December 31, 1997 and 1996.

Consolidated Statements of Changes in Common Shareholders' Equity for Years Ended December 31, 1997, 1996 and 1995.

Notes to Consolidated Financial Statements

Report of Independent Accountants

Item 14 (a) (2) Financial Statement Schedules:

Description
Condensed Financial Information of Registrant for the Year Ended December 31, 1997. (Schedule I)

Valuation and Qualifying Accounts and Reserves for the Years Ended December 31, 1997, 1996 and 1995 (Schedule II)

All other financial statement schedules not listed have been omitted since the required information is included in the consolidated financial statements or the notes thereto, or are not applicable or required.

Item 14 (a) (3) Exhibits:

Exhibits marked with an asterisk are filed herewith and are listed in the index to exhibits of this Form 10-K. The remainder of the exhibits have been filed with the Commission and are incorporated herein by reference.

(2) Plan of acquisition, reorganization, arrangement and Report on Form 8-K

(a) Form of Distribution Agreement among C-TEC Corporation, Cable Michigan, Inc. and the Registrant is incorporated herein by reference to Exhibit 2.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(b) Agreement and Plan of Merger dated as of January 21, 1998 among Erols Internet, Inc., Erol Onaran, Gold & Appel Transfer, S.A., RCN Corporation and ENET Holding, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K ("Form 8-K") filed on March 6, 1998) (Commission No. 0-22825.)

(c) Amendment No. 1 to Agreement and Plan of Merger dated as of January 21, 1998 among Erols Internet, Inc., Erol Onaran, Gold & Appel Transfer, S.A., RCN Corporation and ENET Holding, Inc. (incorporated by reference to Exhibit 2.2 to the Company's Form 8-K) (Commission File No. 0-22825.)

(3) Articles of Incorporation and By-laws

(a) Form of Amended and Restated Articles of Incorporation of the Registrant are incorporated herein by reference to Exhibit 3.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(b) Form of Amended and Restated Bylaws of the Registrant are incorporated herein by reference to Exhibit 3.2 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

(4) Instruments defining the rights of security holders, including indentures

(a) Credit Agreement dated as of July 1, 1997 among C-TEC Cable Systems, Inc., ComVideo Systems, Inc., C-TEC Cable Systems of New York, Inc. and First Union National Bank, as agent is incorporated herein

by reference to Exhibit 4.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

- 4(b) Indenture dated as of February 6, 1998 between the Company, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 9.80% Senior Discount Notes due 2008 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 ("1998 Form S-4") filed on March 23, 1998) (Commission File No. 0-22825.)
 - 4(c) Form of 9.80% Senior Discount Notes due 2008, Series B (included in Exhibit 4.1) (incorporated by reference to Exhibit 4.2 to the Company's 1998 Form S-4) (Commission File No. 0-22825.)
 - 4(d) Registration Rights Agreement dated as of February 6, 1998 by and among the Company and Merrill Lynch, Pierce, Fenner & Smith Incorporated, Salomon Brothers Inc. and NationsBanc Montgomery Securities, Inc., as Initial Purchasers (incorporated by reference to Exhibit 4.3 to the Company's 1998 Form S-4) (Commission File No. 0-22825.)
 - 4(e) Indenture dated as of October 17, 1997 between the Company, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 10% Senior Notes due 2007 (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-4 ("Form S-4") filed on November 26, 1997) (Commission File No. 0-22825.)
 - 4(f) Form of the 10% Senior Exchange Notes due 2007 (included in Exhibit 4.4) (incorporated by reference to Exhibit 4.2 to the Company's Form S-4) (Commission File No. 0-22825.)
 - 4(g) Indenture dated as of October 17, 1997 between the Company, as Issuer, and The Chase Manhattan Bank, as Trustee, with respect to the 11 1/8% Senior Discount Notes due 2007 (incorporated by reference to Exhibit 4.3 to the Company's Form S-4) (Commission File No. 0-22825.)
 - 4(h) Form of the 11 1/8% Senior Discount Exchange Notes due 2007 (included in Exhibit 4.6) (incorporated by reference to Exhibit 4.4 to the Company's Form S-4) (Commission File No. 0-22825.)
 - 4(i) Escrow Agreement dated as of October 17, 1997 among The Chase Manhattan Bank, as escrow agent, The Chase Manhattan Bank, as Trustee under the Indenture (as defined therein), and the Company (incorporated by reference to Exhibit 4.6 to the Company's Form S-4) (Commission File No. 0-22825.)
- (10) Material Contracts
- (a) Tax Sharing Agreement by and among C-TEC Corporation, Cable Michigan, Inc. and the Registrant is incorporated herein by reference to Exhibit 10.1 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (b) Dark Fiber IRU Agreement dated as of May 8, 1997 among Metropolitan Fiber Systems/McCourt, Inc. and RCN Telecom Services of Massachusetts, Inc. is incorporated herein by reference to Exhibit 10.2 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (c) Dark Fiber IRU Agreement dated as of May 8, 1997 among Metropolitan Fiber Systems of New York, Inc. and RCN Telecom Services of New York, Inc. is incorporated herein by reference to Exhibit 10.3 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
 - (d) Telephone Service to Reseller Agreement for Boston among Metropolitan Fiber Systems/McCourt, Inc. and RCN Telecom Services of Massachusetts, Inc. is incorporated herein by reference to Exhibit 10.4 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)

- (e) Telephone Service to Reseller Agreement for New York among Metropolitan Fiber Systems of New York, Inc. and RCN Telecom Services of New York, Inc. is incorporated herein by reference to Exhibit 10.5 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (f) OVS Agreement dated May 8, 1997 between RCN Telecom Services, Inc. and MFS Communication Company, Inc. is incorporated herein by reference to Exhibit 10.6 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (g) Joint Venture Agreement dated as of December 23, 1996 between RCN Telecom Services, Inc. and Boston Energy Technology Group, Inc. is incorporated herein reference by Exhibit 10.7 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (h) Amended and Restated Operating Agreement of RCN-BecoCom, LLC dated as of June 17, 1997 is incorporated herein by reference to Exhibit 10.8 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (i) Management Agreement dated as of June 17, 1997 among RCN Operating Services, Inc. and BecoCom, Inc. is incorporated herein by reference to Exhibit 10.9 to the Company's Amendment No.2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (j) Construction and Indefeasible Right of Use Agreement dated as of June 17, 1997 between BecoCom, Inc. and RCN-BecoCom, LLC is incorporated herein by reference to Exhibit 10.10 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (k) License Agreement dated as of June 17, 1997 between Boston Edison Company and BecoCom, Inc. is incorporated herein by reference to Exhibit 10.11 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (l) Joint Investment and Non-Competition Agreement dated as of June 17, 1997 among RCN Telecom Services of Massachusetts, Inc., BecoCom, Inc. and RCN-BecoCom, LLC is incorporated herein by reference to Exhibit 10.12 to the Company's Amendment No. 2 to Form 10/A filed September 5, 1997 (Commission File No. 0-22825.)
- (m) Amended and restated Operating Agreement of Starpower Communications, L.L.C. by and between Pepco Communications, L.L.C. and RCN Telecom Services of Washington, D.C. Inc. dated October 28, 1997.

*(21) Subsidiaries of the Registrant

*(23) Consent of Independent Accountants

*(24) Powers of Attorney

*(27) Financial Data Schedule

Item 14.(b) Reports on Form 8-K

No reports on Form 8-K have been filed by the Registrant during the last quarter of the period covered by this Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 31, 1998

RCN Corporation

By: \s\ David C. McCourt

David C. McCourt
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
-----	-----	-----

PRINCIPAL EXECUTIVE AND ACCOUNTING OFFICERS:

\s\ David C. McCourt ----- David C. McCourt	Chairman and Chief Executive Officer	March 31, 1998
\s\ Michael J. Mahoney ----- Michael J. Mahoney	President and Chief Operating Officer	March 31, 1998
\s\ Bruce C. Godfrey ----- Bruce C. Godfrey	Executive Vice President and Chief Financial Officer	March 31, 1998
\s\ Ralph S. Hromisin ----- Ralph S. Hromisin	Vice President and Chief Accounting Officer	March 31, 1998

DIRECTORS:

\s\ David C. McCourt ----- David C. McCourt	March 31, 1998
\s\ James Q. Crowe ----- James Q. Crowe	March 31, 1998
\s\ Walter E. Scott, Jr. ----- Walter E. Scott, Jr.	March 31, 1998
\s\ Richard R. Jaros ----- Richard R. Jaros	March 31, 1998
\s\ Thomas May ----- Thomas May	March 31, 1998
\s\ Alfred Fasola ----- Alfred Fasola	March 31, 1998
\s\ Thomas P. O'Neill, III ----- Thomas P. O'Neill, III	March 31, 1998
\s\ Eugene Roth ----- Eugene Roth	March 31, 1998
\s\ Stuart E. Graham ----- Stuart E. Graham	March 31, 1998
\s\ Michael B. Yanney ----- Michael B. Yanney	March 31, 1998

\s\ Michael J. Mahoney

Michael J. Mahoney

March 31, 1998

\s\ Bruce C. Godfrey

Bruce C. Godfrey

March 31, 1998

SCHEDULE 1

RCN CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
STATEMENT OF OPERATIONS
YEAR ENDED DECEMBER 31, 1997
(THOUSANDS OF DOLLARS)

Sales	\$40
Costs and expenses, excluding depreciation and amortization	498

Gross Profit (Loss)	(458)
Depreciation and amortization	-

Operating income (loss)	(458)
Interest income	661
Interest expense	(12,791)
Other income/(expense), net	-

(Loss) income before income taxes	(12,588)
(Benefit) provision for income taxes	(4,388)
Equity in (loss) of consolidated entities	(44,191)

Net (loss)	\$ (52,391)
	=====
Earnings (loss) per average common share:	
Net (loss) to shareholders	\$ (0.95)
Average shares outstanding	54,965,716

SCHEDULE 1

RCN CORPORATION
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEET

DECEMBER 31, 1997

(THOUSANDS OF DOLLARS)

ASSETS

Current assets

Cash and temporary cash investments	\$ -
Accounts receivable from related parties	3,291
Accounts receivable	1,977
Prepayments & other	211
Investments restricted for debt service	22,500

Total current assets 27,979

Investments restricted for debt service	39,411
Investments	859,271
Debt issuance cost	19,188
Deferred charges and other assets	2,877

Total assets \$948,726

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	4,034
Accrued interest	4,687
Accrued expenses	318

Total current assets 9,039

Long-term debt	583,103
Common stock	27,495
Retained earnings	(17,116)
Additional paid in capital	349,261
Cumulative translation adjustment	(3,056)

Total liabilities and shareholders' equity \$948,726

SCHEDULE 1

RCN CORPORATION
 CONDENSED FINANCIAL INFORMATION OF REGISTRANT
 STATEMENT OF CASH FLOWS
 YEAR ENDED DECEMBER 31, 1997
 (THOUSANDS OF DOLLARS)

	YTD 1997

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net (loss)	(\$52,391)
Deferred income taxes and investment tax credits	(2,877)
Working capital	2,749
Equity in loss of consolidated entity	44,191
Noncash accretion of discounted senior notes	8,103

Net cash (used in) operating activities	(225)

CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisitions	167
Other	17

Net Cash Provided by Investing Activities	184

CASH FLOWS FROM FINANCING ACTIVITIES:	
Issuance of long-term debt	575,000
(Increase) in cash restricted for debt service	(61,250)
Financing costs	(19,188)
Transfer (to) CTE	(494,751)
Proceeds from exercise of stock options	230

Net cash provided by financing activities	41

Net increase/(decrease) in cash and temporary cash investments	0
Beginning cash & temporary cash investments	0

Ending cash & temporary cash investments	\$0
	=====

RCN CORPORATION
VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996, AND 1995
(THOUSANDS OF DOLLARS)

SCHEDULE II

COLUMN A	COLUMN B	COLUMN C		COLUMN D	COLUMN E
-----	-----	----- ADDITION -----		-----	-----
DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	CHARGED TO COSTS AND EXPENSE	CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF PERIOD
-----	-----	-----	-----	-----	-----
ALLOWANCE FOR DOUBTFUL ACCOUNTS- DEDUCTED FROM ACCOUNTS RECEIVABLE IN THE CONSOLIDATED BALANCE SHEETS					
1997	\$861	\$2,732	\$997	\$2,456	\$2,134
1996	\$607	\$1,788	(\$556)	\$978	\$861
1995	\$809	\$614	(\$619)	\$197	\$607
ALLOWANCE FOR DEFERRED TAX ASSETS- DEDUCTED FROM DEFERRED TAX ASSETS IN THE CONSOLIDATED BALANCE SHEETS					
1997	3,691	5,777	--	1,064	8,404
1996	2,022	1,921	26	278	3,691
1995	1,474	649	--	101	2,022

RCN CORPORATION
 SELECTED FINANCIAL DATA
 Thousands of Dollars Except Per Share Amounts
 For the Years Ended December 31,

	1997	1996	1995	1994	1993
Sales	\$ 127,297	\$104,910	\$ 91,997	\$ 59,500	\$ 49,504
Income (loss) from continuing operations	(52,391)	(5,989)	2,114	3,653	12,087
Income (loss) per average common share from continuing operations	\$ (0.95)	\$ (0.77)	\$ 0.04	(\$1.74)	(\$1.50)
Dividends per share	-	-	-	-	-
Total assets	1,150,992	628,085	649,610	568,586	291,634
Long-term debt, net of current maturities	686,103	131,250	135,250	154,000	181,500

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
 FINANCIAL CONDITION AND RESULTS OF OPERATIONS
 (Dollars in thousands, except per share data)

Certain statements contained in this annual report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are thus prospective. Such forward-looking statements include, in particular, statements made as to plans to develop networks and upgrade facilities, the market opportunity presented by markets targeted by the Company, the Company's intention to connect certain wireless video resale telephone and Internet service customers to its advanced fiber optic networks, the development of the Company's businesses, the markets for the Company's services and products, the Company's anticipated capital expenditures, the Company's anticipated sources of capital and effects of regulatory reform and competitive and technological developments. No assurance can be given that the future results covered by the forward-looking statements will be achieved. Such statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from future results expressed or implied by such forward-looking statements.

The following discussion should be read in conjunction with the Company's historical Consolidated Financial Statements and Notes thereto:

GENERAL

The Company is developing networks that are capable of providing a full range of high speed, high capacity telecommunications services, including voice, video programming and data services including Internet access. The Company intends to provide these services individually or in bundled service packages primarily to residential customers in high-density areas and also seeks to serve certain commercial accounts on or near its networks. In 1997, the Company commenced providing service through advanced fiber optic network facilities in New York City and Boston. The Company also has hybrid fiber/coaxial cable television operations in New York (outside New York City), New Jersey and Pennsylvania ("Hybrid Fiber/Coaxial"), wireless video operations in New York City ("Wireless Video"), and certain other operations, including long distance telephone (collectively, "Other Operations"). The Company has historically managed its business along these lines and the discussion which follows addresses those lines accordingly.

Financial results related to advanced fiber optic networks and from provision of Internet services are currently included in the "Advanced Fiber, Wireless Video and Other Operating" segment data. The Company may present separate segment information with respect to the advanced fiber optic networks and Internet business in future periods in connection with the Company's adoption of Statement of Financial Accounting Standards No. 131 - "Disclosure about Segments of an Enterprise and Related Information". The Company expects that the operating and net losses and negative cash flows from its advanced fiber optic network business will rise in the future as it expands and develops its network and customer base.

There can be no assurance that RCN will achieve or sustain profitability or positive cash flows from operating activities in the future as it develops its advanced fiber optic network.

The negative operating cash flow from the Company's advanced fiber optic network business has resulted primarily from expenditures associated with the development of the Company's operational infrastructure and marketing expenses. The Company expects it will continue to experience negative operating cash flow while it continues to invest in its networks and until such time as revenue growth is sufficient to fund operating expenses. The Company expects to achieve positive operating margins over time by (i) increasing the number of customers it serves, (ii) increasing the number of connections per customer by cross marketing its services and promoting bundled service options and therefore increasing the revenue per customer, (iii) lowering the costs associated with new subscriber additions and (iv) reducing the cost of providing services by capturing economies of scale. The Company expects its operating revenues will increase in 1998 through internal growth of its current advanced fiber optic networks; however, the Company also expects negative operating cash flow will increase for some period of time as the Company initiates network development in Washington, D.C. and expands its current networks. When the Company makes its initial investment in a new market, the operating losses typically increase as the network and sales force are expanded to facilitate growth. The Company's ability to generate positive cash flow in the future will depend on the extent of capital expenditures in current and additional markets, the ability of the joint ventures to generate revenues and cash flow, competition in the Company's markets and any potential adverse regulatory developments. The Company will be dependent on various financing sources to fund its growth as well as continued losses from operations. There can be no assurance that such funding will be available, or available on terms acceptable to the Company. See - "Liquidity and Capital Resources."

The terms of the Company's joint ventures require the mutual consent of the Company and its joint venture partner to distribute or advance funds to the Company. The Company's debt agreements allow subsidiaries and joint ventures to incur indebtedness for network buildout costs, which indebtedness may contain limitations on the subsidiaries' and the joint venture's ability to pay dividends and distributions to the Company. Although the joint ventures have not had a significant impact on the Company's cash flows in the periods presented, cash flows available to the Company in future periods will be affected by the extent to which operations are conducted through joint ventures. Due to the degree of control that the Company has in the joint ventures, RCN accounts for the BECO joint venture on a consolidated basis and Starpower under the equity method of accounting.

Prior to September 30, 1997, the Company was operated as part of C-TEC Corporation. On September 30, 1997, C-TEC distributed 100% of the outstanding shares of common stock of its wholly owned subsidiaries, RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's Common Stock and C-TEC's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C-TEC, RCN and Cable Michigan. RCN consists primarily of C-TEC's high growth, bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor, its existing New York, New Jersey and Pennsylvania cable television operations, a portion of its long distance operations and its international investment in Megacable, S.A. de C.V. C-TEC, RCN and Cable Michigan have entered into certain agreements providing for the Distribution, and governing various ongoing relationships between the three companies, including a distribution agreement and a tax-sharing agreement. The historical financial information presented herein reflects periods during which the Company did not operate as an independent company and accordingly, certain assumptions were made in preparing such financial information. Such information, therefore, may not necessarily reflect the results of operations or the financial condition of the Company which would have resulted had the Company been an independent, public company during the reporting periods, and are not necessarily indicative of the Company's future operating results or financial condition.

Certain of the Company's businesses were acquired by C-TEC and transferred to the Company in connection with the Distribution. On August 30, 1996, a subsidiary of C-TEC acquired an 80.1% interest in Freedom New York, L.L.C. ("Freedom") and all related rights and liabilities from Kiewit Telecom

Holdings. Freedom held the wireless cable television business of Liberty Cable Television, Inc. The Company acquired the remaining minority interest in Freedom in March 1997. The acquisition was accounted for as a purchase and is reflected in the Company's consolidated financial statements since September 1996. On May 15, 1995, C-TEC Cable Systems, Inc., a wholly owned subsidiary of C-TEC ("RCN Cable"), acquired 40% of the outstanding common stock of Twin County Trans Video, Inc. ("Twin County"). The remaining shares were subject to an escrow agreement, pending completion of the merger, and were required to be voted under the direction of the Company. As of May 15, 1995, the Company also assumed management of Twin County. As a result, the Company had control of Twin County and accordingly has fully consolidated Twin County in the Company's financial statements since May 1995, the date of the original acquisition. The remaining outstanding common stock of Twin County was acquired in September 1995. Goodwill relating to this acquisition is being amortized over a period of approximately 10 years. In January 1995, RCN International Holdings, Inc. (formerly C-TEC International, Inc.), a wholly owned subsidiary of C-TEC, purchased a 40% equity position in Megacable, S.A.de C.V., the second largest cable television provider in Mexico. The Company accounts for its investment by the equity method of accounting and is amortizing the original excess cost over the underlying equity in the net assets on a straight-line basis over 15 years.

Results of Operations

Selected segment data was as follows for the years ended December 31, 1997, 1996 and 1995:

Sales:

	Year ended December 31,		
	1997	1996	1995
	(dollars in thousands)		
Hybrid Fiber/Coaxial	\$ 92,100	\$ 84,096	\$66,404
Advanced Fiber, Wireless Video and Other Operating	35,111	20,768	25,528
Corporate	86	46	65
Total	\$127,297	\$104,910	\$91,997
	*****	*****	*****

Operating Income Before Depreciation and Amortization and Nonrecurring Charge:

	Year ended December 31,		
	1997	1996	1995
	(dollars in thousands)		
Hybrid Fiber/Coaxial	\$ 39,767	\$ 40,094	\$28,458
Advanced Fiber, Wireless Video and Other Operating	(39,882)	(11,711)	(8,416)
Corporate	(7,555)	(2,580)	(3,048)
Total	(\$7,670)	\$ 25,803	\$16,994
	*****	*****	*****

YEAR ENDED DECEMBER 31, 1997 COMPARED TO YEAR ENDED DECEMBER 31, 1996:

For the year ended December 31, 1997, operating income before depreciation and amortization and nonrecurring charge was (\$7,670) as compared to \$25,803 for the year ended December 31, 1996. Sales increased 21.3% to \$127,297 for the year ended December 31, 1997 from \$104,910 for the same period in 1996.

Sales

Sales are primarily comprised of subscription fees for basic, premium and pay per view cable television services; local telephone service fees consisting primarily of monthly line charges, local toll and special features; long distance telephone service fees based on minutes of traffic and tariffed rates or contracted fees; and Internet access fees billed at contracted rates. For the year ended December 31, 1997, sales were \$127,297, an increase of \$22,387 due to higher Hybrid Fiber/Coaxial sales of \$8,004 and higher Advanced Fiber, Wireless Video and Other Operating sales of \$14,343. The increase in Hybrid Fiber/Coaxial sales principally results from higher basic service revenue resulting from approximately 4,850 additional average monthly subscribers over 1996, the effects of a rate increase in the first quarter of 1997 and cash incentives related to the launch of certain new channels. Advanced Fiber, Wireless Video and Other Operating sales increased primarily due to the acquisition of Freedom in August 1996 (the "Freedom Acquisition"), which resulted in higher basic and premium video revenue. Additionally, higher voice revenue of approximately \$3,200 resulted from higher advanced fiber optic voice connections and higher resold voice connections. The increase in Advanced Fiber, Wireless Video and Other Operating sales also includes increases of approximately \$3,300 related to the long distance business.

Costs and Expenses Excluding Depreciation and Amortization and Nonrecurring Charges

Costs and expenses, excluding depreciation and amortization and nonrecurring charges, are comprised of direct costs of providing services, primarily cable programming and franchise costs, network access fees, video transmission licensing fees, salaries and benefits, and customer service costs; sales and marketing costs; and general and administrative expenses. For the year ended December 31, 1997, costs and expenses, excluding depreciation, amortization, and nonrecurring charges, were \$134,967, an increase of \$55,860 or 70.6% as compared to 1996. The increase is primarily attributable to higher Advanced Fiber, Wireless Video and Other Operating costs and expenses, excluding depreciation and amortization, of approximately \$42,500, resulting principally from the Freedom acquisition in August 1996 and expansion of the business in the Boston and New York City markets. The most significant increases occurred in personnel and related costs, due to increased headcount primarily in operations, marketing and customer service to support the expansion of the business, origination and programming cost associated with an increase in video connections, and advertising expenses of approximately \$9,000 associated with a high visibility campaign. The long distance business contributed approximately \$6,100 of the remaining increase in Advanced Fiber, Wireless Video and Other Operating costs and expenses, excluding depreciation and amortization. Hybrid Fiber/Coaxial costs and expenses, excluding depreciation and amortization, increased approximately \$8,300 primarily due to higher basic programming costs resulting from higher rates, additional channels and subscriber increases. Additionally, in connection with the Distribution (Note 1), C-TEC completed a comprehensive study of its employee benefit plans in 1996. As a result of this study, effective December 31, 1996, in general, employees of RCN no longer accrued benefits under the defined benefit pension plan, but became fully vested in their benefit accrued through that date. C-TEC notified affected participants in December 1996. In December 1996, C-TEC allocated pension plan assets of \$6,984 to a separate plan for employees who no longer accrue benefits after December 31, 1996 (the "curtailed plan"). The underlying liabilities were also allocated. The allocation of assets and liabilities resulted in a curtailment/settlement gain attributable to Hybrid Fiber/Coaxial cable operations of approximately \$1,500. Such gain did not recur in 1997. The remaining increase in costs and expenses, excluding depreciation and amortization, of approximately \$5,000 is primarily due to costs associated with the spin-off of the Company from C-TEC.

Depreciation and Amortization

Depreciation and amortization is comprised principally of depreciation relating to the Company's Hybrid Fiber/Coaxial facilities, advanced fiber and wireless video network and amortization of subscriber lists, building access rights and goodwill. Depreciation and amortization increased \$14,324, or 36.8% to \$53,205 for the year ended December 31, 1997 as compared to \$38,881 for 1996. The increase is principally due to the additional depreciation and amortization resulting from the Freedom acquisition and depreciation related to the Company's advanced fiber optic networks in New York City and Boston.

In future periods, depreciation and amortization are expected to exceed amounts recorded in 1997 due to depreciation with respect to the Company's advanced fiber optic networks in New York City and Boston and due to depreciation and amortization with respect to the Company's acquisitions in February 1998 of Erols Internet, Inc. and Ultranet Communications, Inc. (Note 19).

Nonrecurring Charges

Nonrecurring charges of \$10,000 represent costs incurred with respect to the termination of a marketing services agreement held by Freedom.

Interest Income

For the year ended December 31, 1997, interest income was \$22,824, a decrease of \$2,778, or 10.9% primarily due to lower average cash balances and lower average notes receivable with related parties. Average cash balances decreased principally as a result of the Freedom acquisition in August 1996 (as well as the acquisition in March 1997 of the remaining 19.9% ownership interest in Freedom) and capital expenditures, partially offset by the proceeds of the Company's high yield debt offering in October 1997 (Note 10).

Interest Expense

For the year ended December 31, 1997, interest expense was \$25,602, an increase of \$9,556, or 59.6% primarily due to interest expense on the Company's \$225,000 of 10% Senior Notes and \$601,045 aggregate principal amount at maturity of 11 1/8% Senior Discount Notes placed in October 1997 (Note 10). This was partially offset by lower interest expense resulting from the required principal payment of \$18,750 on 9.65% Senior Secured Notes in December 1996. Additionally, the Company paid \$922 to Kiewit Telecom in 1996 in connection with the Company's August 1996 acquisition of Kiewit Telecom's 80.1% interest in Freedom. This portion of the consideration represents an amount to compensate Kiewit Telecom for forgone interest on the amount which it had invested in Freedom.

Income Tax

Benefit for income taxes increased \$21,828 primarily due to the increase of \$65,020 in loss before taxes. For an analysis of the change in income taxes, see the reconciliation of the effective income tax rate in Note 11 to the Consolidated Financial Statements.

Minority Interest

Minority interest in the loss of consolidated entities increased \$5,956 primarily as a result of the minority share of the losses of the BECO joint venture (Note 7), which began operations in June 1997. Additionally, the minority share of the losses of Freedom from January 1 through March 21, at which time the Company acquired the remaining 19.9% ownership interest, was \$966.

Equity in loss of Unconsolidated Entities

The Company's equity in the (loss) of unconsolidated entities was (\$3,804) in 1997 and (\$2,282) in 1996, and is comprised principally of the Company's share of the operating results of Megacable. In January 1995, the Company purchased a forty percent equity position in Megacable, a Mexican cable television provider, for cash of \$84,115. The Company is exposed to foreign currency translation adjustments resulting from translation into U.S. dollars of the financial statements of Megacable, which through December 1996 utilized the peso as the local and functional currency. Such adjustments have historically been included as a separate component of shareholders' equity. Effective January 1, 1997, since the three year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is being treated for

accounting purposes under Statement of Financial Accounting Standards No. 52 - "Foreign Currency Translation" as having a highly inflationary economy. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. The Company is also exposed to foreign currency transaction losses resulting from transactions of Megacable which are made in currencies different from its own. The Company's proportionate share of transaction gains (losses) are included in income as they occur. The Company does not hedge its foreign currency exchange risk and it is not possible to determine what effect future currency fluctuations will have on the Company's operating results. Exchange gains (losses) of (\$12), \$247, and (\$932) in 1997, 1996, and 1995, respectively, including translation losses in 1997, are included in the respective statements of operations through the Company's proportionate share of losses of Megacable.

In 1997, Megacable had sales of \$30,441, operating income before depreciation and amortization of \$10,504 and net income of \$6,653. In 1996, Megacable had sales of \$23,225, operating income before depreciation and amortization of \$10,183 and net income of \$10,226. Year end subscriber counts were 211,627 at December 31, 1997 as compared to 178,664 at December 31, 1996. In 1997 and 1996, the Company's share of the income of Megacable was \$2,411 and \$4,090, respectively, which includes the exchange gains (losses) as discussed above. The Company's investment in Megacable exceeded its underlying equity in the net assets of Megacable when acquired by approximately \$94,000, which goodwill is being amortized on a straight-line basis over 15 years. In 1997 and 1996, amortization of the Company's excess purchase price over the net assets of Megacable when acquired was \$6,280 in each year.

Extraordinary Charge

In September 1997, the Company prepaid Senior Secured Notes with the proceeds of new credit facilities (Note 10). The early extinguishment of the Senior Secured Notes resulted in an extraordinary charge of \$3,210, net of taxes.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

For the year ended December 31, 1996, operating income before depreciation and amortization was \$25,803 as compared to \$16,994 for the year ended December 31, 1995. Sales increased 14.0% to \$104,910 for 1996 from \$91,997 in 1995. The improvement in operating income before depreciation and amortization of \$8,809 was offset by higher depreciation and amortization of \$16,545, as discussed below, resulting in a net loss of (\$5,989) for the year ended December 31, 1996 as compared to net income of \$2,114 in 1995.

Sales

For 1996, sales were \$104,910, an increase of \$12,913, or 14.0% due to higher Hybrid Fiber/Coaxial sales partially offset by lower Advanced Fiber, Wireless Video and Other Operating sales, principally long distance. Hybrid Fiber/Coaxial sales increased \$17,692, or 26.6%, primarily due to the acquisition of the Pennsylvania cable system (formerly Twin County Trans Video, Inc.) in May 1995, which resulted in \$13,530 of the increase in Hybrid Fiber/Coaxial sales in 1996. The Pennsylvania cable system serves approximately 74,000 subscribers in the Greater Lehigh Valley area of Pennsylvania. The 14.0% increase in sales in 1996 was lower than the increase of 54.6% in 1995, principally due to the consolidation of the Pennsylvania cable system for seven months (from acquisition in May 1995). Since the Pennsylvania cable system was consolidated for seven months in 1995, consolidation for a full year in 1996 reflects only an incremental five months revenue as compared to an incremental seven months revenue in 1995. Additionally, long distance revenues decreased approximately 30% from 1995 to 1996, principally as a result of termination of AT&T Tariff 12 production in 1996, as compared to increases of 77% from 1994 to 1995, which resulted from the resale of AT&T Tariff 12 long distance services and increases in long distance switched business and 800 services sales in 1995. The remaining increase in Hybrid Fiber/Coaxial sales is due to higher basic service revenues resulting from an increase in average subscribers of 4,995 or 5.3% and the full year impact, in 1996, of the 9.6% rate increase in April 1995 and the impact of 5.9% rate increase in February 1996. These increases were partially offset by lower Advanced Fiber, Wireless Video and Other Operating sales of \$4,760 primarily resulting from the termination in the second quarter of 1995 of an agreement for the resale of AT&T Tariff 12 long distance services to another long distance reseller. Included in Advanced Fiber, Wireless Video and Other Operating sales for 1996 were Wireless Video sales of \$3,532, compared to zero for 1995 reflecting the Freedom Acquisition.

Cost and Expenses, Excluding Depreciation and Amortization

In 1996, costs and expenses, excluding depreciation and amortization, were \$79,107, an increase of \$4,104 or 5.5% as compared to 1995. Hybrid Fiber/Coaxial programming expense increased \$3,930 due to license fee increases, channel additions, and subscriber growth, primarily due to the acquisition of the Pennsylvania cable system. Additionally, Hybrid Fiber/Coaxial salaries and benefits expense increased \$1,862 primarily due to the acquisition of the Pennsylvania cable system. Corporate costs and expenses, excluding depreciation and amortization, decreased \$487. This decrease is primarily due to the corporate allocable share of the gain on the partial curtailment and settlement of C-TEC's defined benefit pension plan of \$992 (See Note 13 to the Consolidated Financial Statements) partially offset by the Company's allocable portion of costs associated with the investigation of the feasibility of various restructuring alternatives to enhance shareholder value. Advanced Fiber, Wireless Video and Other Operating costs and expenses, excluding depreciation and amortization, decreased \$1,465 primarily due to lower expenses associated with the 97% reduction in AT&T Tariff 12 long distance revenues partially offset by an increase of \$2,320 representing costs associated with the development of the Company's advanced fiber optic networks in New York City and Boston and Wireless Video costs and expenses of \$8,303 in 1996 compared to zero in 1995 reflecting the Freedom Acquisition.

Depreciation and Amortization

For 1996, depreciation and amortization expense was \$38,881, an increase of \$16,545 or 74.1% as compared to 1995 primarily due to purchase accounting effects of the acquisition of the Pennsylvania cable system in May 1995 and the Freedom acquisition on August 30, 1996. (See Note 4 to the Consolidated Financial Statements.) In addition, the Company incurred \$3,756 in depreciation related to the Company's advanced fiber optic networks in New York City and Boston.

Interest Income

For the year ended December 31, 1996, interest income was \$25,602, a decrease of \$3,399, or 11.7% due primarily to a reduction in average cash balances in 1996 as compared to 1995 and a decrease in the average yield on invested cash, partially offset by interest income of \$2,222 accrued on a \$13,088 note receivable acquired from Mazon Corporativo S.A. de C.V. in January 1996. Average cash balances decreased in 1996 primarily due to cash used in the Freedom acquisition and the purchase of the loan receivable from Mazon Corporativo S. A. de C.V. Additionally, lower balances on notes receivable-affiliates contributed to the decrease.

Interest Expense

Interest expense for 1996 was \$16,046, a decrease of \$471, or 2.9% in 1996 as compared to 1995. This decrease is due to lower average rates on outstanding debt and includes approximately \$922 paid to Kiewit Telecom, the Company's controlling shareholder, in connection with the Freedom acquisition. This portion of the consideration represents an amount to compensate Kiewit Telecom for forgone interest on the amount invested in Freedom.

Income Taxes

The Company's effective income tax rate was (19.5%) in 1996 and 34.6% in 1995. For an analysis of the change in income taxes, see the reconciliation of the effective income tax rate in Note 11 to the Consolidated Financial Statements.

Minority Interest

As a result of the Freedom acquisition, Freedom's financial results are consolidated with the Company since August 30, 1996, the date of acquisition. This resulted in minority interest in the loss of Freedom of \$1,546 for 1996. Additionally, the 20% minority interest in the income of HomeLink Limited Partnership, a Hybrid Fiber/Coaxial subsidiary, was (\$206) in 1996 as compared to (\$144) in 1995.

Equity in loss of Unconsolidated Entities

In 1996, Megacable had sales of \$23,225, operating income before depreciation and amortization of \$10,183 and net income of \$10,226. In 1995, Megacable had sales of \$20,841, operating income before depreciation and amortization of \$8,154 and net income of \$5,802. Year end subscriber counts were 178,664 at December 31, 1996 as compared to 177,317 at December 31, 1995. In 1996 and 1995, the Company's share of the income of Megacable was \$4,090 and \$2,696, respectively, which includes foreign currency transaction losses as noted in the 1997 discussion. In 1996 and 1995, amortization of the Company's excess purchase price over the net assets of Megacable when acquired was \$6,280 and \$5,757, respectively.

LIQUIDITY AND CAPITAL RESOURCES

The Company expects that it will require a substantial amount of capital to fund the network development and operations in the Boston to Washington, D.C. corridor, including funding the development of its advanced fiber optic networks, upgrading its Hybrid Fiber/Coaxial plant, funding operating losses and debt service requirements. The Company currently estimates that its capital requirements for the period from January 1, 1998 through 1999 will be approximately \$785,000, which includes capital expenditures (including connection costs which will only be incurred as the Company obtains revenue-generating customer connections) of approximately \$300,000 in 1998 and approximately \$485,000 in 1999. These capital expenditures will be used principally to fund the buildout of the Company's fiber optic network in

high density areas in the Boston, New York and Washington, D.C. markets and to upgrade its Hybrid Fiber/Coaxial cable systems. To build out these areas on an efficient basis, the Company undertakes a subscriber-driven capital expenditure strategy whereby it (i) closely monitors development of its subscriber base in order to tailor network development in each target market, and (ii) seeks to establish a customer base in advance of or concurrently with its network deployment. For example, the Company offers resale telephone services on an interim basis to customers located near its advanced fiber optic networks. Depending upon factors such as subscriber density, proximity to the advanced fiber optic network and development costs and the degree of success achieved in its initial markets, the Company will determine whether extending its advanced fiber optic network to additional high density target markets can be achieved on an attractive economic basis. In addition to its own capital requirements, the Company's joint venture partners are each expected to contribute approximately \$150,000 in capital to the joint ventures in connection with development of the Boston and Washington, D.C. markets through 2000.

In October 1997, the Company raised \$575,000 in gross proceeds from an offering of two tranches of debt securities. The offering was comprised of \$225,000 principal amount of 10% Senior Notes and \$601,000 principal amount at maturity of 11 1/8% Senior Discount Notes, both due in 2007. The proceeds include \$61,045 of restricted cash to be used to fund the Escrow Account to pay interest on the 10% Senior Notes for three years. In February 1998, the Company raised \$350,587 in gross proceeds from an offering of \$567,000 principal amount at maturity of 9.8% Senior Discount Notes, due in 2008. The Company expects to have sufficient liquidity to meet its capital requirements through mid-2000. The Company will continue to require additional capital for planned increases in network coverage and other capital expenditures, working capital, debt service requirements, and anticipated further operating losses. The actual timing and amount of capital required to roll out the Company's network and to fund operating losses may vary materially from the Company's estimates and additional funds will be required in the event of significant departures from the current business plan, unforeseen delays, cost overruns, engineering design changes and other technological risks or other unanticipated expenses. Due to its subscriber driven investment strategy, should the Company encounter a successful rollout in its initial markets, the Company may accelerate the expansion and extend the reach of its network. Conversely, should the Company be less successful than anticipated, the operating losses associated with the installed network may be higher than anticipated. The Company presently intends to judge the success of its initial rollout in deciding whether to undertake additional capital expenditures to rollout the network to additional areas. Since the Company anticipates that, if it is successful, it will continue to extend its network coverage into additional areas within the Boston-Washington, D.C. corridor, it expects to continue to experience losses and negative cash flow on an aggregate basis for an extended period of time.

The Company's current joint venture agreements reduce the amount of expenditures required by RCN to develop the network due both to access to the joint venture partners' existing facilities and to the anticipated joint venture partners' equity contributions. However, the joint venture arrangements will also reduce the potential cash flows to be realized from operation of the networks in the markets in which the joint ventures operate and restrict the Company's access to cash flow generated by the joint ventures (which will be paid in the form of dividends). The Company may enter into additional joint ventures in the future as the Company begins to develop new markets.

Sources of funding for the Company's further financing requirements may include vendor financing, public offering or private placements of equity and/or debt securities, and bank loans. There can be no assurance that additional financing will be available to the Company or, if available, that it can be obtained on a timely basis and on acceptable terms. Failure to obtain such financing could result in the delay or curtailment of the Company's development and expansion plans and expenditures. Any of these events could impair the Company's ability to meet its debt service requirements and could have a material adverse effect on its business.

RCN Cable and certain of its subsidiaries have in place secured credit facilities comprised of a five-year revolving credit facility in the amount of \$25,000 (the "Revolving Credit Facility") and an eight-year term credit facility in the amount of \$100,000 (the "Term Credit Facility"), both of which facilities are governed

by a single credit agreement dated as of July 1, 1997 (the "Credit Agreement"). As of December 31, 1997, \$100,000 of the Term Credit Facility was outstanding. The term loan must be repaid over six years in quarterly installments, at the end of September, December, March and June of each year from September 30, 1999 through June 30, 2005. As of December 31, 1997, \$3,000 principal was outstanding under the Revolving Credit Facility. Revolving loans may be repaid and reborrowed from time to time.

The Company has indebtedness that is substantial in relation to its shareholders' equity and cash flow. At December 31, 1997, after giving effect to the 1998 Notes Offering, the Company had an aggregate of approximately \$1,036,000 of indebtedness outstanding, and the ability to borrow up to an additional \$22,000 under the Credit Agreement. As a result of the substantial indebtedness of the Company, the Company's fixed charges are expected to exceed its earnings for the foreseeable future. In addition, the Company will require substantial additional indebtedness particularly in connection with the buildout of the Company's networks and the introduction of its telecommunications services to new markets. The leveraged nature of the Company could limit its ability to effect future financing or may otherwise restrict the Company's business activities.

The extent of the Company's leverage may have the following consequences: (i) limit the ability of the Company to obtain necessary financing in the future for working capital, capital expenditures, debt service requirements or other purposes; (ii) require that a substantial portion of the Company's cash flows from operations be dedicated to the payment of principal and interest on its indebtedness and therefore not be available for other purposes; (iii) limit the Company's flexibility in planning for, or reacting to, changes in its business; (iv) place the Company at a competitive disadvantage as compared with less leveraged competitors; and (v) render the Company more vulnerable in the event of a downturn in its business.

For the year ended December 31, 1997, the Company's net cash provided by operating activities was \$1,661, comprised primarily of a net loss of (\$52,391) adjusted by non-cash depreciation and amortization of \$53,205, other non-cash items totaling (\$611), working capital changes of \$377 and changes in other deferred expenses of \$1,081. Net cash used in investing activities of \$475,860 consisted primarily of purchases of short-term investments of \$445,137, additions to property, plant and equipment of \$79,042 and acquisitions of \$30,490 (primarily acquisition of the minority interest of Freedom) partially offset by sales and maturities of short-term investments of \$76,923. Net cash provided by financing activities of \$635,266 consisted primarily of issuance of long-term debt of \$688,000, change in affiliate notes of \$97,624 and transfers from C-TEC of \$89,324 partially offset by redemption of long-term debt of \$141,250, transfers to C-TEC of \$23,474, payments made for debt financing costs of \$19,743 and an increase related to cash restricted for debt service of \$61,250.

For the year ended December 31, 1996, the Company's net cash provided by operating activities was \$23,831 comprised primarily of a net loss of \$5,989 adjusted by non-cash depreciation and amortization of \$38,881 and other non-cash items totaling (\$7,184). Net cash used in investing activities of \$9,377 consisted primarily of additions to property, plant and equipment of \$40,369, the purchase of a loan receivable of \$13,088 and acquisitions of \$30,090 (primarily the Freedom acquisition), partially offset by net sales and maturities of short-term investments of \$73,995. Net cash provided by financing activities of \$9,391 included the issuance of long-term debt of \$19,000 and change in affiliate notes of \$32,802 partially offset by the redemption of long-term debt of \$44,750.

Impact of the Year 2000 Issue

The Company has certain financial, administrative and operational systems which are subject to Year 2000 exposures. The Company has performed a study to identify those specific systems which require remediation and developed a plan to correct such situations in a timely fashion. The Company's plan is proceeding on target. The plan includes ensuring that those systems for which the Company is dependent on external vendors, such as certain billing systems, will be Year 2000 compliant by the end of 1999 based on the status of external vendors' remediation efforts. For those internal systems that require corrective action, the Company has contracted with its information systems services provider to rewrite the relevant

programming code. Finally, the Company is well along on a conversion of its suite of financial systems to a state-of-the-art Oracle system. Such system is expected to ensure Year 2000 compliance in financial applications, enable the Company to process and report its financial transactions more efficiently and provide a greater level of detailed information to facilitate management's analysis which is critical to its business decisions.

The Company is employing a team approach across its MIS, financial and operational groups in addressing the above issues, as well as utilizing the assistance of external consultants in the case of the Oracle implementation. Such team approach facilitates a consistent progress along plans without disruption of other areas of the business.

There is no assurance that the Company's plans will continue to progress as intended. The Company estimates that its cost of Year 2000 remediation will not be material.

RCN Corporation and Subsidiaries
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of Dollars Except Per Share Amounts)

	For the Years Ended December 31,		
	1997	1996	1995
Sales	\$127,297	\$104,910	\$91,997
Costs and expenses, excluding depreciation and amortization	134,967	79,107	75,003
Nonrecurring charges	10,000	-	-
Depreciation and amortization	53,205	38,881	22,336
Operating (loss)	(70,875)	(13,078)	(5,342)
Interest income	22,824	25,602	29,001
Interest expense	(25,602)	(16,046)	(16,517)
Other income (expense), net	131	(546)	(304)
(Loss) income before income taxes	(73,522)	(4,068)	6,838
(Benefit) provision for income taxes	(20,849)	979	1,119
(Loss) income before minority interest and equity in unconsolidated entities	(52,673)	(5,047)	5,719
Minority interest in loss (income) of consolidated entities	7,296	1,340	(144)
Equity in (loss) of unconsolidated entities	(3,804)	(2,282)	(3,461)
(Loss) income before extraordinary item	(49,181)	(5,989)	2,114
Extraordinary charge - debt prepayment penalty, net of tax of \$1,728	(3,210)	-	-
Net (loss) income	(\$52,391)	(\$5,989)	\$2,114
=====			
Basic earnings per average common share:			
Income (loss) before extraordinary charge	(\$0.89)	(\$0.11)	\$0.04
Extraordinary charge - debt prepayment penalty	(\$0.06)	-	-
Net income (loss) to shareholders	(\$0.95)	(\$0.11)	\$0.04
Weighted average shares outstanding	54,965,716	54,918,394	54,890,334
Diluted earnings per average common share:			
Income (loss) before extraordinary charge	(\$0.89)	(\$0.11)	\$0.04
Extraordinary charge - debt prepayment penalty	(\$0.06)	-	-
Net income (loss) to shareholders	(\$0.95)	(\$0.11)	\$0.04
Weighted average shares and common stock equivalents outstanding	54,965,716	54,918,394	54,890,334

See accompanying notes to Consolidated Financial Statements.

RCN Corporation and Subsidiaries
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

	December 31,	
	1997	1996
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ASSETS		
Current assets		
Cash and temporary cash investments	\$222,910	\$61,843
Short-term investments	415,603	46,831
Accounts receivable from related parties	9,829	12,614
Accounts receivable, net of reserve for doubtful accounts of \$2,134 in 1997 and \$861 in 1996	17,815	10,413
Unbilled revenues	1,695	844
Material and supply inventory, at average cost	2,745	1,140
Prepayments and other	5,314	4,556
Deferred income taxes	4,821	4,371
Investments restricted for debt service	22,500	-
Total current assets	703,232	142,612
Notes receivable - affiliates	-	155,481
Property, plant and equipment, net of accumulated depreciation of \$107,419 in 1997 and \$84,529 in 1996	200,340	135,828
Investments restricted for debt service	39,411	-
Investments	70,424	76,547
Intangible assets, net	96,547	93,471
Deferred charges and other assets	41,038	24,146
Total assets	\$1,150,992	\$628,085
<hr/>		
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable to related parties	\$3,748	\$4,880
Accounts payable	24,835	13,642
Advance billings and customer deposits	7,318	6,859
Accrued taxes	488	1,950
Accrued interest	5,549	5,041
Accrued contract settlements	3,126	3,565
Accrued cable programming expense	3,498	3,188
Accrued expenses	21,143	18,167
Total current liabilities	69,705	57,292
Long-term debt	686,103	131,250
Notes payable - affiliates	-	11,854
Deferred income taxes	19,612	28,245
Other deferred credits	2,596	3,290
Minority interest	16,392	5,389
Commitments and contingencies		
Preferred stock	-	-
Common shareholders' equity	356,584	390,765
Total liabilities and shareholders' equity	\$1,150,992	\$628,085
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See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

	For the Years Ended December 31,		
	1997	1996	1995
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Cash flows from operating activities			
Net income (loss)	(\$52,391)	(\$5,989)	\$2,114
Gain on pension curtailment/settlement	-	(3,437)	-
Accretion of discounted debt	8,103	-	-
Gain on sale of partnership interest	(661)	-	-
Extraordinary item - debt prepayment penalty	3,210	-	-
Depreciation and amortization	53,205	38,881	22,336
Deferred income taxes and investment tax credits, net	(10,503)	(6,477)	6,696
Provision for losses on accounts receivable	2,732	1,788	614
Equity in loss of unconsolidated entities	3,804	2,282	3,461
Minority interest	(7,296)	(1,340)	144
Net change in certain assets and liabilities, net of business acquisitions:			
Accounts receivable and unbilled revenues	(14,979)	(3,780)	(5,550)
Material and supply inventory	(1,605)	(814)	777
Accounts payable	11,193	2,954	3,983
Accrued expenses	3,353	4,283	2,783
Accounts receivable from related parties	3,180	1,572	11,860
Accounts payable to related parties	(1,132)	(5,448)	(419)
Other, net	367	597	529
Other	1,081	(1,241)	(769)
Net cash provided by operating activities	1,661	23,831	48,559
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Cash flows from investing activities:			
Additions to property, plant and equipment	(79,042)	(38,548)	(29,854)
Purchase of short-term investments	(445,137)	(75,091)	(238,257)
Sales and maturities of short-term investments	76,923	149,086	245,112
Acquisitions, net of cash acquired	(30,490)	(30,090)	(121,147)
Purchase of loan receivable	-	(13,088)	-
Proceeds from sale of partnership interest	1,900	-	-
Other	(14)	(1,646)	(2,057)
Net cash used in investing activities	(475,860)	(9,377)	(146,203)
<hr/>			
Cash flows from financing activities			
Redemption of long-term debt	(141,250)	(44,750)	(28,741)
Issuance of long-term debt	688,000	19,000	19,300
Change in affiliate notes, net	97,624	32,802	(6,130)
Extraordinary item - debt prepayment penalty	(3,210)	-	-
Payments made for debt financing costs	(19,743)	-	-
Cash contribution from joint venture partner	9,016	-	-
(Increase) related to investments restricted for debt service	(61,250)	-	-
Proceeds from issuance of stock	230	-	-
Transfers from C-TEC	89,323	78,550	132,707
Transfers (to) C-TEC	(23,474)	(76,211)	(148,339)
Net cash provided by (used in) financing activities	635,266	9,391	(31,203)
Net increase (decrease) in cash and temporary cash investments	161,067	23,845	(128,847)
Cash and temporary cash investments at beginning of year	61,843	37,998	166,845
Cash and temporary cash investments at end of year	\$222,910	\$61,843	\$37,998
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Supplemental disclosures of cash flow information			
Cash paid during the periods for:			
Income taxes	\$1,090	\$549	\$497
Interest (net of amounts capitalized)	\$16,536	\$16,046	\$16,404
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See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(THOUSANDS OF DOLLARS)

Supplemental Schedule of Non-Cash Investing and Financing Activities

In March 1997, the Company acquired the portion of Freedom which it did not already own. The transaction was accounted for as a purchase. A summary of the transaction is as follows:

Cash paid	\$40,000
Non-capitalizable costs	(10,000)
Reduction of minority interest	(3,812)

Fair value of assets acquired	\$26,188
	=====

In 1996, C-TEC acquired an 80.1% interest in Freedom New York, L.L.C. The acquisition was accounted for as a purchase. A summary of the acquisition is as follows:

Cash paid	\$28,906
Liabilities assumed	7,621
Deferred tax asset recognized	(167)
Minority interest recognized	6,188

Fair value of assets acquired	\$42,548
	=====

In 1995, C-TEC acquired all the outstanding Common Stock of Twin County Trans Video, Inc. and a related covenant not to compete. The consideration for the acquisition was as follows:

Cash paid (including \$1,000 deposit in 1994)	\$37,313
Issuance of 5% Promissory Note	4,000
Capital contribution by stockholder	39,493
Liabilities assumed	16,364
Deferred tax liability incurred	33,797

Fair value of assets acquired	\$130,967
	=====

In 1996, the \$4,000 promissory note was canceled and the Company paid cash of \$500 in settlement of certain purchase price adjustments.

Certain intercompany accounts receivable and payable and intercompany note balances were transferred to Shareholders' Net Investment in connection with the Distribution.

BECO's contribution of the IRU to the RCN-BECOCOM joint venture (Note 7(a)) is reflected as "Advanced Fiber Plant" at its fair value.

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1997, 1996 and 1995
(Thousands of Dollars)

	Common Shares Issued and Outstanding	Common Stock	Additional Paid in Capital	Deficit	Shareholder's Net Investment	Cumulative Translation Adjustment	Total Shareholders' Equity
Balance, December 31, 1994	1,400	\$ 1	\$ -	\$ -	\$372,846	\$ -	\$372,847
Net income					2,114		2,114
Transfers from C-TEC					21,714		21,714
Cumulative translation adjustment						(2,606)	(2,606)
Balance, December 31, 1995	1,400	1	-	-	396,674	(2,606)	394,069
Net loss					(5,989)		(5,989)
Transfers from C-TEC					3,134		3,134
Cumulative translation adjustments						(449)	(449)
Balance, December 31, 1996	1,400	1	-	-	393,819	(3,055)	390,765
Net loss from 1/1/97 through 9/30/97					(35,275)		(35,275)
Net loss from 10/1/97 through 12/31/97				(17,116)			(17,116)
Transfers from C-TEC					17,980		17,980
Common stock issued in connection with the distribution	54,967,952	54,968	321,556		(376,524)		-
Stock plan transactions	20,518	20	210				230
Balance, December 31, 1997	54,989,870	\$54,989	\$321,766	(\$17,116)	\$ -	(\$3,055)	\$356,584

See accompanying notes to Consolidated Financial Statements

RCN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(THOUSANDS OF DOLLARS EXCEPT PER SHARE DATA)

1. BACKGROUND AND BASIS OF PRESENTATION

Prior to September 30, 1997, RCN Corporation (the "Company" or "RCN") was operated as part of C-TEC Corporation ("C-TEC"). On September 30, 1997, C-TEC distributed 100 percent of the outstanding shares of common stock of its wholly owned subsidiaries, RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's Common Stock and C-TEC's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C-TEC, RCN and Cable Michigan. RCN consists primarily of C-TEC's bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor, its existing New York, New Jersey and Pennsylvania cable television operations, a portion of its long distance operations and its international investment in Megacable, S.A. de C.V. ("Megacable"). Cable Michigan, Inc. consists of C-TEC's Michigan cable operations, including its 62% ownership in Mercom, Inc. In connection with the Distribution, C-TEC changed its name to Commonwealth Telephone Enterprises, Inc. ("CTE").

The consolidated financial statements have been prepared using the historical basis of assets and liabilities and historical results of operations of all wholly and majority owned subsidiaries. However, the historical financial information presented herein reflects periods during which the Company did not operate as an independent company and accordingly, certain assumptions were made in preparing such financial information. Such information, therefore, may not necessarily reflect the results of operations, financial condition or cash flows of the Company in the future or what they would have been had the Company been an independent, public company during the reporting periods. All material intercompany transactions and balances have been eliminated. Investments accounted for by the equity method include a 40% interest in Megacable, a Mexican cable television system operator. Joint ventures which the Company controls and in which the minority investors do not possess significant veto rights are consolidated. Other joint ventures are accounted for by the equity method.

C-TEC's corporate services group has historically provided substantial support services such as finance, cash management, legal, human resources, insurance and risk management and its financial statements are included in the consolidated financial statements of the Company. Prior to the Distribution, the corporate office allocated the cost for these services pro rata among the business units supported primarily based on assets; contribution to consolidated earnings before interest, depreciation, amortization, and income taxes; and number of employees. In the opinion of management, the method of allocating these costs is reasonable; however, the costs of these services remaining with the Company after allocation to C-TEC's other business units are not necessarily indicative of the costs that would have been incurred by the Company on a stand-alone basis. Also included in the Company's consolidated financial statements are the financial statements of the corporate financial services company which invests excess cash of, and advances funds to the Company and prior to the Distribution, C-TEC. The financial services company charges interest expense on outstanding advances and pays interest income on excess cash invested for affiliates.

CTE, RCN and Cable Michigan have entered into certain agreements providing for the Distribution, and governing various ongoing relationships, including the provision of support services, between the three companies, including a distribution agreement and a tax-sharing agreement.

2. SEGMENT INFORMATION

The Company is developing advanced fiber optic networks to provide a wide range of telecommunications services including local and long distance telephone, video programming and data services (including high speed Internet access), primarily to residential customers in selected high density markets in the Boston to

Washington, D.C. corridor. The Company also seeks to serve certain commercial accounts on or near its networks. RCN's initial advanced fiber optic networks have been established in New York City and, through a joint venture with the Boston Edison Company ("BECO"), in Boston and surrounding communities. RCN has also entered into a joint venture named Starpower Communications, LLC ("Starpower") with Pepco Communications, LLC ("Pepco Communications"), an indirect wholly owned subsidiary of Potomac Electric Power Company ("PEPCO"), to develop an advanced fiber network in the Washington, D.C. area. In February 1998, RCN acquired Boston's and Washington, D.C.'s largest Internet service providers ("ISP"), Ultranet Communications, Inc. ("Ultranet") and Erols Internet, Inc. ("Erols"), respectively. The Company also has hybrid fiber/coaxial operations in New York (outside New York City), New Jersey and Pennsylvania, wireless video operations in New York City and certain other operations, including long distance telephone.

	For the Year Ended December 31,		
	1997	1996	1995
<hr/>			
Hybrid Fiber/Coaxial			
<hr/>			
Sales	\$ 92,100	\$ 84,096	\$ 66,404
Operating income before depreciation and amortization	39,767	40,094	28,458
Depreciation and amortization	33,713	33,131	20,723
Operating income	6,054	6,963	7,735
Additions of property, plant and equipment	19,258	14,010	19,226
Identifiable assets	159,763	335,285	359,401
Advanced Fiber, Wireless Video and			
<hr/>			
Other Operating			
<hr/>			
Sales	\$ 35,111	\$ 20,768	\$ 25,528
Operating loss before depreciation and amortization	(39,882)	(11,711)	(8,416)
Depreciation and amortization	18,480	4,970	904
Operating loss	(58,362)	(16,681)	(9,320)
Additions of property, plant and equipment	56,454	23,714	6,453
Identifiable assets	166,478	87,419	14,491
Corporate			
<hr/>			
Sales	\$ 86	\$ 46	\$ 65
Operating loss before depreciation and amortization and nonrecurring charge	(7,555)	(2,580)	(3,048)
Nonrecurring charge	10,000	-	-
Depreciation and amortization	1,012	780	709
Operating loss	(18,567)	(3,360)	(3,757)
Additions of property, plant and equipment	3,330	824	4,175
Identifiable assets	824,751	205,381	275,718
Consolidated			
<hr/>			
Sales	\$ 127,297	\$104,910	\$ 91,997
Operating loss before depreciation and amortization and nonrecurring charge	(7,670)	25,803	16,994
Nonrecurring charge	10,000	-	-
Depreciation and amortization	53,205	38,881	22,336
Operating loss	(70,875)	(13,078)	(5,342)
Additions of property, plant and equipment	79,042	38,548	29,854
Identifiable assets	1,150,992	628,085	649,610

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Temporary Cash Investments - For purposes of reporting cash flows, the -----

Company considers all highly liquid investments purchased with an original maturity of three months or less to be temporary cash investments. Temporary cash investments are stated at cost which approximates market.

Short Term Investments and Investments Restricted for Debt Service - Management -----

determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determination at each balance sheet date in accordance with Statement of Financial Accounting Standards No. 115 - "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1997 and 1996, marketable debt and equity securities have been categorized as available for sale. The Company states its short term investments at cost, which approximates market. Investments restricted for debt service have been categorized as held to maturity.

Property, Plant and Equipment and Depreciation - Property, plant and equipment -----

reflects the original cost of acquisition or construction, including payroll and related costs such as taxes, pensions and other fringe benefits, and certain general administrative costs.

Depreciation is provided on the straight-line method based on the useful lives of the various classes of depreciable property. The average estimated lives of depreciable property, plant and equipment are:

	Lives -----
Hybrid fiber/coaxial plant	5-22 years
Advanced fiber plant	10-15 years
Wireless & other plant	5 years
Buildings and leasehold improvements	5-45 years
Furniture, fixtures and vehicles	3-10 years
Other	3 years

Repairs of all property, plant and equipment and minor replacements and renewals are charged to expense as incurred. Major replacements and betterments are capitalized. Gain or loss is recognized on major retirements and dispositions.

Intangible Assets - Intangible assets are amortized on a straight-line basis -----

over the expected period of benefit ranging from 2 to 15 years.

Accounting for Impairments - The Company follows the provisions of Statement of -----

Financial Accounting Standards No. 121 - "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of " ("SFAS 121"). SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected net future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles expected to be held and used is based on the fair value of the asset.

No impairment losses have been recognized by the Company pursuant to SFAS 121.

Revenue Recognition - Local telephone service revenue is recorded as earned

based on tariffed rates. Long distance telephone service revenue is recorded based on minutes of traffic processed and tariffed rates or contracted fees. Revenues from cable programming services are recorded in the month the service is provided. Internet access service revenues are recorded based on contracted fees.

Advertising Expense - Advertising costs are expensed as incurred. Advertising

expense charged to operations was \$12,203, \$1,441 and \$862 in 1997, 1996 and 1995, respectively.

Stock Based Compensation - The Company applies Accounting Principles Board

Opinion No. 25 - "Accounting for Stock Issued to Employees" ("APB 25") in accounting for its stock plans. The Company has adopted the disclosure - only provisions of Statement of Financial Accounting Standards No. 123 - "Accounting for Stock-Based Compensation" ("SFAS 123").

Earnings (loss) per share - The Company has adopted Statement of Financial

Accounting Standards No. 128 - Earnings Per Share ("SFAS 128"). Basic earnings (loss) per share is computed based on net income (loss) divided by the weighted average number of shares of common stock outstanding during the period.

Diluted earnings (loss) per share is computed based on net income (loss) divided by the weighted average number of shares of common stock outstanding during the period after giving effect to convertible securities considered to be dilutive common stock equivalents. The conversion of stock options during periods in which the Company incurs a loss from continuing operations is not assumed since the effect is anti-dilutive. The number of stock options which would have been converted in 1997 and have a dilutive effect if the Company had income from continuing operations is 517,506.

For periods prior to October 1, 1997, during which the Company was a wholly owned subsidiary of C-TEC, earnings (loss) per share was calculated by dividing net income (loss) by the number of average common shares of C-TEC outstanding, based upon a distribution ratio of one share of Company common equity for each share of C-TEC common equity owned.

	Years Ended December 31,		
	1997	1996	1995
	----	----	----
Income (loss) before extraordinary charge	\$ (49,181)	\$ (5,989)	\$ 2,114
	-----	-----	-----
Basic earnings per average common share:			
Average shares outstanding	54,965,716	54,918,394	54,890,334
(Loss) income per average common share	\$ (0.89)	\$ (0.11)	\$ 0.04
Diluted earnings per average common share:			
Average shares outstanding	54,965,716	54,918,394	54,890,334
Dilutive shares resulting from stock options	-	-	-
	-----	-----	-----
	54,965,716	54,918,394	54,890,334
	-----	-----	-----
(Loss) income per average common share	\$ (0.89)	\$ (0.11)	\$ 0.04

Income Taxes - The Company and its subsidiaries report income for federal tax

purposes on a consolidated basis. Prior to the Distribution, the Company and its subsidiaries were included in the consolidated federal income tax return of C-TEC. Income tax expense is allocated to subsidiaries on a separate return basis except that the Company's subsidiaries receive benefit for the utilization of net operating losses and

investment tax credits included in the consolidated return even if such losses and credits could not have been used on a separate return basis. The Company accounts for income taxes using Statement of Financial Accounting Standards No. 109 - "Accounting for Income Taxes." The statement requires the use of an asset and liability approach for financial reporting purposes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial reporting basis and tax basis of assets and liabilities. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

Investment tax credits ("ITC") for the Company have been deferred in prior years and are being amortized over the average lives of the applicable property.

Foreign Currency Translation - The Company has a 40% interest in Megacable. For

purposes of determining its equity in the earnings of Megacable, the Company translates the revenues and expenses of Megacable into U.S. dollars at the average exchange rates that prevailed during the period. Assets and liabilities are translated into U.S. dollars at the rates in effect at the end of the fiscal period. Prior to 1997, the Company's share of the gains or losses that result from this process are shown in the cumulative translation adjustment account in the common shareholders' equity section of the balance sheet. Effective January 1, 1997, since the three-year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is treated for accounting purposes as having a highly inflationary economy. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. The Company's proportionate share of gains and losses resulting from transactions of Megacable, which are made in currencies different from its own, are included in income as they occur.

4. BUSINESS COMBINATIONS

The following business combinations were transacted by wholly owned subsidiaries of C-TEC. The acquired businesses were transferred to the Company in connection with the Distribution.

On August 30, 1996, FNY Holding Company, Inc., formerly a wholly owned subsidiary of C-TEC ("FNY") acquired from Kiewit Telecom Holdings, C-TEC's controlling shareholder at the time, an 80.1% interest in Freedom New York, LLC and all related rights and liabilities ("Freedom") for cash consideration of approximately \$29,000. In addition, FNY assumed liabilities of approximately \$7,600. (In March 1996, Freedom had acquired the wireless cable television business of Liberty Cable Television). The acquisition was accounted for as a purchase, and accordingly, Freedom is included in the Company's consolidated financial statements since September 1996. The full fair value of assets acquired and liabilities assumed has been reflected in the Company's financial statements with minority interest reflecting the separate 19.9% ownership.

FNY allocated the purchase price paid on the basis of the fair value of property, plant and equipment and identifiable intangible assets acquired and liabilities assumed. There was no excess cost over fair value of net assets acquired.

Contingent consideration of \$15,000 was payable in cash and was to be based upon the number of net eligible subscribers, as defined in the Acquisition Agreement, in excess of 16,563 delivered to the Company. The contingent consideration is not included in the acquisition cost total above but was to have been recorded when and if the future delivery of subscribers occurred. In addition, FNY paid \$922 to Kiewit Telecom Holdings which represents compensation for foregone interest on the amount invested by Kiewit Telecom Holdings in Freedom. This amount has been charged to operations.

On March 21, 1997, the Company paid \$15,000 in full satisfaction of contingent consideration payable for the original acquisition of Freedom. Additionally, pursuant to the terms of the Freedom Operating Agreement, the assets of RCN Telecom Services of New York, Inc., a wholly-owned subsidiary of RCN, were contributed to Freedom, in which the Company had an 80.1% ownership interest prior to such

contribution. Subsequent to this contribution, the Company paid \$15,000 to acquire the minority ownership of Freedom. These amounts were primarily allocated to excess cost over fair value of net assets acquired and are being amortized over a period of approximately six years. The Company also paid \$10,000 to terminate a marketing services agreement between Freedom and an entity controlled by Freedom's former minority owners. The Company charged this amount to operations for the quarter ended March 31, 1997.

On May 15, 1995, C-TEC Cable Systems, Inc., ("RCN Cable") formerly a wholly owned subsidiary of C-TEC, acquired 40% of the outstanding common stock of Twin County Trans Video, Inc. ("Twin County") in exchange for cash of approximately \$26,300, including a \$1,000 deposit made in 1994, and a \$4,000, 5% promissory note of RCN Cable. In addition, RCN Cable paid \$11,000 in consideration of a noncompete agreement and assumed liabilities of approximately \$16,400. The remaining shares were subject to an escrow agreement, pending completion of the merger, and were required to be voted under the direction of RCN Cable. As of May 15, 1995, RCN Cable also assumed management of Twin County. As a result, RCN Cable had control of Twin County and accordingly Twin County is consolidated in the Company's financial statements since May 1995, the date of the original acquisition. The remaining outstanding common stock of Twin County was acquired in September 1995 in exchange for \$52,000 stated value redeemable convertible preferred stock of C-TEC. The preferred stock has a stated dividend rate of 5%, beginning January 1, 1996. The fair value of the preferred stock, as determined by an independent appraiser was \$39,500 which was recorded as additional paid-in capital to the Company. In 1996, the \$4,000 promissory note was canceled and RCN Cable paid cash of \$500 in settlement of certain purchase price adjustments.

RCN Cable has allocated the purchase price paid for Twin County on the basis of the fair value of property, plant and equipment and identifiable intangible assets acquired and liabilities assumed. The excess of the consideration for the acquisition over the fair value of the net assets acquired of approximately \$16,700 has been allocated to goodwill and is being amortized over a period of approximately 10 years.

In January 1995, RCN International Holdings, Inc. (formerly C-TEC International, Inc.), formerly a wholly owned subsidiary of C-TEC, purchased a 40% equity position in Megacable. The aggregate consideration for the purchase was cash of \$84,115. The Company accounts for its investment by the equity method of accounting. The original excess cost over the underlying equity in the net assets acquired is approximately \$94,000, which is being amortized on a straight-line basis over 15 years.

In January 1995, RCN Cable purchased the assets of Higgins Lake Cable, Inc. for cash of approximately \$4,750.

In June 1995, C-TEC invested approximately \$2,220 for a one-third interest in a partnership which intends to provide alternative access telephone service to commercial subscribers. C-TEC transferred this investment to RCN Cable in 1996 at net book value of \$1,977. The Company disposed of its investment in 1997 and realized a gain of \$661.

In November 1995, the Company purchased the assets used in the provision of residential telephone services in New York by RealCom Office Communications, Inc. for cash of approximately \$1,050.

The following unaudited pro forma summary presents information as if the acquisitions of Freedom and Twin County had occurred at the beginning of 1996. The pro forma information is provided for information purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the consolidated entities.

	Years Ended December 31,	
	1997	1996
	(Unaudited)	
Sales	\$127,297	\$110,116
(Loss) from continuing operations before extraordinary items	\$ (72,245)	\$ (20,189)
Net (loss)	\$ (53,831)	\$ (16,807)
Pro Forma Earnings Per Share:		
(Loss) from continuing operations before extraordinary items	\$ (1.31)	\$ (.37)
Net (loss)	\$ (.98)	\$ (.31)

5. SHORT-TERM INVESTMENTS

Short-term investments, stated at cost, include the following at December 31, 1997 and 1996:

	1997	1996
	-----	-----
Federal Agency notes	\$110,966	\$ -
Commercial Paper	43,859	8,823
Corporate debt securities	222,785	38,008
Certificates of deposit	37,993	-
	-----	-----
Total	\$415,603	\$ 46,831
	=====	=====

At December 31, 1997, short term investments with an amortized cost of \$329,714 have contractual maturities of one to three years. All remaining short term investments have contractual maturities under one year.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following at December 31,

	1997	1996
	-----	-----
Hybrid fiber/coaxial plant	\$ 157,652	\$148,172
Advanced fiber plant	76,572	29,226
Wireless & other plant	4,771	4,245
Buildings, leasehold improvements and land	16,607	10,989
Furniture, fixtures and vehicles	23,399	18,119
Construction in process	28,195	9,013
Other	563	593
	-----	-----
Total property, plant and equipment	307,759	220,357
Less accumulated depreciation	(107,419)	(84,529)
	-----	-----
Property, plant and equipment, net	\$ 200,340	\$135,828
	=====	=====

Depreciation expense was \$24,257, \$19,372 and \$13,236 for the years ended December 31, 1997, 1996 and 1995, respectively.

7. INVESTMENTS AND JOINT VENTURES

Investments at December 31, are as follows:

	1997	1996
	-----	-----
Megacable	\$70,363	\$74,232
Partnership	-	2,315
Other	61	-
	-----	-----
Total Investments	\$70,424	\$76,547
	=====	=====

Investments carried on the equity method consist of the following at December 31:

	Percentage Owned	
	1997	1996
	-----	-----
Megacable	40.00%	40.00%
Partnership Interest	-	33.33%
Starpower Communications, LLC	50.00%	-

a. In September 1996, RCN and Boston Edison Company ("BECO"), through wholly owned subsidiaries, entered into a letter of intent to form a joint venture to utilize 126 fiber miles of BECO's fiber optic network to deliver RCN's comprehensive communications package in Greater Boston. The venture, in the form of an unregulated entity with a term expiring in the year 2060, was formed pursuant to a joint venture agreement dated December 23, 1996 (the "Boston Joint Venture Agreement") providing for the organization and operation of RCN-BECOCOM, LLC ("RCN-BECOCOM"). RCN-BECOCOM was organized to own and operate an advanced fiber optic telecommunications network and to provide, in the market in and around Boston, Massachusetts, voice, video and data services, as well as the communications support component of energy related customer services offered by BECO. RCN owns 51% of the equity interest in RCN-BECOCOM and BECO, owns the remaining 49% interest. Future capital contributions are required to be made on a 51% and 49% basis for RCN and BECO, respectively.

The closing of the transactions contemplated by the Boston Joint Venture Agreement occurred on June 17, 1997. RCN will manage the business of RCN-BECOCOM pursuant to the terms of the Management Agreement and, in consideration therefor, will receive reimbursement for its reasonable costs, and a performance-based fee (based on factors including the number of subscribers and operating cash flow) to be determined by agreement of RCN and RCN-BECOCOM. The initial term of the agreement expires on December 31, 2001. The agreement provides for automatic successive three-year renewal periods, unless notice is given ninety days before the end of the period. As a result of its ownership, management and control, this joint venture with BECO is consolidated in RCN's financial statements.

Pursuant to an Indefeasible Right of Use Agreement ("IRU Agreement"), BECO will, for certain agreed upon fees, (i) provide construction services to build out the Network, (ii) make available to RCN-BECOCOM (a) all of the available capacity of BECO's existing fiber backbone, and (b) the ability to use BECO's real estate, poles, easements and other interests for the construction and operation of the Network and (iii) maintain the Network. BECO's construction obligations expire on June 17, 2007 and the term of the IRU Agreement expires on December 31, 2060. One year before each respective expiration date, BECO agrees to commence good-faith negotiations to extend construction obligations beyond June 17, 2007 and to allow continued use of BECO's facilities beyond December 31, 2060. The fair value of the IRU transferred by BECO to the joint venture is reflected as "Advanced Fiber Plant" in property, plant and equipment.

BECO will have the right at the time of the Distribution and every two years thereafter to convert its ownership interest in RCN-BECOCOM into the Common Stock of RCN pursuant to specific terms and conditions. If BECO exercises its conversion rights, BECO will remain obligated to make 49% of all cash contributions by the parties and any cash contributions made after conversion will result in it owning a portion of RCN-BECOCOM based on the value of RCN-BECOCOM at the time of the contribution. BECO may exercise its conversion rights in whole or in part from time to time. In January 1998, BECO notified RCN that it has elected to exercise its option to the full extent permitted by the Exchange Agreement with respect to 1997. RCN and BECO are presently in discussions with respect to the calculation of the agreed upon value for the exercise of such option.

b. On August 1, 1997, RCN and Potomac Capital Investment Corporation ("PCI"), a wholly owned subsidiary of PEPCO, entered into a letter of intent (the "Letter of Intent") to form a joint venture which will own and operate a communications network to provide voice, video, data and other communications services to residential and commercial customers in the greater Washington, D.C., Virginia and Maryland area (the "Washington, D.C. Market"). Starpower, an unregulated limited liability company with a perpetual term, was formed on October 28, 1997 to construct, own, lease, operate and market a network for the selling of voice, video, data and other telecommunications services to all potential commercial and residential customers in the Washington, D.C. Market. RCN owns 50% of the equity interest in Starpower and PCI owns the remaining 50% interest.

The closing of the Starpower joint venture (the "Starpower Closing") occurred on December 19, 1997.

Pursuant to the Amended and Restated Operating Agreement, RCN and Pepco Communications are each required to make additional capital contributions in accordance with a schedule set forth in such agreement on a 50%/50% basis. Failure of either RCN or Pepco Communications to make a scheduled capital contribution or to vote in favor of certain additional capital contributions may result in the recalculation of equity interests. The business and affairs of Starpower is to be managed by RCN and Pepco Communications. So long as RCN and Pepco Communications maintain a 50%/50% equity interest in the joint venture, each of RCN and Pepco Communications will appoint three members to the operating committee, the approval of which is required for any business action. Certain fundamental business actions, such as mergers, acquisitions, sales of substantially all of the assets, liquidation and amendments to the certificate of organization or any agreement signed at the Starpower Closing, require the unanimous approval of the operating committee regardless of whether the parties continue to maintain a 50%/50% ownership interest. As a result of the joint control, Starpower is accounted for under the equity method of accounting.

A subsidiary of RCN will provide support services including customer service, billing, marketing and certain administrative, accounting and technical support services, each of which shall be provided at cost.

c. The basis of the Company's investment in Megacable exceeded its underlying equity in the net assets of Megacable when acquired by approximately \$94,000 which excess is being amortized on a straight-line basis over 15 years. At December 31, 1997, the unamortized excess over the underlying equity in the net assets was \$75,886. The Company recorded its proportionate share of (losses) and amortization of excess cost over net assets of (\$3,869), (\$2,190) and (\$3,061) in 1997, 1996 and 1995, respectively.

Effective January 1, 1997, since the three-year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is being treated for accounting purposes under Statement of Financial Accounting Standards No. 52 - "Foreign Currency Translation", as having a highly inflationary economy. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. Exchange gains (losses) of \$(12), \$247, and \$(932) in 1997, 1996, and 1995, respectively, including translation losses in 1997, are included in the respective statements of operations through the Company's proportionate share of losses of Megacable.

The following table reflects the summarized financial position and results of operations of Megacable as of and for the years ended December 31, 1997 and 1996:

	1997	1996
Assets	\$ 76,323	\$ 67,672
Liabilities	\$ 8,347	\$ 6,455
Stockholders' equity	\$ 67,976	\$ 61,217
Sales	\$ 30,441	\$ 23,225
Costs and expenses	\$ 23,389	\$ 15,689
Foreign currency transaction gains (losses)	\$ (31)	\$ 618
Net income	\$ 6,653	\$ 10,226

8. INTANGIBLE ASSETS

Intangible assets consist of the following at December 31,

	Amortization period	1997	1996
Franchises and subscriber lists	2-10.5 years	\$ 79,273	\$ 78,720
Noncompete agreements	5-8 years	11,209	11,209
Goodwill	5-10 years	42,787	16,830
Building access rights	3-4 years	15,197	14,920
Other intangible assets	5-15 years	1,469	520
Total intangible assets		149,935	122,199
Less accumulated amortization		(53,388)	(28,728)
Intangible assets, net		\$ 96,547	\$ 93,471

Amortization expense charged to operations in 1997, 1996 and 1995 was \$28,948, \$19,509 and \$9,100, respectively.

9. DEFERRED CHARGES AND OTHER ASSETS

Deferred charges and other assets consist of the following at December 31:

	1997	1996
Note and interest receivable - Mazon Corporativo, S.A. de C.V.	\$17,682	\$15,310
Debt issuance costs	19,743	309
Prepaid pension costs	-	2,967
Prepaid professional services	938	3,439
Other	2,675	2,121
	-----	-----
Total	\$41,038	\$24,146
	=====	=====

10. DEBT

a. Long-term debt

Long-term debt outstanding at December 31 is as follows:

	1997	1996
	-----	-----
Senior Secured Notes 9.65% due 1999	\$ -	\$131,250
Revolving Credit Agreement	3,000	-
Term Credit Agreement	100,000	-
Senior Notes 10% due 2007	225,000	-
Senior Discount Notes 11 1/8% due 2007	358,103	-
	-----	-----
Total	686,103	131,250
Due within one year	-	-
	-----	-----
Total Long-Term Debt	\$686,103	\$131,250
	=====	=====

In October 1997, pursuant to Rule 144A of the Securities Exchange Act of 1933, the Company completed an offering of 10% Senior Notes with an aggregate principal amount of \$225,000 and 11 1/8% Senior Discount Notes with an aggregate principal amount at maturity of \$601,045, both due 2007, to qualified institutional buyers as defined in Rule 144A. The Senior Discount Notes were issued at a discount and generated gross proceeds to the Company of \$350,000. In December 1997, the Company commenced an SEC registered Exchange Offer of its 10% Senior Notes due 2007, Series B for any and all outstanding 10% Senior Notes due 2007, Series A and its 11 1/8% Senior Discount Notes due 2007, Series B for any and all outstanding 11 1/8% Senior Discount Notes due 2007 Series A. The Exchange Offer closed in January of 1998. All outstanding notes were exchanged.

The 10% Senior Notes were issued under an indenture dated October 17, 1997 (the "10% Indenture") between the Company and The Chase Manhattan Bank, as Trustee. The 10% Senior Notes are general senior obligations of the Company which mature on October 15, 2007 and are collateralized by a pledge of the Escrow Account which contains approximately \$61,000 of the net proceeds from the sale of the 10% Senior Notes plus approximately \$1,000 of aggregate interest, representing funds that, together with the future proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments. Interest on the 10% Senior Notes is payable in cash semi-annually in arrears on each April 15 and October 15, commencing April 15, 1998.

The 10% Indenture contains certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase

capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

The 10% Senior Notes are redeemable, in whole or in part, at any time on or after October 15, 2002 at the option of the Company. The 10% Senior Notes have redemption prices starting at 105% of the principal amount and declining to 100% of the principal amount, plus any accrued interest.

The 11 1/8% Senior Discount Notes were issued under an indenture dated October 17, 1997 (the "11 1/8% Indenture") between the Company and The Chase Manhattan Bank, as Trustee. The 11 1/8% Senior Discount Notes are general senior obligations of the Company, limited to \$601,045 aggregate principal amount at maturity and will mature on October 15, 2007. The 11 1/8% Senior Discount Notes were issued at a discount to yield gross proceeds of \$350,000. The 11 1/8% Senior Discount Notes will not bear cash interest prior to October 15, 2002.

The 11 1/8% Indenture contains certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

The 11 1/8% Senior Discount Notes are redeemable, in whole or in part, at any time on or after October 15, 2002 at the option of the Company. The 11 1/8% Senior Discount Notes have redemption prices starting at 105.562% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

Certain subsidiaries of the Company, including RCN Cable, have in place a \$125,000 credit agreement comprised of two credit facilities. The first is a five year revolving credit facility in the amount of \$25,000 which provides credit availability through June 30, 2002. Revolving loans may be repaid and reborrowed from time to time. The second is a term credit facility in the amount of \$100,000 which is to be repaid over six years in quarterly installments from September 30, 1999 through June 30, 2005. Interest only is due through June 30, 1999. The interest rate is based on either a LIBOR or Base Rate option, at the election of the Company (6.82% at December 31, 1997). The credit agreement is collateralized by a pledge by the Company of its stock in RCN Cable and may, in the future, be secured by pledges of stock of subsidiaries of the Company. At December 31, 1997, the entire \$100,000 term credit facility is outstanding and \$3,000 of the revolving credit facility is outstanding. RCN Cable used a portion of its initial borrowings under the credit facilities to prepay higher priced Senior Secured Notes. The early extinguishment of the Senior Secured Notes resulted in an extraordinary charge of \$3,210, net of taxes of \$1,728. The credit agreement contains restrictive covenants which, among other things, require the Company to maintain certain debt to cash flow and interest coverage ratios and place certain limitations on additional debt and investments. The Company does not believe that these covenants will materially restrict its activities.

In 1989, in order to complete the August 29, 1989 Michigan Cable Television acquisition, RCN Cable entered into a private placement of Senior Secured Notes for \$150,000 and a \$70,000 Revolving Secured Credit Agreement, which was voluntarily reduced to \$60,000 in 1990 and which, in accordance with its terms, reduced on a quarterly basis, through original scheduled maturity in September 1996. In August 1996, RCN Cable obtained an amendment and waiver related to this Revolving Secured Credit Agreement which extended final maturity to December 1996 and increased the amount of available borrowings. Additionally, the restrictive covenant relating to limitations on the amount of capital expenditures was waived for the year ending December 31, 1996. The Senior Secured Notes were collateralized by the stock of certain cable subsidiaries of the Company. On September 1, 1996 and on each September 1 thereafter, a mandatory principal repayment was required on the Senior Secured Notes. The Senior Secured Notes contained restrictive covenants which, among other things, required maintenance of a specified debt to cash flow ratio. These notes were prepaid in 1997 as discussed above. The Senior

Secured Notes were classified as long-term at December 31, 1996 since the Company had the intent and the ability to refinance this obligation on a long-term basis through the above credit facilities.

In connection with the acquisition of Twin County Trans Video, Inc., RCN Cable issued a \$4,000 promissory note at 5% due in May 2003. The note was unsecured. In September 1996, the note was canceled in settlement of certain purchase price adjustments.

Contractual maturities of long-term debt are as follows:

Year Ending December 31,	Aggregate Amounts
1998	\$ -
1999	\$ 3,750
2000	\$11,250
2001	\$16,250
2002	\$20,500

b. Short-term debt

At December 31, 1997, the Company had unused lines of credit for \$5,500 at prime (8.50% at December 31, 1997). Short-term unsecured borrowings may be made under these lines of credit. The amounts available under these lines of credit are reduced by outstanding letters of credit (\$3,060 at December 31, 1997). All unused lines of credit are cancelable at the option of the banks. There are no commitment or facility fees associated with maintaining availability of the above-mentioned lines of credit.

11. INCOME TAXES

The (benefit) provision for income taxes is reflected in the Consolidated Statements of Operations as follows:

	1997	1996	1995
	-----	-----	-----
Current:			
Federal	\$ (11,795)	\$ 5,730	\$ (5,713)
State	1,449	1,102	375
	-----	-----	-----
Total Current	(10,346)	6,832	(5,338)
	-----	-----	-----
Deferred:			
Federal	(10,161)	(4,751)	7,016
State	(342)	(1,000)	(377)
	-----	-----	-----
Total Deferred	(10,503)	(5,751)	6,639
	-----	-----	-----
Amortization of ITC	-	(102)	(182)
	-----	-----	-----
Provision (benefit) for income taxes:			
Before extraordinary item	(20,849)	979	1,119
Extraordinary item	(1,728)	-	-
	-----	-----	-----
Total (benefit) provision for income taxes	\$ (22,577)	\$ 979	\$ 1,119
	=====	=====	=====

At December 31, 1997 and 1995, the Company had tax related balances due from affiliates of \$3,186 and \$501, respectively. At December 31, 1996, the Company had tax related balances due to affiliates of \$817.

Temporary differences that give rise to a significant portion of deferred tax assets and liabilities at December 31, are as follows:

	1997	1996
	-----	-----
Net operating loss carryforwards	\$ 10,078	\$ 2,130
Alternative minimum tax credits	167	219
Employee benefit plans	1,031	882
Reserve for bad debt	844	693
Start-up costs	586	959
Investment in unconsolidated entity	3,985	4,771
Accruals for nonrecurring charges and contract settlements	2,368	2,299
Other, net	1,823	1,888
	-----	-----
Total deferred tax assets	20,882	13,841
	-----	-----
Property, plant and equipment	(14,759)	(15,019)
Intangible assets	(11,253)	(17,776)
All other	(1,257)	(1,229)
	-----	-----
Total deferred liabilities	(27,269)	(34,024)
	-----	-----
Subtotal	(6,387)	(20,183)
Valuation allowance	(8,404)	(3,691)
	-----	-----
Total deferred taxes	\$(14,791)	\$(23,874)
	=====	=====

In the opinion of management, based on the future turnaround of existing temporary differences for the consolidated taxpaying group, primarily depreciation, the Company will more likely than not be able to realize substantially all of its deferred tax assets.

A valuation allowance has been provided for the portion of deferred tax assets which, in the opinion of management is uncertain as to their realization. The valuation allowance relates primarily to state net operating loss carryforwards generated by certain subsidiaries.

The net change in the valuation allowance for deferred tax assets during 1997 was an increase of \$4,713.

Net operating losses will expire as follows:

	Federal	State
1999		\$ 2,793
2000		3,087
2001		14,532
2002		3,141
2003		10,244
2004		3,767
2011		38,116
2012		8,028
2017	\$8,218	-
	-----	-----
Total	\$8,218	\$83,708
	=====	=====

The provision (benefit) for income taxes is different from the amounts computed by applying the U.S. statutory federal tax rate of 35%. The differences are as follows:

	For the Years Ended December 31,		
	1997	1996	1995
(Loss) income before (benefit) provision for income taxes and extraordinary item	\$ (70,030)	\$ (5,010)	\$ 3,233
Federal income tax benefit at statutory rate	\$(24,511)	\$(1,753)	\$1,131
State income taxes net of federal income tax benefit	719	66	(33)
Investment tax credits amortized	-	(102)	(50)
Amortization of goodwill	830	779	388
Estimated nondeductible expenses	1,913	1,564	(93)
Adjustment to prior year accrual	(197)	421	(161)
Other, net	397	4	(63)
Total (benefit) provision for income taxes	\$ (20,849)	\$ 979	\$1,119

In 1995, C-TEC received official notification of final settlement from the Internal Revenue Service relating to the examination of C-TEC's consolidated federal income tax returns for 1989, 1990 and 1991. The most significant adjustment relates to the disallowance of the claimed amortization of certain intangible assets. As a result of the disallowance, the Company's taxes payable for prior years increased approximately \$580. The amount accrued in previous years was sufficient to satisfy the above adjustment. No additional accrual during 1995 was required.

In 1997 and 1996, estimated non-deductible expenses relate primarily to charges in connection with the restructuring of the Company.

12. STOCKHOLDERS' EQUITY AND STOCK PLANS

The Company has authorized 100,000,000 shares of \$1 par value common stock and 200,000,000 shares of \$1 par value Class B nonvoting common stock. The Company also has authorized 25,000,000 shares of \$1 par value preferred stock. At December 31, 1997, 54,989,870 shares of common stock are issued and outstanding.

In March 1998, the Company's Board of Directors approved a two-for-one stock split, payable in the form of a 100% stock dividend. The record date for the stock split is March 20, 1998. Stockholders of record at the market close on that date will receive an additional share of RCN common stock for each share held. The distribution date for the stock dividend will be April 3, 1998. All share and per share data, stock option data, and market prices of the Company's common stock have been restated to reflect this stock split.

In connection with the Distribution, the Company Board adopted the 1997 RCN Corporation Stock Option Plan ("the 1997 Plan"), designed to provide equity based compensation opportunities to key employees when shareholders of the Company have received a corresponding benefit through appreciation in the value of RCN Common Stock.

The 1997 Plan contemplates the issuance of incentive stock options, as well as stock options that are not designated as incentive stock options, performance-based stock options, stock appreciation rights, performance share units, restricted stock, phantom stock units and other stock-based awards (collectively, "Awards"). Up to 5,000,000 shares of Common Stock, plus 3,040,100 shares of Common Stock issuable in connection with the Distribution related option adjustments, may be issued pursuant to Awards granted under the 1997 Plan.

Unless earlier terminated by the Company Board, the 1997 Plan will expire on the tenth anniversary of the Distribution. The Company Board or the Compensation Committee may, at any time, or from time to time, amend or suspend and, if suspended, reinstate, the 1997 Plan in whole or in part.

Prior to the Distribution, certain employees of RCN were granted stock option awards under C-TEC's stock option plans. In connection with the Distribution 3,040,100 options covering Common Stock were issued. Each C-TEC option was adjusted so that each holder would currently hold options to purchase shares of CTE Common Stock, RCN Common Stock and Cable Michigan Common Stock. The number of shares subject to, and the exercise price of, such options were adjusted to take into account the Distribution and to ensure that the aggregate intrinsic value of the resulting RCN, Cable Michigan and CTE options immediately after the Distribution was equal to the aggregate intrinsic value of the C-TEC options immediately prior to the Distribution.

Information relating to stock options is as follows:

	Number of Shares	Weighted Average Exercise
Price		
Outstanding December 31, 1994	1,431,000	
Granted	1,257,000	
Exercised	-	
Canceled	280,000	
Outstanding December 31, 1995	2,408,000	
Granted	190,000	
Exercised	58,000	
Canceled	272,000	
Outstanding December 31, 1996	2,268,000	\$ 7.10
Granted	4,862,100	\$14.31
Exercised	20,000	\$ 8.07
Canceled	3,000	\$ 8.36
Outstanding December 31, 1997	7,107,100	\$11.95
	=====	=====
Shares exercisable December 31, 1997	1,221,000	\$ 7.05

The following table summarizes stock options outstanding and exercisable at December 31, 1997:

Range of Exercise Prices	Stock Options Outstanding			Stock Options Exercisable	
	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
\$6.24 to \$8.40	3,017,100	7.5 Years	\$ 7.36	1,221,000	\$7.05
\$15.32 to \$16.82	4,090,000	9.8 Years	15.33	-	-
Total	7,107,100			1,221,000	
	=====			=====	

No compensation expense related to stock option grants was recorded in 1997 as the option exercise prices were equal to fair market value on the date granted.

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black Scholes option pricing model with weighted average assumptions for dividend yield of 0% for 1997, 1996 and 1995; expected volatility of 38.6% prior to the Distribution and 49.8% subsequent to the Distribution for 1997 39.5% for 1996, and 35.9% for 1995; risk-free interest rate of 6.52%, 5.95% and 6.32% for 1997, 1996 and 1995, respectively; and expected lives of 5 years for 1997, 1996 and 1995.

The weighted-average fair value of options granted during 1997 was \$7.46.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma net earnings and earnings per share were as follows:

	1997	1996	1995
	-----	-----	-----
Net earnings - as reported	\$ (52,391)	\$ (5,989)	\$ 2,114
Net earnings - pro forma	\$ (54,419)	\$ (6,612)	\$ 1,695
Basic earnings per share - as reported	\$ (0.95)	\$ (0.11)	\$ 0.04
Basic earnings per share - pro forma	\$ (0.99)	\$ (0.12)	\$ 0.03
Diluted earnings per share - as reported	\$ (0.95)	\$ (0.11)	\$ 0.04
Diluted earnings per share - pro forma	\$ (0.99)	\$ (0.12)	\$ 0.03

In November 1996, the C-TEC shareholders approved a stock purchase plan for certain key executives (the C-TEC "Executive Stock Purchase Plan" or "C-TEC ESPP"). Under the C-TEC ESPP, participants may purchase shares of C-TEC Common Stock in an amount of between 1% and 20% of their annual base compensation and between 1% and 100% of their annual bonus compensation provided, however, that in no event shall the participant's total contribution exceed 20% of the sum of their annual compensation, as defined by the C-TEC ESPP. Participant's accounts are credited with the number of share units derived by dividing the amount of the participant's contribution by the average price of a share of C-TEC Common Stock at approximately the time such contribution is made. The share units credited to a participant's account do not give such participant any rights as a shareholder with respect to, or any rights as a holder or record owner of, any shares of C-TEC Common Stock. Amounts representing share units that have been credited to a participant's account will be distributed, either in a lump sum or in installments, as elected by the participant, following the earlier of the participant's termination of employment or three calendar years following the date on which the share units were initially credited to the participant's account. It is anticipated that, at the time of distribution, a participant will receive one share of C-TEC Common Stock for each share unit being distributed.

Following the crediting of each share unit to a participant's account, a matching share of Common Stock is issued in the participant's name. Each matching share is subject to forfeiture as provided in the C-TEC ESPP. The issuance of matching shares will be subject to the participant's execution of an escrow agreement. A participant will be deemed to be the holder of, and may exercise all the rights of a record owner of, the matching shares issued to such participant while such matching shares are held in escrow.

Shares of restricted C-TEC Common Stock awarded under the C-TEC Executive Stock Purchase Plan and share units awarded under the C-TEC ESPP that relate to C-TEC Common Stock were adjusted so that following the Distribution, each such participant was credited with an aggregate equivalent value of restricted shares of common stock of Commonwealth Telephone Enterprises, the Company and Cable Michigan. In 1997, the Company's Board of Directors approved the RCN Corporation Executive Stock Purchase Plan (the "RCN ESPP"), with terms substantially the same as the C-TEC ESPP. The number of

shares which may be distributed under the RCN ESPP as matching shares or in payment of share units is 250,000. At December 31, 1997, 61,412 matching shares have been issued under the RCN ESPP, none of which are vested. The Company recognizes the cost of the matching shares over the vesting period. Expense recognized in 1997 and 1996 was \$80 and \$145, respectively.

13. PENSIONS AND EMPLOYEE BENEFITS

Prior to the Distribution, the Company's financial statements reflect the costs experienced for its employees and retirees while included in the C-TEC plans.

Through December 31, 1996, substantially all employees of the Company were included in a trustee noncontributory defined benefit pension plan, maintained by C-TEC. Upon retirement, employees are provided a monthly pension based on length of service and compensation. C-TEC funds pension costs to the extent necessary to meet the minimum funding requirements of ERISA. Substantially, all employees of C-TEC's Pennsylvania cable television operations (formerly Twin County Trans Video, Inc.) were covered by an underfunded plan which was merged into C-TEC's overfunded plan on February 28, 1996.

The information that follows relates to the entire C-TEC noncontributory defined benefit plan. The components of C-TEC's pension cost are as follows:

	1996	1995
	-----	-----
Benefits earned during the year (service cost)	\$ 2,365	\$ 1,656
Interest cost on projected benefit obligation	3,412	3,083
Actual return on plan assets	(3,880)	(12,897)
Other components - net	(1,456)	8,482
	-----	-----
Net periodic pension cost	\$ 441	\$ 324
	=====	=====

The following assumptions were used in the determination of the consolidated projected benefit obligation and net periodic pension cost:

	December 31,	
	1996	1995
	-----	-----
Discount rate	7.5%	7.0%
Expected long-term rate of return on plan assets	8.0%	8.0%
Weighted average long-term rate of compensation increases	6.0%	6.0%

The Company's allocable share of the consolidated net periodic pension costs, based on the Company's proportionate share of consolidated annualized salaries as of the valuation date, was approximately \$158 and \$251 for 1996 and 1995, respectively. These amounts are reflected in operating expenses. As discussed below, no pension cost (credit) was recognized in 1997.

In connection with the restructuring, C-TEC completed a comprehensive study of its employee benefit plans in 1996. As a result of this study, effective December 31, 1996, in general, employees of the Company no longer accrue benefits under the defined benefit pension plans and became fully vested in their benefit accrued through that date. C-TEC notified affected participants in December 1996. In December 1996, C-TEC allocated pension plan assets of \$6,984 and the related liabilities to a separate plan for employees who no longer accrue benefits after lump sum distributions. The allocation of assets and liabilities resulted in a curtailment/settlement gain of \$4,292. The Company's allocable share of this gain was \$3,437. This gain results primarily from the reduction of the related projected benefit obligation. The curtailed plan has assets in excess of the projected benefit obligation. Such excess amounts to \$3,917 which, along with unrecognized items of \$1,148 results in prepaid pension cost of \$2,769, which is included in "Prepayments and other" in the accompanying 1997 and 1996 consolidated balance sheets.

The following table sets forth the plans' funded status and amounts recognized in C-TEC's balance sheet at December 31, 1996:

Plan assets at fair value	\$ 55,325
Actuarial present value of benefit obligations:	
Accumulated benefit obligations:	
Vested	32,372
Nonvested	1,704

Total	34,076
Effect of increases in compensation	6,042

Plan assets in excess of (less than) projected benefit obligation	15,207
Unrecognized transition asset	(3,463)
Unrecognized prior service cost	2,438
Unrecognized net gain	(11,215)

Prepaid pension cost	\$ 2,967
	=====

C-TEC's pension plan has assets in excess of the accumulated benefit obligation. Plan assets include cash, equity, fixed income securities and pooled funds under management by an insurance company. Plan assets include common stock of C-TEC with a fair value of approximately \$5,835 at December 31, 1996.

Prepaid pension cost is included in "Deferred Charges and Other Assets" in the accompanying 1996 consolidated balance sheet. The prepaid pension asset was transferred to CTE in connection with the Distribution in 1997.

C-TEC sponsors a 401(k) savings plan covering substantially all employees of the Company who are not covered by collective bargaining agreements. Contributions made by the Company to the 401(k) plan are based on a specific percentage of employees contributions. Contributions charged to expense were \$354 and \$268 in 1996 and 1995, respectively. Contributions charged to expense in 1997 prior to the Distribution were \$515.

In connection with the Distribution, RCN established a qualified savings plan under Section 401(k) of the Code that will also qualify as an ESOP under Sections 401(a) and 4975(e)(7) of the Code (the "ESOP"). Eligible active employees under the ESOP, employees of the Company Businesses who make Section 401(k) contributions and certain other employees will be allocated shares of Company Common Stock. Contributions charged to expense in 1997 were \$306.

The Company provides certain postemployment benefits to former or inactive employees of the Company who are not retirees. These benefits are primarily short-term disability salary continuance. The Company accrues the cost of postemployment benefits over employees' service lives. The Company uses the services of an enrolled actuary to calculate the expense. Prior to the Distribution, C-TEC allocated the cost of these benefits to the Company based on the Company's proportionate share of consolidated annualized salaries. The Company reimbursed C-TEC for its allocable share of the consolidated postemployment benefit cost. The net periodic postemployment benefit cost (credit) was approximately \$458, \$539 and (\$106) in 1997, 1996 and 1995, respectively.

14. COMMITMENTS AND CONTINGENCIES

a. The Company had various purchase commitments at December 31, 1997 related to its 1998 construction budget.

b. Total rental expense, primarily for office space and pole rentals, was \$3,505, \$3,632 and \$2,846 for 1997, 1996 and 1995, respectively. At December 31, 1997, rental commitments under noncancelable leases, excluding annual pole rental commitments of approximately \$794 that are expected to continue indefinitely, are as follows:

Year	Aggregate Amounts
1998	\$3,725
1999	\$3,314
2000	\$2,939
2001	\$2,826
2002	\$2,848
Thereafter	\$8,501

c. The Company has outstanding letters of credit aggregating \$3,060 at December 31, 1997.

d. The Company has entered into various noncancelable contracts for network services. Future obligations under these agreements are as follows:

Year	Network Services
1998	\$3,026
1999	\$3,064
2000	\$3,012
2001	\$2,762
2002	\$ 12
Thereafter	\$ 14

e. The Company is subject to the provisions of the Cable Television Consumer Protection and Competition Act of 1992, as amended, and the Telecommunications Act of 1996. The Company has either settled challenges or accrued for anticipated exposures related to rate regulation. However, there is no assurance that there will not be additional challenges to its rates.

f. In the normal course of business, there are various legal proceedings outstanding. In the opinion of management, these proceedings will not have a material adverse effect on the financial position or results of operations or liquidity of the Company.

g. The Company has agreed to indemnify Cable Michigan and CTE and their respective subsidiaries against any and all liabilities which arise primarily from or relate primarily to the management or conduct of the business of the Company prior to the effective time of the Distribution. The Company has also agreed to indemnify Cable Michigan and CTE and their respective subsidiaries against 30% of any liability which arises from or relates to the management or conduct prior to the effective time of the Distribution of the businesses of C-TEC and its subsidiaries and which is not a true CTE liability, a true Cable Michigan liability or a true Company liability.

The Tax Sharing Agreement, by and among the Company, Cable Michigan and CTE (the "Tax Sharing Agreement"), governs contingent tax liabilities and benefits, tax contests and other tax matters with respect to tax returns filed with respect to tax periods, in the case of the Company, ending or deemed to end on or before the Distribution Date. Under the Tax Sharing Agreement, Adjustments (as defined in the Tax Sharing Agreement) to taxes that are clearly attributable to the Company Group, the Cable Michigan

Group, or the CTE Group will be borne solely by such group. Adjustments to all other tax liabilities will be borne 50% by CTE, 30% by the Company and 20% by Cable Michigan.

Notwithstanding the above, if as a result of the acquisition of all or a portion of the Capital stock or assets of the Company, the Distribution fails to qualify as a tax-free distribution under Section 355 of the Code, then the Company will be liable for any and all increases in tax attributable thereto.

h. Under the Starpower Amended and Restated Operating Agreement, the Company is committed to make quarterly capital contributions aggregating the following in the years ended December 31:

1998	\$56,250
1999	\$68,750
2000	\$25,000

i. If, within five years after the Distribution, the ESOP portion of the 401(k) Plan does not hold shares representing at least 3% of the number of shares of Company Common Stock outstanding immediately after the Distribution as increased by the number of shares issuable to BECO pursuant to the Exchange Agreement (collectively, "Outstanding Company Common Stock") with a market value at such time of not less than \$24,000, RCN will issue to the ESOP, in exchange for a note from the ESOP (the "ESOP Note"), the amount of Company Common Stock necessary to increase the ESOP's holdings of Company Common Stock to that level, provided, however, that RCN is not obligated to issue shares to the ESOP in excess of 5% of the number of shares of Outstanding Company Common Stock.

15. AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company had the following transactions with affiliates during the years ended December 31, 1997, 1996 and 1995:

	1997	1996	1995
	-----	-----	-----
Corporate office costs allocated to affiliates	\$12,091	\$12,362	\$10,009
Cable staff and customer service costs allocated to			
Cable Michigan	3,489	3,577	2,952
Interest income on affiliate notes	8,688	15,119	17,340
Interest expense on affiliate notes	537	354	279
Long-distance terminating access charge expense from CTE	1,312	728	862
Royalty fees charged by CTE	669	859	533
Revenue from engineering services	-	296	2,169
Other affiliate revenues	1,576	-	6
Other affiliate expenses	2,199	1,980	2,090

At December 31, 1997 and 1996, the Company has accounts receivable from related parties of \$9,829 and \$12,614, respectively, for these transactions. At December 31, 1997 and 1996, the Company has accounts payable to related parties of \$3,748 and \$4,880, respectively, for these transactions.

The Company had notes receivable of \$7,914 in 1996 from advances by the Company's corporate financial services company to CTE. The Company also had notes receivable of \$147,567 at December 31, 1996, from Cable Michigan, Inc. primarily related to the acquisition of the Michigan cable operations and subsequent operations. All intercompany notes receivable were settled in connection with the Distribution.

The Company had notes payable of \$11,854 in 1996 from excess cash advanced by CTE to the Company's corporate financial services company for investment. All intercompany notes payable were settled in connection with the Distribution.

16. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

Certain financial instruments potentially subject the Company to concentrations of credit risk. These financial instruments consist primarily of trade receivables, cash and temporary cash investments, and short-term investments.

The Company places its cash and temporary investments with high credit quality financial institutions and limits the amount of credit exposure to any one financial institution. The Company also periodically evaluates the creditworthiness of the institutions with which it invests. The Company does, however, maintain unsecured cash and temporary cash investment balances in excess of federally insured limits.

The Company's trade receivables reflect a customer base primarily centered in the Boston to Washington, D.C. corridor of the United States. The Company routinely assesses the financial strength of its customers. As a consequence, concentrations of credit risk are limited.

17. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Cash and temporary cash investments

The carrying amount approximates fair value because of the short maturity of these instruments.

b. Short-term investments

Short-term investments consist of commercial paper, corporate debt securities, certificates of deposit and federal agency notes. Short-term investments are carried at amortized cost which approximates fair value due to the short period of time to maturity.

c. Long-term investments

Long-term investments consist of investments accounted for under the equity method for which disclosure of fair value is not required. The note and interest receivable are carried at cost plus accrued interest which management believes approximates fair value.

d. Investments restricted for debt service

Investments restricted for debt service consists of an amount placed in escrow from the proceeds of the 10% Senior Notes which, together with the proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments. Investments restricted for debt service are carried at amortized cost.

e. Long-term debt

The fair value of fixed rate long-term debt was estimated based on the Company's current incremental borrowing rate for debt of the same remaining maturities. The fair value of floating rate debt is considered to be equal to the carrying value since the debt reprices at least every six months and the Company believes that its credit risk has not changed from the time the floating rate debt was borrowed and therefore, it would obtain similar rates in the current market.

f. Letter of credit

The contract amount of letters of credit represents a reasonable estimate of their value since such instruments reflect fair value as a condition of their underlying purpose and are subject to fees competitively determined in the marketplace.

The estimated carrying fair value of the Company's financial instruments are as follows at December 31:

	1997		1996	
	Carrying Amount	Fair value	Carrying Amount	FairValue
Financial Assets:				
Cash and temporary cash investments	\$222,910	\$222,910	\$ 61,843	\$ 61,843
Short-term investments	\$415,603	\$415,603	\$ 46,831	\$ 46,831
Note and interest receivable	\$ 17,682	\$ 17,682	\$ 15,310	\$ 15,310
Investments restricted for debt service	\$ 61,911	\$ 61,911	-	-
Financial Liabilities:				
Fixed rate long-term debt:				
Senior Secured Notes	\$ -	\$ -	\$131,250	\$137,459
Senior Notes 10%	\$225,000	\$233,438	-	-
Senior Discount Notes 11.125%	\$358,103	\$377,156	-	-
Floating rate long-term debt:				
Revolving Credit Agreement	\$ 3,000	\$ 3,000	-	-
Term Credit Agreement	\$100,000	\$100,000	-	-
Unrecognized financial instruments:				
Letters of credit	\$ 3,060	\$ 3,060	\$ 3,060	\$ 3,060

18. QUARTERLY INFORMATION (Unaudited)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1997				
Sales	\$ 29,677	\$ 31,029	\$ 31,148	\$ 35,443
Operating income (loss) before depreciation, amortization and nonrecurring charges	\$ 4,153	\$ 850	(\$4,332)	(\$8,341)
Operating (loss)	\$(18,037)	\$(12,416)	\$(18,011)	\$(22,411)
Loss before extraordinary charge	N/A	N/A	N/A	\$(17,116)
Loss before extraordinary charge per average common share	N/A	N/A	N/A	\$ (0.31)
Common Stock				
High	N/A	N/A	\$ 16.63	\$ 21.63
Low	N/A	N/A	\$ 12.44	\$ 12.50
1996				
Sales	\$ 24,165	\$ 24,852	\$ 26,746	\$ 29,147
Operating income before depreciation and amortization	\$ 4,199	\$ 7,777	\$ 9,188	\$ 4,639
Operating (loss)	\$ (4,621)	\$ (1,233)	\$ (19)	\$ (7,205)

19. SUBSEQUENT EVENTS

a. In February 1998, the Company completed an offering of 9.8% Senior Discount Notes with an aggregate principal amount at maturity of \$567,000, due February 2008. The 9.8% Senior Discount Notes were issued at a discount and generated gross proceeds to the Company of \$350,587.

The 9.8% Senior Discount Notes are general senior obligations of the Company, limited to \$567,000 aggregate principal amount at maturity and will mature on February 15, 2008. The 9.8% Senior Discount Notes were issued at a discount to yield gross proceeds of \$350,587. The 9.8% Senior Discount Notes will not pay cash interest prior to February 15, 2003. The yield to maturity of the 9.8% Senior Discount Notes, determined on a semi-annual bond equivalent basis, will be 9.8% per annum.

The 9.8% Indenture contains certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinate indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

The 9.8% Senior Discount Notes are redeemable, in whole or in part, at any time on or after February 15, 2003 at the option of the Company. The 9.8% Senior Discount Notes may be redeemed at redemption prices starting at 104.9% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued and unpaid interest.

b. On January 21, 1998, RCN entered into the Agreement and Plan of Merger (the "Erols Merger Agreement") among RCN, Erols Internet, Inc. ("Erols"), Erol Onaran, Gold & Appel Transfer, S.A., a British Virgin Islands corporation ("Gold & Appel"), and ENET Holdings, Inc., a Delaware corporation and a wholly owned subsidiary of RCN ("ENET"), to acquire all of the outstanding shares of common stock of Erols. The merger was consummated on February 20, 1998. Erols merged with and into ENET (the "Erols Merger"), with ENET as the surviving corporation. The approximate total Erols Merger consideration was \$29,200 in cash, 1,730,648 shares of RCN common stock plus the assumption and repayment of \$5,800 of debt. Additionally, the Company is converting approximately 999,000 Erols stock options to 699,104 RCN stock options at an average exercise price of \$3.424 per share. The transaction was accounted for under the purchase method of accounting.

RCN expects to contribute to Starpower approximately 60% of the subscribers acquired in the acquisition of Erols.

c. On January 21, 1998, RCN, UNET Holdings, Inc., a wholly owned subsidiary of RCN, and Ultranet Communications, Inc. ("Ultranet") entered into an Agreement and Plan of Merger (the "Ultranet Merger Agreement"). The total consideration for the acquisition was 7,368 in cash, 890,384 shares of RCN common stock, and \$3,000 in deferred compensation. Additionally, the Company is converting 63,500 UltraNet stock options to 117,052 RCN stock options at an average exercise price of \$1.825 per share and making cash payments aggregating approximately \$503 to certain other holders of UltraNet stock options. The transaction was consummated on February 27, 1998. The transaction was accounted for under the purchase method of accounting.

RCN expects to contribute to RCN-BECOCOM approximately 30% of the subscribers acquired in the acquisition of Ultranet.

d. RCN paid \$12,500 in cash in January 1998 as its initial capital contribution to Starpower.

e. In January 1998, BECO notified RCN that it has elected to exercise its option to the full extent permitted by the Exchange Agreement (Note 7) with respect to 1997. RCN and BECO are presently in discussions with respect to the calculation of the agreed upon value for the exercise of such option.

f. On February 27, 1998, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Lancit Media Entertainment, Ltd. ("Lancit") and LME Acquisition Corporation ("MergerSub"), a wholly owned subsidiary of RCN. Pursuant to the terms of the Merger Agreement, MergerSub will be merged with and into Lancit (the "Merger") such that immediately following the Merger, Lancit will be a wholly-owned subsidiary of RCN. The consummation of the Merger is subject to customary conditions, including the adoption and approval of the Merger and the Merger Agreement by the stockholders of Lancit in accordance with the provisions of applicable law and the filing and effectiveness of a registration statement of RCN. There is no assurance that this transaction will be consummated.

REPORT OF MANAGEMENT

The integrity and objectivity of the financial information presented in these financial statements is the responsibility of the management of RCN Corporation.

The financial statements report on management's accountability for Company operations and assets. To this end, management maintains a system of internal controls and procedures designed to provide reasonable assurance that the Company's assets are protected and that all transactions are accounted for in conformity with generally accepted accounting principles. The system includes documented policies and guidelines, augmented by a comprehensive program of internal and independent audits conducted to monitor overall accuracy of financial information and compliance with established procedures.

Coopers & Lybrand, L.L.P., independent accountants, conduct a review of internal accounting controls to the extent required by generally accepted auditing standards and perform such tests and procedures as they deem necessary to arrive at an opinion on the fairness of the financial statements presented herein.

The Board of Directors meets its responsibility for the Company's financial statements through its Audit Committee which is comprised exclusively of directors who are not officers or employees of the Company. The Audit Committee recommends to the Board of Directors the independent auditors for election by the shareholders. The Committee also meets periodically with management and the independent and internal auditors to review accounting, auditing, internal accounting controls and financial reporting matters. As a matter of policy, the internal auditors and the independent auditors periodically meet alone with, and have access to, the Audit Committee.

\s\ Bruce C. Godfrey

Bruce C. Godfrey
Executive Vice President
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To Shareholders of RCN Corporation:

We have audited the consolidated financial statements and financial statement schedules of RCN Corporation and Subsidiaries listed in Item 14(a) of this Form 10-K. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RCN Corporation and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles. In addition, in our opinion, the financial statement schedules referred to above, when considered in relation to the basic financial statements taken as a whole, present fairly, in all material respects, the information required to be included therein.

\s\ Coopers & Lybrand L.L.P.

COOPERS & LYBRAND, L.L.P.
2400 Eleven Penn Center
Philadelphia, Pennsylvania
March 13, 1998

AMENDED AND RESTATED
OPERATING AGREEMENT
OF
STARPOWER COMMUNICATIONS, LLC

This AMENDED AND RESTATED OPERATING AGREEMENT OF STARPOWER COMMUNICATIONS, LLC (this "Agreement") is made and entered into effective as of _____, 1997 (the "Effective Date"), by and between Pepco Communications, L.L.C. ("PCI-Sub") and RCN Telecom Services of Washington, D.C., Inc. ("RCN-Sub").

WHEREAS the Members have entered into an initial LLC operating agreement dated as of October 28, 1997 (the "Initial Operating Agreement") and desire to amend and restate the Initial Operating Agreement, in its entirety.

FOR AND IN CONSIDERATION OF the mutual covenants, rights, and obligations set forth in this Agreement, the benefits to be derived therefrom, and other good and valuable consideration, the receipt and the sufficiency of which each Member acknowledges, the Members agree that the Initial Operating Agreement is hereby amended in its entirety as follows:

ARTICLE 1

DEFINITIONS

1.1 CERTAIN DEFINITIONS. As used in this Agreement, the following terms have the following meanings:

"Act" means the Delaware Limited Liability Company Act.

"Adjusted Capital Account Deficit" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant fiscal year of the Company (i) increased by an amount equal to the sum

of such Member's allocable share of the Company's Minimum Gain attributable to Company Nonrecourse Liabilities and such Member's allocable share of the Company's Minimum Gain attributable to Member Nonrecourse Debt, in each case as computed on the last day of such fiscal year in accordance with applicable Regulations and (ii) reduced by all reasonably expected adjustments,

allocations and distributions described in Regulations Sections 1.704 - 1(b)(2)(ii)(d)(4), (5) and (6). This definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Regulations Section 1.704-1(b)(2)(ii)(d) and shall be interpreted consistently therewith.

"Affiliate" means, with respect to any Person or Entity, any other Person directly or indirectly through one or more intermediaries, Controlling, Controlled by, or under common Control with that first Person.

"Agency Agreement" means the Agency Agreement by and among RCN-Sub, RCN Telecom Services of Maryland, Inc., RCN Telecom Services of Virginia, Inc. and the Company dated as of the date hereof and attached hereto as Exhibit A.

"Agents" has the meaning, solely for the purpose of Section 13.8, given that term in Section 13.8.

"Agreed Value" of any Contributed Property means the fair market value of such property or other consideration as determined by agreement of all of the Members using such reasonable method of valuation as they may adopt for that Contributed Property contributed after the date hereof.

"Agreement" has the meaning given that term in the introductory paragraph hereof.

"Assignment of Benefits Agreement" means the Assignment of Benefits Agreement, dated as of the date hereof, between RCN-Sub and the Company and attached hereto as Exhibit B.

"Bankrupt Member" means any Member:

- (a) that (i) makes a general assignment for the benefit of creditors, (ii) files a voluntary bankruptcy petition, (iii) becomes the subject of an order for relief or is declared a bankrupt or insolvent in any federal or state bankruptcy or insolvency proceeding, (iv) files a petition or answer seeking for such Member a reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any law, statute or regulation, (v) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against such Member in a proceeding of the type described in clauses (i)-(iv), (vi) seeks, consents to, or acquiesces in the appointment of a trustee, receiver, or liquidator of the Member or of all or any substantial part of the Member's properties, or
- (b) with respect to which (i) a proceeding is commenced seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief under any law, statute or regulation, and 120 days have expired without the proceeding being dismissed, or (ii) without that Member's consent or acquiescence, a trustee, receiver, or liquidator is appointed of that Member or of all or any substantial part of its properties and 90 days have expired without the appointment being vacated or stayed, or if stayed, 90 days have expired after

the date of expiration of a stay, unless the appointment has been vacated.

"Baltimore Gas Merger" shall mean the merger of PEPCO and Baltimore Gas and Electric Company ("BGE") into Constellation Energy Company, a newly formed company, pursuant to a merger agreement entered into between PEPCO and BGE, to create an integrated, non-holding company structure. The companies are awaiting regulatory approvals before the merger can be completed. The exact structure of the subsidiaries of the companies has not yet been determined. In the event the Baltimore Gas Merger does not occur, a strategic alliance between PCI and a BGE entity may occur.

"Basic Agreements" means this Agreement, the Non-Competition Agreement, the IRU Agreement, the Support Services Agreement, the Assignment of Benefits Agreement, the PCI Guarantee, the RCN Guarantee, the Overhead Attachment Agreements, the Agency Agreement and the Contribution Agreement.

"Business Day" means any day other than a Saturday, a Sunday or a holiday on which banks in the District of Columbia generally are closed.

"Business Plan" has the meaning given that term in Section 7.17.

"Capital Account" means the capital accounts maintained with respect to Membership Interests pursuant to Section 6.1.

"Capital Calls" has the meaning given that term in Section 4.2(b).

"Capital Contribution" means contributions of capital to the Company as set forth in Schedule I and any other contribution of capital, whether in cash or in kind, made in accordance with this Agreement except Non-Cash Capital Contributions.

"Carrying Value" means, with respect to any asset, the asset's adjusted tax basis for federal income tax purposes except as follows:

(a) The initial Carrying Value of any asset contributed to the Company by a Member shall be the Agreed Value of such asset;

(b) Consistent with the provisions of Section 1.704-1(b)(2)(iv)(f) of the Regulations, the Carrying Value of all Company assets shall be adjusted to equal their respective gross fair market values upon the happening of any of the following events: (i) issuance of additional Membership Interests to new or existing Members for more than a de minimis amount of cash or Contributed Property, (ii) immediately prior to a distribution

to a Member of more than a de minimis amount of Company property (other than a distribution solely of cash that is not in redemption or retirement of a Membership Interest) in consideration for an interest in the Company and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g).

(c) The Carrying Values of Company assets shall be increased or decreased to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), Section 6.2(b)(vii) hereof and paragraph (e) of the definition of Net Income or Net Loss.

If the Carrying Value of an asset has been determined or adjusted pursuant to subparagraphs (a), (b) or (c) of the definition for Carrying Value, such Carrying Value shall be adjusted thereafter by the Depreciation taken into account with respect to such asset for purposes of computing the amount of Net Income or Net Loss.

"Certificate" has the meaning given that term in Section 2.1.

"Change of Control" of a Member shall be deemed to have occurred when the Member Parent of such Member or a Wholly Owned Affiliate of such Member Parent shall no longer (i) beneficially own, directly or indirectly, more than 50% of the outstanding voting interests in such Member entitled to vote generally in the election of directors, managers or other members of the management group of such Member or (ii) otherwise control the management of such Member; provided,

however, that the Baltimore Gas Merger shall not be deemed a Change of Control for the purposes of this Agreement.

"Change of Control Member" has the meaning given that term in Section 3.3.

"Change of Control Member's Interest" has the meaning given that term in Section 3.3.

"Change of Control Notice" has the meaning given that term in Section 3.3(b)(ii).

"Code" means the Internal Revenue Code of 1986 and any successor statute, as amended from time to time.

"Company" means Starpower Communications, LLC, a Delaware limited liability company.

"Company Nonrecourse Deductions" means the amount of deductions, losses and expenses attributable to Company Nonrecourse Liabilities, as determined in accordance with applicable Regulations.

"Company Nonrecourse Liabilities" means nonrecourse liabilities (or portions thereof) of the Company for which no Member (or any Person related to a Member) bears the Economic Risk of Loss.

"Contributed Property" means each property or other asset, in such form as may be permitted by the Act, but excluding cash, contributed to the Company.

"Contribution Agreement" means the Contribution Agreement, of even date herewith, by and between RCN-Sub and the Company.

"Control" (including the terms "Controlling", "Controlled by" and "under common Control with") of an Entity means the power to direct or cause the direction of the management or policies of such Entity, whether through the ownership of voting securities, by agreement or otherwise.

"Cost" shall mean reasonable costs incurred including (a) all costs directly related to the relevant transactions and (b) indirect project/departmental, general and administrative overheads which have an agreed upon relationship to the Company and can be allocated on an agreed upon fair basis at their cost, but no element of markup or profit by a Member Parent, subsidiary or any Affiliate, shall be included in any costs charged to the Company unless agreed to in advance in writing by the Members. The direct costs of a Member resulting from transactions with its Member Parent, or any subsidiary or Affiliate, shall reflect a consistent and fair transfer pricing methodology at its cost and agreed to by the Members. Cost shall not exceed the fair market price for identical or substantially similar transactions. Notwithstanding anything herein to the contrary, the facilities and services provided pursuant to the IRU Agreement, the Master Facility Lease Agreement and the Pole Attachment Agreements shall be provided at the value as set forth therein.

"Covenant Violation" has the meaning given that term in Section 7.11.

"Deadlock Event" has the meaning given that term in Section 7.15.

"Default Interest Rate" means the prime rate charged by Citibank, N.A., plus 5%.

"Delinquency Notice" has the meaning given that term in Section 4.3(a).

"Delinquent Member" with respect to a Capital Contribution means a Member who fails to pay its portion of such Capital Contribution at the time and in the amount required under this Agreement following notice and an opportunity to cure such failure in accordance with Section 4.3 hereof.

"Depreciation" means, for each fiscal year or other relevant period, an amount equal to the depreciation, amortization or other cost recovery deduction allowable with respect to an asset for such year or other relevant period, except that if the Carrying Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such year, Depreciation shall be an amount which bears the same ratio to such beginning Carrying Value as the federal income tax depreciation, amortization or other cost recovery deduction for such year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such year is zero, Depreciation shall be determined with reference to such beginning Carrying Value using any reasonable method selected by the Tax Matters Partner.

"Disapproving Member" has the meaning given that term in Section 7.11.

"Disapproving Member Loan" has the meaning given that term in Section 7.11(d)(ii).

"Dispose," "Disposing," or "Disposition" means a sale, assignment, transfer, exchange, pledge, grant of a security interest, or other disposition or encumbrance, or the acts thereof.

"Disputing Member" has the meaning given that term in Section 7.15(b)(i).

"Dispute Notice" has the meaning given that term in Section 7.15(b)(i).

"Dispute Price" has the meaning given that term in Section 7.15(b)(i).

"Economic Risk of Loss" has the meaning ascribed to it in Section 1.752-2 of the Regulations.

"Effective Date" has the meaning given that term in the introductory paragraph hereof.

"Electing Member" has the meaning given that term in Section 3.2(b)(vi).

"Entity" means any corporation, limited liability company, general partnership, limited partnership, venture, trust, business trust, estate or other entity.

"Estimated Value has the meaning given that term in Section 3.3(b)(ii).

"Forecast Member Tax Requirements" means an annual amount computed by taking the taxable income to be reported by a Member as a result of its Sharing Ratio in the Company for any fiscal year multiplied by the highest, then applicable, federal income tax rate and the estimated average, then applicable, state income tax rate which would be applied to the taxable income reported by such Member for that fiscal year of the Company, reduced by any tax credits or other benefits available to such Member solely as a result of the operations of the Company, but irrespective of such Member's separate net operating loss, tax credit or other tax benefit which may be available to such Member for that fiscal year.

"GAAP" means the generally accepted accounting principles in the United States of America in effect from time to time.

"General Interest Rate" means a rate per annum equal to the lesser of (a) a varying rate per annum that is equal to the interest rate publicly quoted by Citibank, N.A. from time to time as its prime commercial or similar reference interest rate, with adjustments in that varying rate to be made on the same date as any change in that rate, and (b) the maximum rate permitted by applicable law.

"Governmental Entity" has the meaning given that term in Section 2.5(a)(iii).

"Holding Company" means a Holding Company as defined in Section 2(a)(7) of PUHCA.

"Initial LLC Agreement" means that certain operating agreement, dated as of October 31, 1997, entered into by RCN-Sub and PCI-Sub and attached hereto as Exhibit C.

"IRU Agreement" means that certain Fiber Use Agreement entered into by the Company and PEPCO of even date herewith in the form attached hereto as Exhibit D.

"Majority Interest" means, in combination, Membership Interests of one or more Members which, in the aggregate, are entitled to a combined Sharing Ratio of more than 50%.

"Major Cost Categories" has the meaning given that term in Section 7.13.

"Manager" has the meaning given that term in Section 7.2.

"Marks" has the meaning given that term in Section 2.14(a).

"Member" means any Person executing this Agreement as of the date hereof as a member or hereafter substituted or admitted to the Company as a Member as provided in this Agreement, but does not include any Person who has ceased to be a Member in the Company. For purposes of this Agreement, all consents, elections or other actions by a Member shall be acted upon by such Member and any of its Affiliates who are also Members, acting as a single Member for purposes of any such consent, elections or other actions hereunder.

"Members Committee" has the meaning given that term in Section 7.1.

"Member Nonrecourse Debt" means any nonrecourse debt of the Company for which any Member (or any Person related to a Member) bears the Economic Risk of Loss, as determined in accordance with applicable Regulations.

"Member Nonrecourse Deductions" means, with respect to Member Nonrecourse Debt, the amount of deductions, losses and expenses equal to the net increase during the year in Minimum Gain attributable to Member Nonrecourse Debt, reduced (but not below zero) by the proceeds, if any, of such Member Nonrecourse Debt distributed during the year to the Members who bear the Economic Risk of Loss for such debt, as determined in accordance with applicable Regulations.

"Member Parent" means, with respect to RCN-Sub, RCN, and, with respect to PCI-Sub, PCI, and their respective successors and assigns, whether by means of merger, spinoff or otherwise, provided that, (a) if PCI-Sub becomes a subsidiary of another Entity following compliance with Section 3.3 hereof, then the Member Parent with respect to PCI-Sub shall mean such other Entity and (b) if RCN-Sub becomes a subsidiary of another Entity following compliance with Section 3.3 hereof, then the Member Parent with respect to RCN-Sub shall mean such other Entity.

"Membership Interest" means the interest of a Member in the Company, including, without limitation, such rights to distributions (liquidating or otherwise), allocations, information and to consent or approve as shall be provided by law or by this Agreement.

"Minimum Gain" means (i) with respect to Company Nonrecourse Liabilities, the amount of gain that would be realized by the Company if it disposed of (in a taxable transaction) all Company properties that are subject to Company Nonrecourse Liabilities

in full satisfaction of such liabilities, computed in accordance with applicable Regulations or (ii) with respect to each Member Nonrecourse Debt, the amount of gain that would be realized by the Company if it disposed of (in a taxable transaction) the Company property that is subject to such Member Nonrecourse Debt in full satisfaction of such debt, computed in accordance with applicable Regulations.

"Net Agreed Value" means (i) in the case of any Contributed Property, the Agreed Value of such property reduced by any liabilities either assumed by the Company upon such contribution or to which such property is subject when contributed and (ii) in the case of any property distributed to a Member by the Company, the Company's Carrying Value of such property (as adjusted pursuant to clause (b)(ii) of the definition of Carrying Value) at the time such property is distributed, reduced by any liabilities either assumed by such Member upon such distribution or to which such property is subject at the time of distribution, in either case, as determined under Section 752 of the Code and any other applicable provisions of the Code.

"Net Income" or "Net Loss" means, for each fiscal year or other period, the taxable income or loss of the Company, as determined in accordance with Section 703 of the Code, with the following adjustments:

- (a) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Net Income or Net Loss shall be added to such taxable income or loss;
- (b) Any expenditures of the Company described in Section 705(a)(2)(B) of the Code or treated as Code Section 705(a)(2)(B) expenditures pursuant to Regulations Section 1.704-1(b)(2)(iv)(i) and not otherwise taken into account in computing Net Income or Net Loss shall be subtracted from such taxable income or loss;
- (c) In the event that the Carrying Value of any Company asset is adjusted pursuant to paragraph (b) of the definition for Carrying Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Net Income or Net Loss;
- (d) Gain or loss resulting from any disposition of property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Carrying Value of the property disposed of, notwithstanding that the adjusted tax basis of such property differs from its Carrying Value;

- (e) To the extent that an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or Section 743(b) of the Code is required pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(4) to be taken into account in determining Capital Accounts as a result of a distribution other than in complete liquidation of a Member's Membership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Net Income or Net Loss;
- (f) In lieu of depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, Depreciation shall be taken into account.
- (g) Any items which are specially allocated pursuant to Section 6.2(b) hereof shall not be taken into account in computing Net Income or Net Loss.

"Net Operating Available Cash" means at the time of determination, (a) all cash and cash equivalents on hand in the Company, plus (b) for the twelve month

period following the date of determination, forecast net income of the Company, plus the sum of forecast depreciation, amortization and other non-cash charges

to income, in each case to the extent deducted in determining such net income, plus the forecast cash proceeds of dispositions of assets (net of expenses),

plus an amount equal to the forecast net proceeds of debt financings, less (c)

the Forecast Cash Requirement, if any, of the Company, as determined by the Members. For purposes of this definition, Forecast Cash Requirement means, for the twelve-month period following the date of determination, projected capital expenditures, cash contributions to other entities and other cash investments, cash payments in connection with acquisitions, cash income tax payments and debt service (including principal and interest) requirements and other non-cash credits to income, plus forecast cash reserves for future operations or other

requirements.

"1998 Business Plan" has the meaning given that term in Section 7.17.

"Non-Cash Capital Contribution" has the meaning given that term in Section 5.2.

"Non-Competition Agreement" means that certain Non-Competition Agreement entered into by PCI and RCN of even date herewith in the form attached hereto as Exhibit E.

"Nondelinquent Member" as the meaning given that term in Section 4.3(a).

"Other Member" has the meaning given that term in Section 3.3(b)(ii).

"Overhead Attachment Agreements" means those certain Overhead Attachment Agreements entered into by the Company and PEPCO of even date herewith in the forms attached hereto as Exhibits F and G.

"PCI" means Potomac Capital Investment Corporation, Inc., a Delaware corporation.

"PCI Guarantee" means that certain Guarantee of even date herewith granted by PCI on behalf of PCI-Sub in favor of the Company in the form attached hereto as Exhibit H.

"PCI-Sub" means PEPCO Communications, LLC, a Delaware limited liability company and a wholly-owned subsidiary of PCI.

"PCI-Sub Non-Cash Capital Contribution" has the meaning given that term in Section 5.2.

"PEPCO" means Potomac Electric Power Company, a District of Columbia and Virginia corporation.

"Person" means any natural person or Entity.

"Phase I Business Plan" has the meaning given that term in Section 7.17.

"Profits Distributions" shall mean net income of the Company for any fiscal year determined in accordance with GAAP increased by the sum of depreciation, amortization and any non-cash charges to income and reduced by the sum of any non-cash credits to income for such fiscal year.

"Proposed Funding" has the meaning given that term in Section 7.11.

"PUHCA" means the Public Utility Holding Company Act of 1935, as amended from time to time, 15 U.S.C. (S) (S) 79-792-6.

"Purchasing Member" has the meaning given that term in Section 11.2.

"Purchasing Price" has the meaning given that term in Section 3.3(b)(ii).

"RCN" means RCN Telecom Services, Inc., a Delaware corporation.

"RCN Corporation" means RCN Corporation, a Delaware corporation.

"RCN Guarantee" means that certain Guarantee of even date herewith granted by RCN Corporation on behalf of RCN-Sub and certain other RCN Entities in favor of the Company in the form attached hereto as Exhibit I.

"RCN-Operating" means RCN Operating Services, Inc., a New Jersey corporation.

"RCN Services" means RCN Telecom Services, Inc., a Delaware corporation.

"RCN-Sub" means RCN Telecom Services of Washington, D.C., Inc., a District of Columbia corporation and wholly-owned subsidiary of RCN.

"RCN-Sub Non-Cash Capital Contribution" has the meaning set forth in Section 5.1(a).

"Regulations" means the final and temporary Income Tax Regulations promulgated under the Code, as amended from time to time, and including corresponding provisions of succeeding regulations.

"Regulatory Allocations" has the meaning given that term in Section 6.2(b)(viii).

"Relevant Business" means the selling of voice, video, data and other telecommunications services set forth on Schedule II to all potential commercial and residential customers in the Relevant Market.

"Relevant Market" means that specific service territory as set forth on Schedule III.

"Secretary of State" means the Secretary of State of the State of Delaware.

"Selling Price" has the meaning given that term in Section 3.3(b)(ii).

"Sharing Ratio" means, subject to adjustments on account of Dispositions (pursuant to Section 3.2), or Capital Contributions or Capital Calls (pursuant to Sections

4.3 and 7.11), with respect to a particular Member, the percentage set forth opposite such Member's name on Schedule IV.

"Shortfall Amount" has the meaning given that term in Section 7.11(a).

"Shortfall Funding" has the meaning given that term in Section 7.11(d)(ii).

"Support Services Agreement" means the Support Services Agreement between RCN-Operating and the Company dated as of the date hereof and attached hereto as Exhibit J as the same may be modified and amended from time to time.

"Tax Matters Partner" means PCI-Sub.

"Third Party Sale" has the meaning given that term in Section 3.2(b)(v).

"Unrealized Gain" or "Unrealized Loss" attributable to any item of Company property means, as of any date of determination, the excess or shortfall, respectively, of (a) the fair market value of such property as of such date (as determined under Section 6.1(d)) over (b) the Carrying Value of such property as of such date (prior to any adjustment to be made pursuant to the definition of Carrying Value as of such date).

"Wholly Owned Affiliate" means as to any Entity, an Affiliate all of the equity interests of which are owned, directly or indirectly, by a Member, by another Wholly Owned Affiliate, or by the Member Parent thereof.

0.1 OTHER DEFINITIONS. Other terms defined herein have the meanings so given them.

0.2 CONSTRUCTION. Whenever the context requires, the gender of all words used in this Agreement includes the masculine, feminine, and neuter. All references to Articles and Sections refer to articles and Sections of this Agreement, and all references to Exhibits are to Exhibits attached hereto, each of which is made a part hereof for all purposes.

ARTICLE 1

ORGANIZATION

1.1 ORGANIZATION. The Company was organized on October 28, 1997 pursuant to a Certificate of Formation filed in the office of the Secretary of State (the "Certificate").

1.2 NAME. The name of the Company is "Starpower Communications, LLC" and all Company business must be conducted in that name or such other names that comply with

applicable law as the Members may select from time to time.

1.3 REGISTERED OFFICE; REGISTERED AGENT; PRINCIPAL OFFICE IN THE UNITED STATES; OTHER OFFICES. The registered office of the Company in the State of Delaware shall be the initial registered office designated in the Certificate or such other office (which need not be a place of business of the Company) as the Members may designate from time to time in the manner provided by law. The registered agent of the Company in the State of Delaware shall be the initial registered agent designated in the Certificate, or such other Person or Persons as the Members may designate from time to time in the manner provided by law. The principal office of the Company in the United States shall be at 1130 Connecticut Avenue, N.W. Suite 400, Washington, D.C. 20036 or such other place(s) as the Members may designate from time to time, which need not be in the State of Delaware but shall be in the District of Columbia. The Company may have such other offices as the Members may determine appropriate.

1.4 PURPOSE. The business purpose of the Company is (i) to construct, own, lease and operate a network to conduct the Relevant Business(es), (ii) to market the Relevant Business(es) to business and residential customers in the Relevant Market, and (iii) to engage in and carry on any lawful business purpose or activity which is required to conduct the Relevant Business in the Relevant Market that is not prohibited by the Act or other applicable law.

1.5 COMPANY POWERS.

(a) In furtherance of the business purpose specified in Section 2.4 hereof, but subject to the limitations and restrictions set forth in this Agreement, the Company shall be empowered to do or cause to be done, or omit to do or cause to be done, any and all acts deemed to be necessary or advisable in furtherance of the business purpose of the Company, including, without limitation, the power and authority to:

(i) Have, maintain or close one or more offices within or without the State of Delaware and in connection therewith to rent or acquire office space and to engage personnel;

(ii) Open, maintain and close bank and money market accounts, including the power to draw checks or other orders for the payment of moneys, and to invest such funds as are temporarily not required for Company purposes in short-term investments;

(iii) Bring and defend actions and proceedings at law or equity before any domestic or foreign governmental or regulatory authority, agency or commission (each, a "Governmental Entity");

(iv) Have outstanding at any time any indebtedness (including any indebtedness of subsidiaries) for money borrowed, guarantee the obligations of others or otherwise become contingently liable with respect to any indebtedness or obligations of others (collectively, "Company Debt"), and in connection therewith to grant security interests, if and only if the Company Debt was incurred in connection with, or for the purpose of entering into, the financing of the operations of the business of or for other business purposes of the Company; provided that "Company Debt" shall, for purposes

of this Agreement, be deemed to include all interest, fees (including commitment, guaranty and facility fees), expenses thereon and all other amounts due in respect thereof;

(v) Enter into, perform and carry out contracts and agreements of every kind necessary or incidental to the accomplishment of the Company's purposes, and to take or omit to take such other action in connection with the business of the Company as may be necessary or desirable to further the purposes of the Company; and

(vi) Carry on any other activities necessary to, in connection with, or incidental to any of the foregoing or the Company's business.

(b) Notwithstanding anything in Section 2.5(a) to the contrary, the Company will not take any action, nor will any Member or officer or employee of the Company take any action, which, in each such case, would cause the Company to be in violation of any applicable statute, rule or regulation of any Governmental Entity.

1.6 FOREIGN QUALIFICATION GOVERNMENTAL FILINGS. Prior to the Company's conducting business in any jurisdiction other than the State of Delaware, the Members shall cause the Company to comply, to the extent procedures are available, with all requirements necessary to qualify the Company as a foreign limited liability company in such jurisdiction. Each Member shall execute, acknowledge and deliver all certificates and other instruments conforming to this Agreement that are necessary or appropriate to qualify, or, as appropriate, to continue or terminate such qualification of, the Company as a foreign limited liability company in all such jurisdictions in which the Company may conduct business.

1.7 REGULATORY APPROVALS. The Members agree to use all commercially reasonable efforts to cooperate in obtaining all regulatory, third party and other approvals which may be necessary to form the Company and operate the Relevant Business of the Company in the Relevant Market as is intended herein.

1.8 EFFORTS. Upon the terms and subject to the conditions of this Agreement and the other Basic Agreements, documents and instruments pursuant to which the transactions contemplated hereby are to be consummated, PCI-Sub and RCN-Sub will use their respective

commercially reasonable efforts to take, and to cause their Affiliates to take, all other actions, and to do, or cause to be done, all other things necessary, proper or advisable to carry out their obligations under this Agreement and to consummate and make effective the transactions contemplated hereby and by the Basic Agreements, including, without limitation,

(i) as soon as practicable following the execution of this Agreement, to make all applications and filings and to use their respective commercially reasonable efforts to obtain all other authorizations and consents required to be obtained by each Member or its Affiliates in connection with the consummation of the transactions contemplated by this Agreement and by the other Basic Agreements;

(ii) in the event any changes in the structure or the terms of the transactions or agreements contemplated by this Agreement or by any of the other Basic Agreements are required to facilitate obtaining the authorizations required in order to achieve the purposes of the Company, to use their respective commercially reasonable efforts to accommodate such changes to the extent they would not adversely affect such Member's rights or obligations hereunder (or under any other agreement, document or instrument contemplated hereby), or have an adverse effect on the Relevant Business in the Relevant Market; and

(iii) Subject to Section 13.1(e), in the event any claim, action, suit, investigation or other proceeding by any governmental authority or other person is commenced which questions the validity or legality of any of the transactions contemplated hereby or by any of the other Basic Agreements or any injunction or other order is issued in any such proceeding, to cooperate with the Company or the other Member hereto regarding the defense of such proceedings and the removal of any such impediment to the consummation of such transactions and to use its commercially reasonable efforts to have such injunction or other order dissolved.

1.9 TERM. The Company commenced on the date the Certificate for the Company was filed with the Secretary of State, and shall continue in existence in perpetuity unless terminated in accordance with Article 12.

1.10 NO STATE-LAW PARTNERSHIP. The Members intend that the Company not be a general partnership or limited partnership, and that no Member be a partner of any other Member, for any purposes other than federal, state and local income tax purposes, and this Agreement shall not be construed to suggest otherwise.

1.11 ACTIVITIES OF THE MEMBERS. Except as expressly restricted by the Non-Competition Agreement, each Member and its Affiliates may engage in or hold interests in other business ventures and activities of any nature, including, without limitation, ventures and activities similar to those of the Company, and neither the Company nor the other Members

shall, by virtue of this Agreement, have any interest or rights in or to such other ventures or business or any liability or obligation with respect thereto.

1.12 BRANDING. Each Member shall cause its respective appropriate Affiliate to grant to the Company a non-exclusive, worldwide, royalty-free license, without right of sublicense, to use the name of such Member in connection with the Relevant Business in the Relevant Market, for so long as such Member remains a Member. The Company will not attempt to register any marks which include the name of such Member. Upon termination of the license granted hereunder, the Company will cease all use of the name of such Member, subject to a reasonable transition license not to exceed six months in duration from the date such Member ceases to be a Member.

1.13 NO UNILATERAL ACTION. The Members agree that neither Member nor any of their respective affiliates will take any action on its own behalf to bind or obligate the Company or restrict the operations of the Company in any way that would have a material adverse effect on the Company.

1.14 TRADEMARK USAGE. (a) The Company recognizes that RCN Services is the owner of all right, title, and interest in the trademarks and/or service marks listed on Schedule 2.14 (the "Marks"). The parties agree that the Company may prominently use the Marks, but only in combination with a separate name to be determined by the Company. In furtherance thereof, RCN Services hereby grants to the Company a non-exclusive, worldwide, royalty-free license, with right of sublicense solely for the purpose of use by resellers of the Company's services, to use the Marks in combination with the name of the Company in connection with the Relevant Business in the Relevant Market. RCN Services will have the right to set reasonable quality standards with respect to the use of the Marks, including reasonable rights of inspection with respect thereto, in order to preserve the validity of the Marks as trademarks and/or service marks of RCN Services.

(b) The Company will not attempt to register any marks which include the Marks. Notwithstanding the foregoing, all trademark or service mark rights which may accrue in the Company name which is used with the Marks shall belong to the Company and the Company may seek registrations for the separate name, so long as such registrations do not include the Marks. Upon termination of RCN-Sub's or any RCN Entities' membership in the Company, the license to use those certain Marks which are or have been utilized by the Company shall continue for a period of seven years from the date RCN-Sub or any RCN Entity is no longer a Member of the Company.

1.15 ALLOCATION OF COSTS. The Members agree that all costs incurred by any Member prior to the date hereof shall be borne solely by such Member and not passed through to the

Company unless otherwise agreed to by the Members.

1.16 ALLOCATION OF REVENUES. The Members agree that the Company will be compensated for the use of any Company facilities used by or leased by any RCN-Sub affiliate or PCI-Sub affiliate to 1) originate or terminate telecommunications services (including, but not limited to, voice, video or data services) in the Relevant Market; or 2) transport telecommunications services (including, but not limited to, voice, video or data services) through the Relevant Market. The compensation will be negotiated on an individual case basis between the Company and such affiliate and will be based on factors including, but not limited to, the market rate for similar services, the type of facility provided, mileage of the facility in the Relevant Market, and construction and other costs.

ARTICLE 2

MEMBERS; DISPOSITIONS OF INTERESTS

2.1 MEMBERS. The Members of the Company are the Persons executing this Agreement and/or Persons admitted as substitute or additional Members as permitted by this Article 3. No additional Members may be admitted as such without the consent of PCI-Sub and RCN-Sub. At such time as any additional Member is to be admitted, this Agreement shall be amended to reflect the terms agreed to by the Members. Any assignee pursuant to a transfer of all of a Member's Interest in accordance with this Agreement shall automatically be admitted as a Member.

2.2 RESTRICTIONS ON THE DISPOSITION OF AN INTEREST.

(a) Except as provided in this Section 3.2, a Disposition by a Member of all or any part of a Membership Interest may be effected only with the prior express written consent of the other Member. Any attempted Disposition by a Person of a Membership Interest, or any part thereof, other than in accordance with this Section 3.2 is void and the Company shall not recognize it.

(b) Subject to the provisions of Section 3.2(c)-(h), from and after the date that is four years from the Effective Date (the "Standstill Period"), a Member may Dispose of part or all of its Membership Interest to a bona fide third party purchaser provided that the Member who wishes to Dispose of its Membership Interest (an "Offeror") first offers such Membership Interest to the other Member (the "Offeree") and Disposes of such Membership Interest in accordance with the following procedures:

(i) The Offeror shall give written notice of the terms of the offer,

including but not limited to the price, terms of payment, the Sharing Ratio of such Offeror's Membership Interest offered and the Sharing Ratios of all Membership Interests then held by the Offeror (an "Offer Notice") to the Offeree and the Company.

(ii) The Offeree shall have 60 days, commencing with the date on which it has received the Offer Notice, to purchase all of the Membership Interest offered.

(iii) The Offeree may exercise this election to purchase the Membership Interest by giving the Offeror and the Company written notice thereof within 60 days of Offeree's receipt of the Offer Notice, and the Company shall then specify the date and time of the closing of the purchase at the Company's principal office, which shall be reasonably acceptable to the Offeror and the Offeree, but shall not be later than 10 days following the Offeree's exercise of its election to purchase the Membership Interest (unless the Offeree and the Offeror agree upon another time and/or place of closing).

(iv) At the closing, the purchasing Offeree (if any) shall purchase the Membership Interest at the price and on the terms set forth in the Offer Notice, and the Offeror shall execute and deliver such usual and customary documents and instruments of transfer and conveyance as are required to provide clear title in the transferred Membership Interest to the Offeree, including all deeds, assignments, releases, agreements, receipts or other documents necessary to consummate the transfer of the Membership Interest being sold and delivered upon payment by the Offeree.

(v) Should the Offeree fail to purchase all of the offered Membership Interests specified in the Offer Notice, then the Offeror shall not be required to Dispose of any of its Membership Interest to the Offeree, but shall be permitted to Dispose of all of the offered Membership Interest specified in the Offer Notice to a third party on terms no more favorable to the third party than the terms set forth in the Offer Notice (a "Third Party Sale"), provided that the Third Party Sale is consummated within 120 days of the date of the Offer Notice.

(vi) If an Offeror proposes to sell any part of its Membership Interest in one or a series of related Third Party Sales, the Offeror shall give notice to the Offeree and the Company, not less than 30 and not more than 60 days prior to the consummation of the Third Party Sale, of the material terms of the Third Party Sale, including the price, terms of payment, and the Sharing Ratio of such

Offeror's Membership Interest offered and the Sharing Ratios of all Membership Interests then held by the Offeror, which terms shall be the same or better to the Offeree than the terms offered to Offeree pursuant to Section 3.2(b)(i) hereof. The Offeree who so elects by written notice (an "Electing Member") to the Company and the Offeror within 15 days thereafter shall be entitled to sell a portion of its Membership Interest in the Third Party Sale that is equal to the proportion that the Sharing Ratio of the Membership Interest being sold bears to the Sharing Ratio of the entire Membership Interest owned by the Offeror.

(vii) Should an Offeror fail or choose not to sell its Membership Interest at the terms previously presented to the Offeree, but rather proposes to sell such Membership Interest to a third party on new terms more favorable than such previously presented terms, such Offeror shall offer again to sell its Membership Interest to the Offeree on such new terms, in compliance with this Section 3.2.

- (c) The Company may not recognize for any purpose any purported Disposition of all or part of a Membership Interest unless and until the other applicable provisions of this Section 3.2 have been satisfied and the non-Disposing Member has received, on behalf of the Company, a document
- (i) executed by both the Member effecting the Disposition and the Person to which the Membership Interest or part thereof is Disposed,
 - (ii) including the notice address of any Person to be admitted to the Company as a Member and its agreement to be bound by this Agreement in respect of the Membership Interest or part thereof being obtained,
 - (iii) setting forth the Sharing Ratios after the Disposition of the Member effecting the Disposition and the Person to which the Membership Interest or part thereof is Disposed (which together must total the sum of the Sharing Ratios of such Person and the Member effecting the Disposition before the Disposition),
 - (iv) containing representations and warranties by such Person and such Member as may be reasonably requested by the non-Disposing Member that the Disposition was made in accordance with all applicable laws and regulations (including securities laws), that any necessary regulatory approvals have been obtained, including representations concerning its solvency and regarding its ability to carry out all obligations of the Offeror to the Company, including its Capital Contribution obligations, and

- (v) containing a condition to closing requiring a certificate, dated as of the date of the Disposition, duly executed by such Person, to the effect that the representations and warranties in Section 3.2 are true and correct with respect to that Person, and that all actions have been taken as are required to provide clear title in the transferred Membership Interest to the Offeree, including all deeds, assignments, releases, agreements, receipts or other documents necessary to consummate the transfer of the Membership Interest being sold and delivered upon payment by the Offeree.

Each Disposition complying with the provisions of this Section 3.2(c) is effective as of the first day of the calendar month immediately succeeding the month in which all requirements of this Section 3.2 have been met so long as the closing of the purchase and sale pursuant to this Section 3.2(c) shall occur no later than 60 days following the receipt of the election by the non-Disposing Member or the later receipt of all required regulatory and other approvals and in no event later than 180 days following receipt of such election. Such closing shall be subject to (i) the receipt of all required regulatory and other approvals and in no event later than 180 days following receipt of such election and (ii) the satisfaction of all amounts due hereunder in connection with the disposition by the Disposing Party or the Person being admitted as a Member.

(d) Notwithstanding the foregoing, the provisions of this Section 3.2 shall not apply to any transfer from a Member to its Member Parent, or a direct or indirect wholly owned subsidiary of its Member Parent, provided that such Member Parent guarantees the performance of all of such Member's obligations to the Company, and provided further that such transferee shall comply with all of the requirements of Section 3.2(c) hereof.

(e) For the right of a Member to Dispose of a Membership Interest or any part thereof and of any Person to be admitted to the Company in connection therewith to exist or be exercised (if applicable), either (i) the Membership Interest or part thereof subject to the Disposition or admission must be registered under the Securities Act of 1933, as amended, and any applicable state securities laws or (ii) the Company must receive a favorable opinion of the Company's legal counsel or of other legal counsel reasonably acceptable to each non-Disposing Member to the effect that the Disposition or admission is exempt from registration under those laws and regarding compliance with laws. Each non-Disposing Member, however, may waive the requirements of this Section 3.2(e).

(f) In the event that (i) a Member effects a Disposition, or (ii) an Offeror determines not to Dispose of its Membership Interest after having delivered an Offer Notice to the other Members, the Member effecting such Disposition and any Person admitted to the Company in connection with such Disposition or the Offeror, as the case may be, shall pay, or

reimburse the Company and the other Member for, all reasonable, documented costs incurred by the Company and the other Member in connection with the Disposition, admission or evaluation of the Offer (including, without limitation, the legal fees reasonably incurred in connection with the legal opinions referred to in Section 3.2(e)) on or before the 10th Business Day after the receipt of the Company's and the other Member's invoices for the amount due by that Person. If payment is not made by the date due, the Person owing such amount shall pay interest on the unpaid amount from the date due until paid at a rate per annum equal to the Default Interest Rate, and such amount may be withheld from any future distributions. In addition to the foregoing, the Member effecting such Disposition and any Person admitted to the Company in connection with such Disposition hereby agrees to indemnify and hold the other Member harmless from and against any material adverse affect on such other Member's present or future allocable share of Company income or loss in respect of its Membership Interest as compared to such other Member's present or future allocable share of Company income or loss in respect of its Membership Interest if there had not been such Disposition.

(g) Notwithstanding anything herein to the contrary, RCN-Sub may not transfer or assign its Membership Interest to a third party after the Standstill Period if PCI-Sub can reasonably demonstrate that the failure of the benefits of one or more of the RCN Agreements to survive such transfer or assignment would have a material adverse impact on the ability of the Company to conduct the Relevant Business in the Relevant Market.

(h) The Members and any Offeree acquiring a Member's Membership Interest in the Company agree that the obligations under the Support Services Agreement and the PCI Support Services Agreement, as the case may be, shall, at the option of the non-Disposing Member, survive the transfer or assignment of the transferring Member's equity interest in the Company for a minimum of five years thereafter. Each of the Members agrees that the benefits of the use of the IRU Agreement, the Master Facility Lease Agreement and the Overhead Attachment Agreements (in the event PCI-Sub is the Disposing Member) and the Assignment of Benefits Agreement (in the event RCN-Sub is the Disposing Member) will, at the option of the non-Disposing Member, continue under the terms and conditions thereof.

2.3 CHANGE OF CONTROL. (a) Upon any Change of Control of either RCN-Sub or PCI-Sub, the Member subject to the Change of Control (the "Change of Control Member") shall promptly give notice thereof to the other Member. If reasonably practicable, the Member subject to the Change of Control will give notice to the other Member prior to such Change of Control. Such Change of Control shall not affect the affected Member's status as a Member so long as such Change of Control does not have a material adverse effect on the Company.

(b) In the event that, in the reasonable judgment of the other Member, the Change of Control of a Member will have a material adverse effect on the Company:

(i) such Member shall so notify the Change of Control Member within five days of its receiving notice of the Change of Control.

(ii) The Change of Control Member shall submit a notice (a "Change of Control Notice") to the other Member (the "Other Member") within 60 days after receipt of such notice of material adverse effect. The Change of Control Notice shall set forth an estimated value (the "Estimated Value") for the Company as of the date of the Change of Control Notice. The Estimated Value multiplied by the Change of Control Member's Sharing Ratio shall be the price (the "Selling Price") at which the Change of Control Member is willing to sell its Membership Interest to the Other Member. The Estimated Value multiplied by the Other Member's Sharing Ratio shall be the price (the "Purchasing Price") at which the Change of Control Member is willing to purchase the Other Member's Membership Interest.

(iii) Within 60 days after the Other Member's receipt of the Change of Control Notice, the Other Member shall signify in writing its election, whether to buy the Change of Control Member's Interest at the Selling Price or to sell its Membership Interest at the Purchasing Price. If the Other Member fails to make such election within such 60 day period, the Change of Control shall be deemed to have been accepted by the Other Member.

(iv) Each Member agrees to execute and deliver all deeds, assignments, releases, agreements, receipts or other documents necessary to either (A) consummate the transfer of the Membership Interest being sold and delivered upon payment by the purchasing Member of the consideration provided for in the Change of Control Notice or (B) affirm and ratify the Change of Control Member's status as a Member.

(v) Subject to the receipt of all required regulatory and other approvals, the closing of the purchase and sale pursuant to this Section 3.3(b) shall occur no later than 60 days following the receipt of the election by the Other Members.

2.4 INTERESTS IN A MEMBER. Notwithstanding any provision of this Agreement to the contrary, without the prior express written consent of each other Member, no Member shall Dispose of all or any part of its Membership Interest in such a manner that, after the meaning of Section 708 of the Code if such termination would result in material adverse tax consequences to the non-

transferring Members or (ii) the Company would become an association taxable as a corporation for federal income tax purposes.

2.5 LIABILITY TO THIRD PARTIES. No Member shall have any personal obligation for any liabilities of the Company, whether such liabilities arise in contract, tort or otherwise, except to the extent that any such liabilities are expressly assumed in writing by such Member; provided, however, that nothing in this

Section 3.5 shall be construed as an agreement by the Company to indemnify or hold harmless any Member.

ARTICLE 3

CAPITAL CONTRIBUTIONS

3.1 INITIAL CAPITAL CONTRIBUTIONS. Within 30 days of the execution of this Agreement, each Member shall make the Initial Capital Contribution set forth opposite such Member's name on Schedule I.

3.2 ADDITIONAL CAPITAL CONTRIBUTIONS.

(a) Each Member shall be required to make Additional Capital Contributions in the amounts and on the dates set forth opposite such Member's name on Schedule I unless otherwise agreed to unanimously by the Members.

(b) In addition, upon 30 days prior written notice to the Members, the Company may, from time to time require the Members to make additional contributions of capital to the Company in proportion to their respective Sharing Ratios ("Capital Calls"), as may be unanimously agreed by the Members. Capital Calls specifically referred to in any annual Business Plan may be made by the general manager of the Company.

3.3 FAILURE TO PAY A CAPITAL CONTRIBUTION OR CAPITAL CALL.

(a) If any Member (the "Delinquent Member") fails to make payment when due of all or any portion of its share of any Capital Contribution set forth in Schedule I hereto, the secretary of the Company shall immediately give written notice of the failure to such Member, with a copy to the other Member (the "Nondelinquent Member"). If the Delinquent Member fails to pay the amount due within 10 days following receipt of notice, the secretary shall promptly give notice of such failure (the "Delinquency Notice") to the Non-Delinquent Member. At any time within 15 days following receipt of the Delinquency Notice, then, unless the Nondelinquent Member elects to make Capital Contributions in accordance with Section 4.3(b) hereof, (i) the amount contributed by the Nondelinquent Member pursuant to the Capital Contribution or Capital Call shall be treated as a loan to the Company for a term to be specified

by such Nondelinquent Member not to exceed one year, bearing interest payable quarterly at the Default Interest Rate, and (ii) the Nondelinquent Member may make an additional loan to the Company for a term to be specified by such Nondelinquent Member not to exceed one year, also bearing interest payable quarterly at the Default Interest Rate, in an amount equal to all or any portion of the contribution unpaid by the Delinquent Member.

(b) If the Nondelinquent Member so elects, then in lieu of making loans to the Company in accordance with Section 4.3(a) hereof, (A) the amount contributed by such Nondelinquent Member pursuant to the Capital Contribution shall be treated as a contribution to the capital of the Company in exchange for an additional interest in the Company and (B) upon receipt of the Delinquency Notice, the Nondelinquent Member may make an additional contribution of capital to the Company in exchange for an additional interest in the Company in an amount equal to all or any portion of the contribution unpaid by the Delinquent Member.

(c) The amounts contributed pursuant to Section 4.3(b) hereof shall increase the Capital Accounts of the contributing Member in accordance with the terms of this Agreement. In addition, the Sharing Ratios shall be recalculated (and such recalculated Sharing Ratios shall thereafter apply for all purposes of this Agreement) such that the Sharing Ratios of each Member shall equal the ratio of its aggregate Capital Contributions to the aggregate Capital Contributions of all of the Members.

(d) Notwithstanding anything in this Agreement to the contrary, a Nondelinquent Member shall have the right to refer the matter to any court of competent jurisdiction for specific performance of obligations of a Delinquent Member pursuant to this Article 4 (and each Member hereby waives any defense that money damages would be a satisfactory remedy for such breach).

3.4 RETURN OF CONTRIBUTIONS. A Member is not entitled to the return of any part of its Capital Contributions or Capital Calls or to be paid interest in respect of either its Capital Account, its Capital Contributions or its Capital Calls. An unrepaid Capital Contribution or Capital Call is not a liability of the Company or of the other Members. A Member is not required to contribute or to lend any cash or property to the Company to enable the Company to return the other Member's Capital Contributions or Capital Calls.

3.5 NO OTHER CONTRIBUTIONS. Except as otherwise set forth in this Article 4, Article 5 or Section 7.11, no capital contributions other than Capital Contributions as set forth in Schedule I or Capital Calls, whether in cash or in kind, shall be made by any Member without the written consent of all the other Members and agreement among the Members as to the value of such contributions.

ARTICLE 4

NON-CASH CAPITAL CONTRIBUTIONS AND BASIC AGREEMENTS

4.1 RCN-SUB NON-CASH CAPITAL CONTRIBUTIONS.

(a) On the Effective Date, RCN-Sub shall contribute, and shall cause RCN or its Affiliate to contribute, to the Company all its right, title and interest in and to (i) all of the customer accounts of RCN Long Distance in the Relevant Market (such accounts are listed on Schedule 5.1(a)1 hereto) (any of which entered into subsequent to the Effective Date shall be executed in the name of the Company), provided, however, that RCN will have up to 60 days after the Effective Date to transition such customer accounts to the Company from an operational basis and RCN-Sub hereby represents that none of such accounts has been pledged by RCN and RCN has no notice of any pledge, lien or encumbrance by any other person, (ii) its business plan in the Relevant Market and experience with respect to the provision of integrated voice, video, data and related services to residential and commercial customers, (iii) all building access agreements covering any property located in the Relevant Market prior to the Effective Date, copies of which have been delivered to the Company, as set forth on Schedule 5.1(a)2 hereto (any of which entered into subsequent to the Effective Date shall be executed in the name of the Company and any of which are entered into prior to the date of this Agreement shall be automatically assigned to the Company upon the execution of this Agreement), none of which are subject to any claims by third parties as to which RCN has notice, (iv) the Support Services Agreement and (v) the benefit of the RCN Agreements (as defined in the Assignment of Benefits Agreement) pursuant to the Assignment of Benefits Agreement (collectively, the "RCN-Sub Non-Cash Capital Contribution"). RCN-Sub shall also contribute, or shall cause RCN or its Affiliate to contribute, all agreements which it or they enter into after the execution of this Agreement with third parties which are of the same nature as those agreements described in clause (iii) above, and such agreements shall also be included as RCN-Sub Non-Cash Capital Contributions. Such RCN-Sub Non-Cash Capital Contributions shall be at RCN's Cost on terms that are cost-effective, reasonably acceptable to the Company and commercially reasonable so as to facilitate timely network deployment and provision of service.

(b) To the extent RCN-Sub or its Affiliates are required to recognize any taxable income or reduce any net operating loss currently generated or net operating loss carryforwards solely as a result of the contribution of the customer accounts listed on Schedule 5.1(a)1 to the Company, the Company agrees to reimburse RCN-Sub or the respective Affiliates an amount sufficient to pay such federal and state income tax or to reimburse RCN-Sub and its respective Affiliates for the deemed tax resulting from the loss of use of its federal and state net operating loss, but in no event shall the Company be responsible to reimburse more than \$200,000 in the aggregate on account of such tax or deemed tax. This reimbursement shall be

treated as a distribution to RCN-Sub.

4.2 PCI NON-CASH CAPITAL CONTRIBUTIONS. From and after the Closing Date, PCI-Sub shall contribute, and shall cause PCI to contribute its efforts with respect to a fair value (i) IRU Agreement and (ii) Overhead Attachment Agreements with PEPCO (collectively, the "PCI-Sub Non-Cash Capital Contribution" and, together with the RCN-Sub Non-Cash Contribution, the "Non-Cash Capital Contributions"). The PCI-Sub Non-Cash Capital Contribution is to be on terms and conditions that are cost-effective, reasonably acceptable to the Company and commercially reasonable so as to enable the Company to facilitate timely network deployment and provision of service.

4.3 VALUE OF NON-CASH CAPITAL CONTRIBUTIONS. PCI-Sub and RCN-Sub agree that the RCN-Sub Non-Cash Capital Contribution and the PCI-Sub Non-Cash Capital Contribution are of equal but non-quantifiable value to the Company but will be reflected in the Capital Accounts at zero value and will not affect the Sharing Ratios of the Members.

4.4 BASIC AGREEMENTS. Upon the Effective Date hereof, as applicable, each of the Members shall have executed the Basic Agreements and shall deliver a copy of each Basic Agreement to the Company.

ARTICLE 5
MEMBER ACCOUNTS; ALLOCATIONS OF PROFIT AND LOSS; DISTRIBUTIONS

5.1 CAPITAL ACCOUNTS.

(a) A Capital Account shall be established and maintained for each Member, and such Capital Account shall be increased by (i) the amount of cash and

the Net Agreed Value of all property transferred to the Company as Capital Contributions with respect to such Member's Membership Interest pursuant to this Agreement and (ii) the amount of Net Income (and items thereof) allocated to the Member pursuant to Article 6 hereof, and decreased by

(iii) the amount of cash and the Net Agreed Value of all actual and deemed distributions of cash or property made with respect to such Member's Membership Interest pursuant to this Agreement and (iv) the amount of Net Loss (and items thereof) allocated to the Member pursuant to Article 6 hereof.

(b) A transferee of a Membership Interest shall succeed to a pro rata portion of the Capital Account of the transferor relating to the Membership Interest so transferred; provided, however, that, if the transfer causes a termination of the Company under Section 708(b)(1)(B) of the Code, the rules under the Regulations promulgated under Section 708 of the Code shall govern the treatment of the Company and the Members upon a termination of the

Company pursuant to Section 708 of the Code.

(c) To the extent not provided for in this Section 6.1, the Capital Accounts of the Members shall be adjusted and maintained in accordance with applicable Regulations, but only if and to the extent that such adjustment and maintenance do not have a material adverse effect on the economic interests of the Members.

(d) No Member shall be required to pay to the Company or to any other Member the amount of any deficit balance in such Member's Capital Account.

5.2 ALLOCATIONS FOR CAPITAL ACCOUNT AND TAX PURPOSES.

(a) ALLOCATIONS OF NET INCOME OR NET LOSSES TO CAPITAL ACCOUNTS. After giving effect to the special allocations set forth in Section 6.2(b), Net Income and Net Loss for each taxable period shall be allocated to Capital Accounts as set forth below.

(i) Net Income shall be allocated between the Members in the following manner:

(A) First, to each Member having a deficit balance in its Capital Account, in the proportion that such deficit balance bears to the total deficit balances in the Capital Accounts of all Members, until each such Member has been allocated Net Income equal to any such deficit balance in its Capital Account;

(B) Second, to the Members previously allocated Net Loss under Section 6.2(a)(ii)(A) pro rata to the extent of such Net Loss previously allocated and not otherwise previously recouped under Section 6.2(a)(i)(A) or this Section 6.2(a)(i)(B);

(C) Third, to the Members in accordance with their respective Sharing Ratios.

(ii) Net Loss shall be allocated to the Members in the following manner:

(A) First, to the Members in proportion to, and to the extent of, the positive balances in their respective Capital Accounts; and

(B) Second, the balance, if any, to the Members in accordance

with their respective Sharing Ratios.

(iii) Notwithstanding Section 6.2(a)(ii), no allocation of Net Losses (or items thereof) shall be made to any Member to the extent that such allocation would create or increase an Adjusted Capital Account Deficit.

(iv) If, upon the dissolution and termination of the Company pursuant to Article 12 and after all other allocations to Capital Accounts provided for in Section 6.2 have been tentatively made as if this Section 6.2(a)(iv) were not in this Agreement, a distribution to the Members under Section 12.2 would be different from a distribution to the Members under Section 6.3, then Net Income (and items thereof) and Net Losses (and items thereof) for the taxable period in which the Company dissolves and terminates pursuant to Article 12 shall be allocated among the Members in a manner such that the Capital Account balance of each Member, immediately after giving effect to such allocation, is, as nearly as possible, equal (proportionately) to the amount of the distributions that would be made to such Member during such last taxable period pursuant to Section 6.3. The Tax Matters Partner may apply the principles of this Section 6.2(a)(iv) to any taxable period preceding the taxable period in which the Company dissolves and terminates (including through application of Section 761(c) of the Code) if delaying application of the principles of this Section 6.2(a)(iv) would likely result in distributions under Section 12.2 that are materially different from distributions under Section 6.3 in the taxable period in which the Company dissolves and terminates.

(b) REGULATORY ALLOCATIONS TO CAPITAL ACCOUNTS. Notwithstanding any other provision of this Section 6.2, the following special allocations to Capital Accounts shall be made in the following order:

(i) COMPANY'S MINIMUM GAIN CHARGEBACK. Except as provided in Regulations Section 1.704-2(f), notwithstanding any other provision of this Section 6.2, if there is a net decrease in Minimum Gain attributable to Company Nonrecourse Liabilities during any Company taxable period, each Member shall be allocated items of Company income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided for in the applicable provisions of Regulations Sections 1.704-2(f), (g) and (j). This Section 6.2(b)(i) is intended to comply with the "partnership minimum gain chargeback" requirement in Regulations Section 1.704-2(f) and shall be interpreted consistently therewith.

(ii) CHARGEBACK OF MEMBER NONRECOURSE DEBT MINIMUM GAIN. Except as otherwise provided in Regulations Section 1.704-2(i)(4), notwithstanding the other provisions of this Section 6.2 (other than Section 6.2(b)(i)), if there is a net decrease in Minimum Gain attributable to Member Nonrecourse Debt during any Company taxable period, any Member with a share of Minimum Gain attributable to such Member Nonrecourse Debt at the beginning of such taxable period shall be allocated items of Company income and gain for such period (and, if necessary, subsequent periods) in the manner and amounts provided for in the applicable provisions of Regulations Sections 1.704-2(i) and (j). This Section 6.2(b)(ii) is intended to comply with the chargeback of items of income and gain requirement in Regulations Section 1.704-2(i)(4) and shall be interpreted consistently therewith.

(iii) QUALIFIED INCOME OFFSET. In the event any Member unexpectedly receives any adjustments, allocations or distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) or 1.704-1(b)(2)(ii)(d)(6) of the Regulations, items of Company income and gain shall be specially allocated to such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations promulgated under Section 704(b) of the Code, its Adjusted Capital Account Deficit created by such adjustments, allocations or distributions as quickly as possible; provided, that an allocation pursuant to this Section 6.2(b)(iii) shall be made only if and to the extent that such Member would have such an Adjusted Capital Account Deficit after all other allocations provided for in this Section 6.2 have been tentatively made as if this Section 6.2(b)(iii) were not in this Agreement.

(iv) GROSS INCOME ALLOCATIONS. In the event any Member has a deficit balance in its Capital Account at the end of any Company taxable period in excess of the amount such Member is deemed to be obligated to restore pursuant to the penultimate sentences of Regulations Section 1.704-2(g)(1) and Section 1.704-2(i)(5), such Member shall be specially allocated items of Company gross income and gain in the amount of such excess as quickly as possible; provided, that an allocation pursuant to this Section 6.2(b)(iv) shall be made only if and to the extent that such Member would have a deficit balance in its Capital Account after all other allocations provided for in this Section 6.2 have been tentatively made as if Section 6.2(b)(iii) and this Section 6.2(b)(iv) were not in this Agreement.

(v) COMPANY NONRECOURSE DEDUCTIONS. Company Nonrecourse Deductions for any taxable period shall be allocated to the Members in accordance with their respective Sharing Ratios. If the Members determine in their good faith

discretion that the Company's Nonrecourse Deductions must be allocated in a different ratio to satisfy the safe harbor requirements of the Regulations promulgated under Section 704(b) of the Code, the Members are authorized to revise the prescribed ratio to the numerically closest ratio that satisfies such requirements.

(vi) MEMBER NONRECOURSE DEDUCTIONS. Member Nonrecourse Deductions for any taxable period shall be allocated 100% to the Member that bears the Economic Risk of Loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Section 1.704-2(i) of the Regulations. If more than one Member bears the Economic Risk of Loss with respect to a Member Nonrecourse Debt, such Member Nonrecourse Deductions attributable thereto shall be allocated between or among such Members in accordance with the ratios in which they share such Economic Risk of Loss.

(vii) CODE SECTION 754 ADJUSTMENTS. To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or 743(b) of the Code is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m), to be taken into account in determining Capital Accounts, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset), or loss (if the adjustment decreases such basis), and such item of gain or loss shall be specially allocated to the Members in a manner consistent with the manner in which their Capital Accounts are required to be adjusted pursuant to such Section of the Regulations.

(viii) The allocations set forth in Sections 6.2(a)(iii) and 6.2(b)(i) through (vii) (collectively, the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Company income, gain, loss or deduction pursuant to this Section 6.2(b)(viii). Therefore, notwithstanding any other provision of this Section 6.2 (other than the Regulatory Allocations), the Tax Matters Partner shall make such offsetting special allocations of Company income, gain, loss or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of this Agreement and all Partnership items were allocated pursuant to Section 6.2(a) (determined without regard to Section 6.2(a)(iii)). In exercising its

discretion under this Section 6.2(b)(viii), the Tax Matters Partner shall take into account future Regulatory Allocations under Sections 6.2(b)(i) and 6.2(b)(ii) that, although not yet made, are likely to offset other Regulatory Allocations previously made under Sections 6.2(b)(v) and 6.2(b)(vi).

(c) ALLOCATIONS FOR TAX PURPOSES.

(i) Except as otherwise provided in Section 6.2(c)(ii), items of Company income, gain, loss, deduction and expense shall be allocated for federal, state and local income tax purposes among the Members in the same manner as the income, gain, loss, deduction and expense of which such items are components were allocated pursuant to Section 6.2(a) and (b).

(ii) All items of income, gain, loss and deduction in respect of Contributed Property for federal income tax purposes shall be allocated among the Members in the manner provided under Section 704(c) of the Code that takes into account the variation between the Agreed Value of such property and its adjusted tax basis at the time of contribution. In the event that the Carrying Value of any Company asset is adjusted pursuant to paragraph (b) of the definition of Carrying Value hereof, subsequent allocations of income, gain, loss and deduction with respect to such asset shall take account any variation between the adjusted tax basis of such asset and its Carrying Value in the same manner as under Section 704(c) of the Code and the Regulations thereunder.

(iii) For purposes of Section 1.752-3(a)(3) of the Regulations, the Members agree that Company Nonrecourse Liabilities in excess of the sum of (A) the amount of Minimum Gain attributable to Company Nonrecourse Liabilities and (B) the total amount of taxable gain, if any, that would be allocated to the Members under Section 704(c) of the Code if the Company were to dispose of all Company assets (in a taxable transaction) subject to one or more Company Nonrecourse Liabilities in full satisfaction thereof shall be allocated among the Members in accordance with their respective Sharing Ratios.

(iv) Allocations pursuant to this Section 6.2(c) are solely for federal, state and local tax purposes and shall not affect, or in any way be taken into account in computing, any Member's Capital Account or share of income, gain, loss, deduction and expense described in Section 6.2(a) or (b) or distributions pursuant to any provision of this Agreement.

(v) The Members are aware of the tax consequences of the allocations

made by this Section 6.2(c) and hereby agree to be bound by the provisions of this Section 6.2(c) in reporting their shares of items of Company income, gain, loss, deduction and expense.

(d) DETERMINATION BY TAX MATTERS PARTNER. All matters concerning the computation of Capital Accounts, the allocation of items of Company income, gain, loss, deduction and expense for all purposes of this Article 6 and the adoption of any accounting procedures not expressly provided for by the terms of this Agreement shall be determined by the Tax Matters Partner, which shall act, or shall refrain from acting, on behalf of the Company and in accordance with the directions of the Members, and shall make no election, declaration or statement, settle or compromise any audit matter or dispute, or execute or file any tax return, tax filing or other tax document on behalf of the Company without the prior approval of the Members, unless otherwise required by applicable tax laws.

5.3 DISTRIBUTIONS.

(a) DISTRIBUTIONS OF NET OPERATING AVAILABLE CASH. Except as otherwise provided in Section 12.2, the Company shall distribute to the Members from time to time, in proportion to their Sharing Ratios, the sum of (i) Forecast Member Tax Requirements and (ii) Profits Distributions, but only to the extent of Net Operating Available Cash. Notwithstanding the foregoing and except as otherwise provided in Section 12.2, the Company shall not distribute any unexpended Capital Contributions unless unanimously agreed by the Members. In addition, the Company shall make such additional distributions to the Members, in proportion to their Sharing Ratios, at such times and in such amounts as may be determined by the Members.

(b) DISTRIBUTIONS IN KIND. In the event that at any time or from time to time the Members shall determine to make a nonliquidating distribution of property other than cash, (i) such property shall be deemed to be sold for its Carrying Value, (ii) any gain or loss associated with such deemed sale shall be allocated to the relevant Capital Accounts of the Members in accordance with Section 6.2, and (iii) such property shall be distributed to the relevant Members in the manner set forth in Section 6.3(a).

(c) WITHHOLDING. Notwithstanding anything expressed or implied to the contrary in this Agreement, the Tax Matters Partner is authorized to take any action that it determines to be necessary or appropriate to cause the Company to comply with any foreign or United States federal, state or local withholding requirement with respect to any allocation, payment or distribution by the Company to any Member or other Person. All amounts so withheld, and, in the manner determined by the Tax Matters Partner (which shall act, or shall refrain from acting, on behalf of the Company in accordance with the directions of the Members), amounts withheld

with respect to any allocation, payment or distribution by any Person to the Company, shall be treated as distributions to the applicable Members under the applicable provision of this Agreement. If any such withholding requirement with respect to any Member exceeds the amount distributable to such Member under this Agreement, or if any such withholding requirement was not satisfied with respect to any amount previously allocated, paid or distributed to such Member, such Member or any successor or assignee with respect to such Membership Interest hereby indemnifies and agrees to hold harmless the other Members and the Company for such excess amount or such withholding requirement, as the case may be.

ARTICLE 6

MANAGEMENT

6.1 MEMBERS COMMITTEE. The business and affairs of the Company shall be managed under the direction of the Members Committee (the "Members Committee"); and all powers of the Company, except those specifically reserved or granted to the Members by this Agreement, are hereby granted to and vested in the Members Committee. The Members Committee shall have the power to delegate authority to such officers, employees, agents and representatives of the Company as it may from time to time deem appropriate. Any delegation of authority to take any action must be approved in the same manner as would be required for the Members Committee to directly approve such action. No Member shall take any action in the name of or on behalf of the Company, including, without limitation, assuming any obligation or responsibility on behalf of the Company, unless such action, and the taking thereof by such Member, shall have been expressly authorized in writing by the Members Committee or shall be expressly and specifically authorized by this Agreement. Each Member, by execution of this Agreement, agrees to, consents to, and acknowledges the delegation of power and authority to the members of the Members Committee hereunder and to the actions and decisions of the members of the Members Committee within the scope of such authority.

6.2 EMPLOYEES OF THE COMPANY. With the exception of work performed on behalf of the Company under contract under the Basic Agreements and any other agreements entered into by the Company, all of the activities of the Company shall be carried out by employees of the Company. The Members Committee shall appoint employees to serve at its direction and discretion, including a general manager, a director of franchising/community relations, a director of technical operations, a sales director, a general counsel, a human resources specialist, and a director of finance. Other employees may be appointed by the Members Committee or by such persons to whom it may delegate such powers. Such management positions are set forth on the organizational chart attached hereto as Schedule 7.2.

6.3 NUMBER OF MANAGERS AND TERM OF OFFICE. Initially there shall be six managers (the "Managers") serving on the Members Committee. Each of the Members shall have the right

to designate Managers to serve on the Members Committee in proportion to each Member's respective Sharing Ratio, except that in the event any Member acquires a Majority Interest, such Member shall have the right to designate one more Manager than Members without a Majority Interest. Members shall designate Managers to serve on the Members Committee by delivering written notice to the secretary of the Company and to each other Member. Each Member shall elect from among the designated Managers one Co-Chair each year, provided, however, that, so long as any Member shall be in breach of its obligations pursuant to Article 4 hereof, a Manager selected by the non-breaching Member shall serve as sole Chair until such breach is cured. Except as set forth in the immediately preceding sentence, the Co-Chairs shall alternate presiding over the meetings of the Members Committee. Each Manager shall be an officer or employee of a Member or an Affiliate thereof but may not be a current employee of the Company. Former officers or employees of a Member shall not serve on the Members Committee without the consent of the other Member.

6.4 RESIGNATIONS AND REMOVALS OF MANAGERS. Any Manager serving on the Members Committee may resign at any time by giving written notice to the secretary of the Company and the Member that appointed such Manager. Such resignation shall take effect on the date shown on or specified in such notice or, if such notice is not dated, at the date of the receipt of such notice by the secretary of the Company. No acceptance of such resignation shall be necessary to make it effective. Any Member may at any time, and from time to time, remove or replace any or all of the Managers designated by such Member, and shall give written notice to the secretary of the Company and to each other Member of any such removal or replacement. The Member that appointed a resigning or removed Manager shall be entitled to appoint a Manager to fill the vacancy created by such resignation or removal by written notice to the secretary of the Company and to each other Member. Effective upon a Member ceasing to be a Member of the Company, the Managers serving on the Members Committee appointed by such Member shall cease to be Managers.

6.5 PLACE OF MEETING OF MEMBERS COMMITTEE. The Members Committee may hold its meetings at such place or places within or outside the State of Delaware as the Members Committee may from time to time determine or as may be designated in the notice calling the meeting. If a meeting place is not so designated, the meeting shall be held at the Company's principal office. Managers may participate in meetings of the Members Committee by means of a conference telephone or similar communications equipment by means of which all persons participating can hear each other, and such participation shall constitute presence in person at the meeting.

6.6 REGULAR MEETINGS OF MEMBERS COMMITTEE. Regular meetings of the Members Committee may be held without notice at such time and place as shall be designated from time to time by resolution of the Members Committee, but such meetings shall be held at least monthly

for the twelve months immediately following the initial execution of this Agreement. After such time, the Members Committee shall agree on the frequency of regular meetings, provided, however, that the regular meetings will continue on a monthly basis if the Members cannot so agree. If the date fixed for any such regular meeting is a Saturday, Sunday or legal holiday under the laws of the state where such meeting is to be held, then the meeting shall be held on the next succeeding business day or at such other time as may be determined by resolution of the Members Committee. At such meetings Members Committee shall transact such business as may properly be brought before the meeting.

6.7 SPECIAL MEETINGS OF MEMBERS COMMITTEE. Special meetings of the Members Committee may be called by any Co-Chair serving on the Members Committee or by the general manager of the Company. Notice of each such meeting shall be given to each Manager serving on the Members Committee by telephone, telecopy, telegram or similar method (in which case notice shall be given at least three days before the time of the meeting) or sent by first-class mail (in which case notice shall be given at least three days before the meeting), unless otherwise specified by the Members Committee. Each such notice shall state the time, place and purpose of the meeting to be so held.

6.8 MANAGER COMPENSATION; REIMBURSEMENT. Managers serving on the Members Committee shall receive no compensation for performing their duties under this Agreement; provided, however, that each of the Managers shall be entitled to receive, out of Company funds available therefor, reimbursement of all amounts expended by such Manager in payment of reasonable expenses incurred by such Manager in attending meetings of the Members Committee.

6.9 VOTING BY MANAGERS. The Manager or Managers who are present (in person or by written proxy) at any meeting of the Members Committee (or who are acting by written consent in lieu of a meeting) shall be entitled to act on behalf of such Members. If only one Manager appointed by a given Member is present at a meeting, such Manager shall be entitled to vote the entire voting power held by all Managers appointed by such Member. If more than one Manager appointed by a given Member is present at a meeting or if an Affiliate of a Member is also represented by a Manager at a meeting, such Managers shall vote such Member's or Members' entire voting power as a single unit. In the event of a disagreement at a meeting among Managers appointed by a single Member as to how to vote on any matter, the vote of the Manager designated by such Member as its Co-Chair shall be controlling and the vote of the other Manager or Managers representing such Member shall be disregarded with respect to such matter. In the event of a dispute or claim under any agreement entered into, other than a decision to enter into or amend such an agreement, between the Company and either of PCI-Sub or RCN-Sub or any of their respective Affiliates (including a determination to enforce the PCI Guarantee or the RCN Guarantee), the Member which is (or whose Affiliate is) a party to such

agreement or guarantee shall not vote in respect of such dispute, claim or determination, and the Company may take such action as may be directed by the other Member.

6.10 MANNER OF ACTING AND ADJOURNMENT OF MEMBERS COMMITTEE. Any action of the Members Committee shall require the affirmative vote of all of the Managers serving on the Members Committee (subject to Section 7.9 above) so long as the Sharing Ratio of each Member is 50%; in the event that the Sharing Ratios of the Members are no longer 50% each, decisions taken by the Members Committee shall require the affirmative vote of Members holding a majority of the Sharing Ratios, with the exception of the approval of fundamental business actions provided for in Section 7.12 below and except as otherwise set forth in this Agreement or in the Basic Agreements. The presence at a duly called meeting of the Members Committee of a majority of the number of Managers fixed by or in accordance with this Agreement shall constitute a quorum. If a quorum shall not be present at any meeting of the Members Committee, the Managers serving on the Members Committee present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

6.11 APPROVAL OF CAPITAL CONTRIBUTIONS. In the event either Member (a "Disapproving Member") either disapproves or fails to vote in favor of, or fails to consummate, a proposed borrowing or Capital Contribution (other than any Capital Contribution contemplated by Schedule I hereto) in the amount of \$500,000 or more (a "Proposed Funding") the Disapproving Member shall provide to the Remaining Member within thirty days of the vote in respect of such Proposed Funding, a certificate of the independent public accountants of the Disapproving Member's parent entity, showing that after giving effect to the making of the Proposed Funding and the proposed use of proceeds thereof, and all other pending transactions by the Disapproving Member and its Affiliates, such Proposed Funding and the proposed use of proceeds thereof would not (whether automatically, with the giving of notice or the passage of time) be in violation of any indenture, credit agreement, lease or other agreement or instrument by which the Disapproving Member or its Affiliates are bound (a "Covenant Violation"). If the Disapproving Member fails to deliver such certificate:

(a) The Disapproving Member shall, to the extent the same would not result in a Covenant Violation, make a Disapproving Member Loan (as defined below) in an amount (the "Shortfall Amount") equal to the full amount of any debt contemplated by a Proposed Funding (less any portion of such Proposed Funding obtained in accordance with paragraph (c) below) or such Disapproving Member's pro rata share of any Capital Contribution contemplated by a Proposed Funding.

(b) If the Disapproving Member fails to make a Disapproving Member Loan within forty-five days of the vote in respect of the Proposed Funding, the remaining Member

shall have the right, but not the obligation, to make a Shortfall Funding (as defined below) to the Company in an amount equal to the Shortfall Amount. The Disapproving Member shall have a period of 180 days from the date of the making of a Shortfall Funding to take such action to make available to the Company the Shortfall Amount in accordance with the Proposed Funding, plus an amount equal to all accrued dividends payable by the Company in respect of such Shortfall Funding, the proceeds of which will be used to repay the Shortfall Funding and all accrued dividends payable thereon. In the event the Disapproving Member fails to cause such replacement and repayment of the Shortfall Funding within such 180 day period, the Sharing Ratios shall be recalculated as of the close of business on the last day of such 180 day period (and such recalculated Sharing Ratios shall thereafter apply for all purposes of this Agreement) such that the Sharing Ratios of each Member shall equal the ratio of its aggregate Capital Contributions to the aggregate Capital Contributions of all of the Members, provided that, so long as any Disapproving Member Loan

or Shortfall Funding remains outstanding, no adjustment of Sharing Ratios shall be made on account of any Capital Contributions made in connection with such Disapproving Member Loan or Shortfall Funding until the earlier of (i) the elimination of such Disapproving Member Loan or Shortfall Funding in accordance with this Section 7.11 or (ii) 180 days from the making of such Shortfall Funding.

(c) If the Proposed Funding is indebtedness, the Company shall have the right to consummate the Proposed Funding or any portion thereof, provided that (i) the same does not result in a Covenant Violation, and (ii) the proceeds thereof shall be applied to reduce the amount required for any Disapproving Member Loan or Shortfall Funding required in connection therewith.

(d) For the purposes of this Section 7.11,

- (i) "Disapproving Member Loan" shall mean a loan to the Company by a Disapproving Member in respect of a Proposed Funding, bearing interest at the lesser of (i) the General Interest Rate and (ii) the interest rate the Company could have obtained for the proposed borrowing from an unaffiliated lender. Disapproving Member Loans shall be unsecured, non-recourse as to any Member, not subject to default or acceleration, and shall be payable in a single installment of principal and accrued interest only if and at such time as the Capital Contribution or proposed loan which such Disapproving Member Loan was made in lieu of is effected without resulting in a Covenant Violation, and if the Disapproving Member Loan is made in lieu of a Capital Contribution, the Disapproving Member has reimbursed the Company for all interest costs associated with such Disapproving Member Loan. In the event a Disapproving Member Loan does not mature prior to

liquidation or dissolution of the Company, such Disapproving Member Loan shall, upon liquidation or dissolution, be automatically converted into a Capital Contribution by the applicable Member, and such member shall be obligated to reimburse the Company for all interest accrued on such Disapproving Member Loan.

- (ii) "Shortfall Funding" shall mean the portion of a Proposed Funding which is made available to the Company by the remaining Member (other than such Member's pro rata share of any Capital Contribution included in such Proposed Funding). Any Shortfall Funding shall be made as a Capital Contribution and shall accrue dividends at a rate equal to the General Interest Rate.

6.12 FUNDAMENTAL BUSINESS ACTIONS. The following actions may not be taken by the Company without the prior unanimous approval of the Members Committee:

- (a) a merger, consolidation or reorganization of the Company or a disposition of substantially all of its assets;
- (b) the issuance by the Company of any equity or equity-like instruments including effecting an initial public offering of equity securities;
- (c) voluntary liquidation, dissolution or winding-up of the Company, except as specifically provided in this Agreement, or voluntary initiation by and with respect to the Company of bankruptcy or similar proceedings; or
- (d) amendments to the Company's Certificate, this Agreement, or any of the Basic Agreements; or
- (e) any lease or sub-lease by the Company to third parties of dark fiber.

6.13 ACTIONS REQUIRING MEMBERS COMMITTEE APPROVAL. It is the understanding and intent of the Members that the Company shall operate, as an independent Company for the purpose of conducting the Relevant Business. The Members Committee will make all policy decisions and approve all deployment, construction, marketing, financing, business, pricing and other plans and budgets and all amendments thereto and deviations therefrom, and will otherwise manage and direct operations of the Company. The Members Committee will agree on the delegation of authority to employees. Notwithstanding anything herein to the contrary, no approval of the Members Committee shall be required for the following:

(a) individual expenditures of less than 15% above the amount set forth for major cost categories (the "Major Cost Categories") identified and established as such in the annual Business Plan (but only to the extent that expenditures for other Major Cost Categories are reduced such that the overall annual Business Plan is not exceeded); and

(b) any agreement for services of less than \$50,000 or which is approved in the annual Business Plan for the Company (including, among other things, accounting services, advertising, cash management and legal services).

6.14 CONTRACTING SUPPORT SERVICES. The Members Committee shall determine what services shall be or continue to be performed for or on behalf of the Company by RCN-Operating pursuant to the Support Services Agreement upon the expiration of the term for any services provided thereunder or the extension of the term in accordance with the provisions of the Support Services Agreement on the basis of a determination by the Members Committee that the contracting or continued contracting of such services is commercially preferable and in the best interests of the Company.

6.15 DISPUTE RESOLUTION. Upon the inability of the Members Committee to reach agreement on any actions, either Co-Chair of the Members Committee shall declare in writing that a deadlock has occurred. Thereafter, so long as RCN-Sub and PCI-Sub each have Sharing Ratios of 50%, the Co-Chairs of the Members Committee shall attempt to resolve the deadlock. If, after 30 days, the Co-Chairs of the Members Committee cannot reach a mutually satisfactory solution (a "Deadlock Event"), the Members shall resolve such Deadlock Event as provided herein:

(a) If the Deadlock Event occurs within the three year period immediately following the execution of this Agreement, the proposed action will be deemed rejected and the Company will operate in accordance with the most recently agreed upon actions, plans and funding levels until the Deadlock Event is resolved by mutual agreement of all of the Members.

(b) If the Deadlock Event occurs after the three year period immediately following the execution of this Agreement, the parties agree that such Deadlock Event will not be referred to any court but that one Member or an Affiliate thereof shall purchase the entire Membership Interest of the other Member in accordance with the provisions of this Section 7.15.

(i) Either Member (the "Disputing Member") shall submit a notice (a "Dispute Notice") to the other Member (the "Non-Disputing Member") within 60 days of the date the matter becomes a Deadlock Event. The Dispute Notice shall set forth, in reasonable detail, the nature of the dispute and the price (which price shall be determined

by selecting a value for the entire Company, and pro-rating such amount by the Sharing Ratio of the Membership Interest to be purchased or sold; hereinafter, the "Dispute Price") at which the Disputing Member is willing to either sell its Membership Interest to the Non-Disputing Member or purchase all Membership Interests from the Non-Disputing Member.

(ii) Within 60 days after the Non-Disputing Member's receipt of the Dispute Notice, the Non-Disputing Member will signify in writing its election, whether to buy the Disputing Member's Membership Interest at the Dispute Price or to sell its Membership Interest at the Dispute Price. If the Non-Disputing Member fails to make such election within such 60 day period, the Disputing Member may, within 15 days thereafter, elect to buy the Non-Disputing Member's Membership Interest at the Dispute Price.

(iii) Each Member agrees to execute and deliver all deeds, assignments, releases, agreements, receipts or other documents necessary to consummate the transfer of the Membership Interest being sold and delivered upon payment by the purchasing Member of the consideration provided for in the Dispute Notice.

(iv) Subject to the receipt of all regulatory approvals required, if any, the closing of the purchase and sale pursuant to this Section 7.15 shall occur no later than 30 days following the receipt of the election by the Disputing Member or the Non-Disputing Member, as the case may be.

(v) Until the closing of the purchase and sale of the Membership Interest pursuant to this Section 7.15, the Company shall operate in accordance with the most recently agreed upon actions, plans and funding levels.

(vi) Notwithstanding anything herein to the contrary, if RCN-Sub invokes the deadlock resolution mechanism set forth in this Section 7.15 and, as a result, PCI-Sub acquires RCN-Sub's Membership Interest, RCN-Sub agrees to provide the services provided under the Support Services Agreement for a period no longer than two years from the date PCI-Sub acquires RCN-Sub's Membership Interest.

6.16 INDEMNIFICATION.

(a) Subject to paragraph (c) below, the Company shall indemnify any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or on behalf of a Member) by reason of the fact that he is or was a

Manager, officer or employee of the Company, or is or was an officer or employee of the Company serving at the request of the Company as a manager, director, officer, employee or agent of another Entity against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the Person did not act in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the Company, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his conduct was unlawful.

(b) Subject to paragraph (c) below, the Company shall indemnify any Person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or on behalf of a Member to procure a judgment in its favor by reason of the fact that he is or was a Manager or officer of the Company, or is or was an officer of the Company serving at the request of the Company as a manager, director, officer, employee or agent of another Entity against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company; except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable unless and only to the extent that the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper.

(c) Any indemnification under this Section 7.16 (unless ordered by a court) shall be made by the Company only as authorized in the specific case upon a determination that indemnification of the Manager or officer is proper in the circumstances because he has met the applicable standard of conduct set forth in paragraphs (a) or (b) above. Such determination shall be made (i) by a majority vote of the Members, or (ii) or if the Members Committee so directs, by independent legal counsel in a written opinion. To the extent, however, that a Manager or officer of the Company has been successful on the merits or otherwise in defense of any action, suit or proceeding described above, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith, without the necessity of authorization in the specific case.

(d) For purposes of any determination under this Section 7.16, a person shall be deemed to have acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceed-

ing, to have had no reasonable cause to believe his conduct was unlawful, if his action is based on the records or books of account of the Company or another enterprise, or on information supplied to him by the officers of the Company or another enterprise in the course of their duties, or on the advice of legal counsel for the Company or another enterprise or on information or records given or reports made to the Company or another enterprise by an independent certified public accountant or by an appraiser or other expert selected with reasonable care by the Company or another enterprise. The term "another enterprise" as used in this paragraph (d) shall mean any Entity which such person is or was serving at the request of the Company.

(e) Notwithstanding the foregoing, any Manager or officer may apply to any court of competent jurisdiction in the State of Delaware for indemnification to the extent otherwise permissible under paragraphs (a) and (b) above by reason of the fact that he has met the applicable standard of conduct. If successful, in whole or in part, the Manager or officer seeking indemnification shall also be entitled to be paid the expense of prosecuting such application.

(f) Expenses incurred by a Manager or officer in defending or investigating a threatened or pending action, suit or proceeding shall be paid by the Company in advance of the final disposition thereof upon receipt of an undertaking to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Company as authorized in this Section 7.16.

(g) The indemnification and advancement of expenses in this Section 7.16 shall not be deemed exclusive of any other rights which may apply, it being the policy of the Company that indemnification of the persons specified in paragraphs (a) and (b) above shall be made to the fullest extent permitted by law. The provisions of this Section 7.16 shall not preclude the indemnification of any person who is not specified herein but whom the Company has the power or obligation to indemnify under the Act, or otherwise.

(h) The Company may purchase and maintain insurance on behalf of the persons specified in Section 7.16(a) against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Company would have the power or the obligation to indemnify him under this Section 7.16.

(i) The indemnification and advancement of expenses provided by this Section 7.16 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a Manager or officer and shall inure to the benefit of the heirs, executors and administrators of such a person.

(j) Except for proceedings to enforce rights to indemnification (which shall be governed by paragraph (e) above), the Company shall not be obligated to indemnify any

Manager or officer in connection with a proceeding (or part thereof) initiated by such person unless such proceeding (or part thereof) was authorized or consented to by the Members Committee.

6.17 BUSINESS PLAN; BUDGET.

(a) The Company shall prepare an initial detailed business plan for the fiscal year ended December 31, 1998, to be based upon the Phase I business plan attached hereto as Exhibit K (the "Phase I Business Plan"), unless otherwise agreed upon by the Members, and presented to the Members Committee within 30 days of the Effective Date. The Company shall also prepare an annual Business Plan for each year thereafter based upon the Phase I Business Plan, unless otherwise agreed upon by the Members. Each such annual Business Plan shall include the following: (i) an annual operating budget; (ii) an annual budget for capital expenditures; (iii) a budget for capital contributions required from the Members; (iv) a sales and marketing plan and (v) pro-forma financial balance sheet, income statement and statement of cash flows (clauses (i) through (v) are collectively referred to herein as the "Business Plan", and for 1998 shall be referred to as the "1998 Business Plan"). It is the intention of the Members that the 1998 Business Plan and each succeeding Business Plan be prepared so as to conduct the Company's business in accordance with the details contained in the Phase I Business Plan. Each annual Business Plan, including the 1998 Business Plan, must be approved by the Members Committee.

(b) Each annual Business Plan shall set forth the operations of the Company between January 1 to December 31 of the applicable year and shall be prepared or caused to be prepared by the Company. A preliminary business plan shall be delivered to the Members by the Company no later than October 1 of the previous year. The Company shall consult with Members, as it deems appropriate, in the process of preparing such preliminary business plan. Each Member shall thereafter have 30 days to review the preliminary business plan and to propose revisions. The Company shall then have an additional 30 days to resolve any differences in and to finalize the Business Plan. If, after such additional 30 day period, the Members Committee cannot agree on any line item of such preliminary budget, the matter shall be considered a Deadlock Event, to be resolved in accordance with the provisions set forth in Section 7.15. Pending the resolution of such Deadlock Event, (i) all line items not in dispute in the preliminary business plan shall take effect and (ii) the amount budgeted in the previous year will be in effect, as if restated in the new annual Business Plan, for those line items in dispute.

(c) At such time as all disputes on the preliminary business plan have been resolved, the preliminary business plan as so resolved shall become the annual Business Plan.

6.18 BUSINESS REVIEW. After five years from the initial execution of this Agreement,

the Members shall review their mutual business goals and objectives and will evaluate strategies for maximizing value to the Members including, without limitation, an initial public offering.

ARTICLE 7

RIGHTS OF MEMBERS

7.1 ACCESS TO INFORMATION. In addition to the other rights specifically set forth in this Agreement, each Member shall have access to all information to which a Member is entitled to have access pursuant to the Act and such other information regarding the Company and its business and affairs, as it may reasonably request from time to time.

ARTICLE 8

TAXES

8.1 TAX RETURNS. The Tax Matters Partner shall cause to be prepared and filed all necessary federal and state income tax returns for the Company, including making the elections described in Section 9.2 at the direction of the Members Committee. Each other Member shall furnish to the Tax Matters Partner all pertinent information in its possession relating to Company operations that is necessary to enable the Company's income tax returns to be prepared and filed. The Tax Matters Partner shall prepare all federal and state tax returns on a timely basis and shall furnish to each other Member copies of returns that are actually filed promptly after their filing.

8.2 TAX ELECTIONS. The Company shall make such elections on tax returns as are deemed appropriate by the Tax Matters Partner. It is the intent of the Members that the Company be treated as a partnership for federal, state and local income and other tax purposes, and the Company will make any election necessary to achieve that status. Neither the Company nor any Member may make an election for the Company to be excluded from the application of the provisions of subchapter K of chapter 1 of subtitle A of the Code or any similar provisions of applicable state or local law, and no provision of this Agreement (including, without limitation, Section 2.8) shall be construed to sanction or approve such an election.

8.3 TAX MATTERS PARTNER. The Tax Matters Partner shall take such action as may be necessary to cause each other Member to become a "notice partner" within the meaning of Section 6223 of the Code. The Tax Matters Partner shall inform each other Member of all significant matters that may come to its attention in its capacity as tax matters partner by giving notice thereof on or before the fifth Business Day after becoming aware thereof and, within that time, shall forward to each other Member copies of all significant written communications it may receive in that capacity. The Tax Matters Partner may take any action contemplated by Sections 6222 through 6232 of the Code without the consent of each other Member, but this sentence does

not authorize the Tax Matters Partner to take any action left to the determination of an individual Member under Sections 6222 through 6232 of the Code. The Tax Matters Partner shall act, or shall refrain from acting, on behalf of the Company and in accordance with the directions of the Members, and shall make no election, declaration or statement, settle or compromise any audit matter or dispute, or execute or file any tax return, tax filing or other tax document on behalf of the Company without the prior approval of the Members, unless otherwise required by applicable tax laws.

ARTICLE 9

BOOKS, RECORDS, REPORTS, AND BANK ACCOUNTS

9.1 ACCOUNTING. Except as may be otherwise agreed to by the Members or required by law, the Company will maintain books and records for tax purposes in accordance with federal income tax accounting principles utilizing the accrual method of accounting, and for accounting purposes in accordance with GAAP. In addition, the Company shall cause to be prepared with respect to each fiscal year of the Company financial statements based on GAAP. Appropriate records will be kept so that upon each closing of the Company books it is possible to determine, among other items defined in this Agreement, (i) the amount of capital (whether in cash or in kind) actually contributed by each Member; (ii) the amount of cash or other property distributed to each Member; (iii) the effect of all Company items of income, gain, loss, deduction or expense on each Member's Capital Account; and (iv) all pertinent expenses and cash disbursement accounts.

9.2 FISCAL YEAR. Except as may be otherwise determined by the Members, and subject to applicable Federal income tax law, the fiscal year of the Company shall be the twelve months ending December 31 of each year. The initial fiscal year of the Company shall commence on the date of execution of this Agreement and end on December 31, 1997.

9.3 STATEMENTS AND REPORTS. Except as may be otherwise determined by all of the Members, as soon as practicable, but in no event later than 60 days after the close of each fiscal year of the Company, the Company will cause to be prepared and will have furnished to each of the Members, with respect to such period, (i) a profit and loss statement, (ii) a statement of cash flows, (iii) a Company balance sheet as of the close of such period, and (iv) such other statements showing in reasonable detail each Member's interest in each of the items described in Section 10.1. The foregoing statements will be prepared in accordance with GAAP, consistently applied, and audited by an independent certified public accounting firm of national reputation which shall be designated by the Members, and the cost of preparing the statements and of each such audit will be paid for by the Company. In addition, an income statement and balance sheet shall be prepared monthly and furnished to each Member no later than 30 days from the end of the prior month. For year-end reporting purposes, a reliable estimate of December results shall

be provided to each Member within 10 days of December 31.

9.4 INSPECTION. The Company shall maintain or cause to be maintained complete and accurate books and records with respect to its business. All books of account and all other records of the Company including an executed counterpart of this Agreement and all amendments hereto) will at all times be kept at the Company's principal place of business. Any Member and its representatives may inspect the books and records of the Company. The Company shall provide, during regular business hours, access to the facilities, systems and books and records of the Company to the extent reasonably necessary for such inspection. Whenever any such inspection is conducted by any Member and its representatives, such Member shall advise the other Members and permit the other Members and their representatives to be present during such inspection.

9.5 BANK ACCOUNTS. The Company shall maintain appropriate accounts at one or more financial institutions approved by the Members Committee for all funds of the Company. Such accounts shall be used solely on the business of the Company. Withdrawals or transfers from such accounts shall be made only upon the approval of those persons authorized in writing by the Members.

ARTICLE 10

WITHDRAWAL, EXPULSION, BANKRUPTCY, ETC.

10.1 WITHDRAWAL. Each Member agrees that it will not resign or withdraw from the Company without the consent of each other Member. If a Member attempts or purports to resign or withdraw from the Company in breach of this Section 11.1, the other Member may (i) recover damages from such breaching Member, including, without limitation, the reasonable cost of obtaining replacement of the services that such breaching Member is obligated to perform (if any), (ii) seek specific performance of such breaching Member's obligations to the Company (and each Member hereby waives any defense that money damages would be a satisfactory remedy for such breach), (iii) pursue any other remedies available under applicable law, if any, and (iv) effect recovery of damages by offsetting those damages against the amount otherwise distributable to such Member.

10.2 BANKRUPT MEMBERS. Subject to the provisions of Section 12.1 hereof, this Section 11.2 shall apply if any Member becomes a Bankrupt Member. In such event, the other Member (the "Purchasing Member"), shall have the option (but not the obligation), exercisable by notice to the Bankrupt Member (or its representative) at any time prior to the 90th day after receipt of notice or obtaining actual knowledge of the occurrence of the event causing such Member to become a Bankrupt Member, to buy or cause their designee, including any Affiliate of the Purchasing Member, to buy, and on the exercise of this option the Bankrupt Member (or

its representative) shall sell, its Membership Interest. The purchase price shall be an amount equal to the fair market value of the Membership Interest determined by agreement by the Bankrupt Member (or its representative) and the Purchasing Member; however, if those Persons do not agree on the fair market value on or before the 30th day following the exercise of the option, such fair market value shall be determined by an independent appraiser mutually satisfactory to the Bankrupt Member and the Purchasing Member. If the Bankrupt Member and the Purchasing Member are unable to agree upon a mutually satisfactory independent appraiser, each such Member shall appoint an independent appraiser to determine the fair market value; if the valuations of each of such independent appraisers does not differ by greater than fifteen percent (15%), then the fair market value shall be determined by taking the arithmetic average of the two valuations. If the valuations of each of such independent appraisers differs by greater than fifteen percent (15%), then a third independent appraiser shall be selected by mutual agreement of the two independent appraisers and fair market value shall be determined by such third independent appraiser. The Purchasing Member shall pay the fair market value as so determined in four equal cash installments, the first due on closing and the remainder (together with accumulated interest on the amount unpaid at the General Interest Rate) due on each of the first three anniversaries of the closing. The payment to be made to the Bankrupt Member or its representative under this Section 11.2 is in complete liquidation and satisfaction of all the rights and interest of the Bankrupt Member and its representative (and of all Persons claiming by, through, or under the Bankrupt Member and its representative) in and in respect of the Company, including, without limitation, any Membership Interest, any rights in specific Company property, any rights with respect to the management, control or operation of the Company and any rights against the Company and (insofar as the affairs of the Company are concerned) against the Members.

ARTICLE 11

TERMINATION, DISSOLUTION AND LIQUIDATION OF THE COMPANY

11.1 TERMINATION AND DISSOLUTION.

Except as provided below in this Section 12.1, the Company shall terminate and dissolve upon the earliest to happen of any of the following events:

(a) A decision unanimously approved by the Members to dissolve the Company; or

(b) The happening of any other event, act or omission causing the dissolution of the Company under the Act or any other laws of the State of Delaware with the exception of the death, retirement, resignation, expulsion, bankruptcy or dissolution of a Member.

The dissolution of the Company shall be effective on the day on which the event occurs giving rise to the dissolution, unless (and only if and to the extent permitted by the Act), Members holding Sharing Ratios of the sum of not less than a majority of the remaining Sharing Ratios elect to continue the Company in the manner provided by the Act. Any necessary certificate of dissolution shall be filed under the Act upon the dissolution and the commencement of winding up of the Company; provided, however, that the Company shall not terminate until the assets of the Company have been distributed as provided in Section 12.2.

11.2 LIQUIDATION.

(a) As soon as practicable after the dissolution of the Company, the Liquidator (as defined in Section 12.2(f)) shall notify Members of such fact and shall prepare a plan as to whether and in what manner the assets of the Company shall be liquidated.

(b) The Liquidator shall take full account of the Company's assets and liabilities. The Company's assets shall be liquidated as promptly as is consistent with obtaining the fair market value thereof and after the allocation of Net Income or Net Loss in accordance with Article 6 above, the proceeds of liquidation shall be applied and distributed in the following order and priority:

(i) First, to secured creditors (including Members and their affiliates) in accordance with the priority of their security interests;

(ii) Next, to the payment of debts and liabilities of the Company to general unsecured creditors including Members and their affiliates;

(iii) Next, to the establishment of any reserves which are reasonably necessary for contingent, unmatured, unliquidated, disputed, or unforeseen liabilities and obligations of the Company;

(iv) Last, to the Members in accordance with the positive balances in their respective Capital Accounts, after taking into account all adjustments to Capital Accounts for all periods and including allocations under Article 6 for the interim period from the end of the prior fiscal year to the date of the liquidating distribution.

(c) The amount of any reserves established pursuant to Section 12.2(b)(iii) above shall be determined with the approval of the Members who are, or may be, liable for any liabilities or obligations of the Company for which such reserves are being established. If any or all of the amount of the reserves are no longer required by the Company and become available

for distribution to the Members, such amounts shall be distributed to the Members in accordance with Section 12.2(b)(iv) above.

(d) Distributions to Members pursuant to this Section 12.2 may be made pursuant to a trust established for the benefit of the Members for the purpose of liquidating the assets of the Company, collecting amounts owed to the Company, and paying any contingent or unforeseen liabilities or obligations of the Company. The assets of any such trust shall be distributed to the Members from time to time, in the reasonable discretion of the Liquidator, in the same proportions as would have applied pursuant to this Agreement to liquidating distributions by the Company to the Members.

(e) If the Liquidator decides pursuant to this Section 12.2 to make a distribution of property in kind to the Members upon dissolution and winding up of the Company, (i) the properties in question shall be deemed to be sold on the date of distribution for their respective Carrying Values, (ii) any gain or loss associated with such deemed sales shall be allocated to the relevant Capital Accounts of the Members in accordance with Section 6.2, and (iii) such properties shall be distributed to the relevant Members in the manner set forth in this Section 12.2.

(f) For the purposes of this Agreement, the "Liquidator" shall be appointed by the Members from among their number; provided, however that if upon the dissolution of the Company there is no Member willing or permitted to serve as Liquidator, the trustee, receiver or other fiduciary who is appointed or is otherwise authorized by consent of Members holding Sharing Ratios aggregating more than 50% to act on behalf of the Company in its dissolution, winding up and liquidation, shall act as Liquidator.

ARTICLE 12

GENERAL PROVISIONS

12.1 REPRESENTATIONS. Each Member hereby represents and warrants to the Company and each other Member and the other Member, in agreeing to enter into this Agreement, has relied upon such representations and warranties that:

(a) If such Member is not a natural person, it is duly organized, validly existing and in good standing under the laws of its jurisdiction of organization and is duly qualified to conduct business in all jurisdictions where such qualification is required.

(b) It has the power and authority (corporate or otherwise) to execute, deliver and perform its obligations under this Agreement. Such execution, delivery and performance have been duly authorized by all necessary action on the part of such Member and do not and will not contravene the organizational documents of such Member or conflict with, result in a

breach of, or entitle any party (with due notice or lapse of time or both) to terminate, accelerate or call a default with respect to, any agreement or instrument to which such Member is a party or by which such Member is bound and will not create, violate or conflict with any lien upon or with respect to any of the properties of the Members. The execution, delivery and performance by such Member of this Agreement will not result in any violation by such Member of any law, rule or regulation applicable to such Member. Such Member is not a party to, nor subject to or bound by, any judgment, injunction or decree of any court or other Governmental Entity which may restrict or interfere with the performance of this Agreement by such Member. This Agreement is a valid and binding obligation of such Member enforceable against such Member in accordance with its terms, except that (i) such enforcement may be subject to bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally or general principles of equity and (ii) the remedy of specific performance and injunctive relief may be subject to equitable defenses and to the discretion of the court before which any proceeding therefor may be brought.

(c) Except as set forth on Schedule 13.1(c), no consent, waiver, approval, authorization or order of, or registration, qualification or filing with, any court or other Governmental Entity is required for the execution, delivery and performance by such Member of this Agreement and the consummation by such Member of the transactions contemplated hereby. No consent or waiver of any party to any contract to which such Member is a party or by which it is bound is required for the execution, delivery and performance by such Member of this Agreement.

(d) Such Member is acquiring the Membership Interest hereunder for its own account for investment and not with a view to the distribution thereof, and such Member shall not offer to sell or otherwise dispose of any of the Membership Interests so acquired by it in violation of the registration requirements of the Securities Act or applicable state securities laws. Such Member has such knowledge and experience in financial, business and tax matters that such Member is capable of evaluating the merits and risks relating to such Member's Membership Interest and is capable of bearing the risk of loss of its entire investment in the Company.

(e) There is no action, suit, grievance, arbitration or proceeding pending or, to the knowledge of such Member, threatened against or affecting such Member at law or in equity, before any federal, state, municipal or other governmental court, department, commission, board, arbitrator, bureau, agency or instrumentality which prohibits or impairs its ability to execute and deliver this Agreement or the other Basic Agreements or to consummate any of the transactions contemplated hereby or thereby. To the knowledge of such Member, it has not received written notice of any pending or threatened investigation, inquiry or review by any Governmental Entity.

(f) No broker, finder or investment banker is entitled to any brokerage, finder's or other fee or commission, or to the reimbursement of any of its expenses, in connection with the transactions contemplated by this Agreement based upon arrangements made by it or on its behalf.

(g) Such Member has no obligation or agreement, either actual or contingent, to share any portion of its interest in the Company with any Person.

(h) Such Member is not a Holding Company or otherwise subject to regulation under PUHCA and the execution and delivery of the Basic Agreements do not cause such Member to become a Holding Company or otherwise subject to PUHCA.

(i) Such Member has or will have sufficient resources to make Capital Contributions to the Company in accordance with Schedule I hereto.

(j) In the case of RCN-Sub, such Member and its Affiliates have sufficient experience to be able to carry out the Relevant Business activities of the Company in the Relevant Market and to engage in activities required of them in accordance with the Basic Agreements.

12.2 OFFSET. Whenever the Company is to pay any sum to any Member, any amounts such Member owes the Company may be deducted from that sum before payment.

12.3 NOTICES. All notices, request and other communication hereunder shall be deemed to have been duly delivered, given or made to or upon any party hereto if in writing and delivered by hand against receipt, or by certified or registered mail, postage prepaid, return receipt requested, or to a courier who guarantees next Business Day delivery or sent by telecopy (with confirmation) to such party at its address set forth below or to such other address as such party may at any time, or from time to time, direct by notice given in accordance with this Section 13.3.

if to RCN-Sub:
RCN Telecom Services of Washington, D.C., Inc.
105 Carnegie Center
Princeton, New Jersey 08540
Fax: (609) 734-0974
Attention: Michael J. Mahoney

and

RCN Telecom Service, Inc.
105 Carnegie Center
Princeton, New Jersey 08540
Fax: (609) 734-0974 and (609) 734-3830
Attention: Michael J. Mahoney and Raymond B. Ostroski, Esq.

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
919 Third Avenue
New York, New York 10022
Fax: (212) 735-2000
Attention: Stephen M Banker, Esq.

if to PCI-Sub:

Pepco Communications, L.L.C
1801 K Street, N.W. Suite 900
Washington, D.C. 20006
Attention: John D. McCallum and Janet Heck Doyle, Esq.

with a copy to:

Dickstein Shapiro Morin & Oshinsky LLP
2101 L Street, N.W.
Washington, DC 20037-1526
Attention: Emanuel Faust, Jr., Esq.

if to the Company:

Starpower Communications, LLC
1130 Connecticut Avenue, N.W.
Suite 400
Washington, D.C. 20036
Attention: Michael J. Mahoney and John D. McCallum

The date of delivery of any such notice, request or other communication shall be the earlier of (i) the date of actual receipt or (ii) three Business Days after such notice, request or other communication is sent if sent by certified or registered mail, (iii) if sent by courier who guarantees next Business Day delivery, the Business Day next following the day such notice, request or other communication is actually delivered to the courier or (iv) the date of written

confirmation of receipt if telecopied.

12.4 ENTIRE AGREEMENT; SUPERSEDURE. This Agreement constitutes the entire agreement of the Members relating to the Company and supersedes all prior contracts or agreements with respect to the Company, whether oral or written, except the Basic Agreements.

12.5 EFFECT OF WAIVER OR CONSENT. A waiver or consent, express or implied, to or of any breach or default by any Person in the performance by that Person of its obligations with respect to the Company is not a consent or waiver to or of any other breach or default in the performance by that Person of the same or any other obligations of that Person with respect to the Company. Failure on the part of a Person to complain of any act of any Person or to declare any Person in default with respect to the Company, irrespective of how long that failure continues, does not constitute a waiver by that Person of its rights with respect to that default until the applicable limitations period has expired.

12.6 AMENDMENT OR MODIFICATION. This Agreement may be amended or modified from time to time only by a written instrument executed by all of the Members.

12.7 PUBLIC ANNOUNCEMENTS. Except as required by law, any governmental agency or any securities exchange, the parties hereto agree to obtain the prior approval of each other before issuing (or allowing their Affiliates to issue) any press release, public disclosure or other announcement with respect to this Agreement or any of the transactions contemplated by this Agreement. In the event either party hereto is so required by law, any governmental agency or any securities exchange to make a public disclosure or other announcement as aforesaid, it shall use its best efforts to afford the other a reasonable opportunity to review the form and content of the announcement or disclosure prior to making same.

12.8 CONFIDENTIALITY. Each of the parties hereto will hold, and will use its reasonable, good faith efforts to cause its respective shareholders, partners, members, directors, officers, employees, accountants, counsel, consultants, agents and financial or other advisors (collectively "Agents") to hold, in confidence, all information (whether oral or written), including this Agreement and the documents contemplated herein, concerning the transactions contemplated by this Agreement furnished to such party by or on behalf of any other party in connection with such transactions, unless legally compelled (by deposition, interrogatory, request for documents, subpoena, civil investigative demand or similar process, or by order of a court or tribunal of competent jurisdiction, or in order to comply with applicable rules or requirements of any stock exchange, government department or agency or other regulatory authority, or by requirements of any securities law or regulation or other legal requirement) to disclose any such information or documents, and except to the extent that such information or documents can be shown to have been (a) previously known on a nonconfidential basis by such party, (b) in the public domain

through no fault of such party or (c) acquired by such party on a nonconfidential basis from sources not known by such party to be bound by any obligation of confidentiality in relation thereto. Notwithstanding the foregoing provisions of this Section 13.8, each party may disclose such information to its Agents in connection with the transactions contemplated by this Agreement or any of the other Basic Agreements and to its lenders in connection with obtaining the financing for the transactions contemplated by this Agreement so long as such Agents and lenders are informed by such party of the confidential nature of such information and are directed by such party to treat such information confidentially and to certain governmental agencies in connection with the procurement of the governmental authorizations contemplated by this Agreement. The obligation of each party to hold any such information in confidence shall be satisfied if such party exercises the same care with respect to such information as it would take to preserve the confidentiality of its own similar information. If this Agreement is terminated, each party will, and will use its reasonable, good faith efforts to cause its respective Agents and lenders to, destroy or deliver to the other party, upon request, all documents and other materials, and all copies thereof, obtained by such party or on its behalf from the other party hereto in connection with this Agreement that are subject to such confidence.

12.9 BINDING EFFECT. Subject to the restrictions on Dispositions set forth in this Agreement, this Agreement is binding on and inures to the benefit of the Members and their respective heirs, legal representatives, successors, and assigns.

12.10 GOVERNING LAW; SEVERABILITY. THIS AGREEMENT IS GOVERNED BY AND SHALL BE CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF DELAWARE, EXCLUDING ANY CONFLICT-OF-LAWS RULE OR PRINCIPLE THAT MIGHT REFER THE GOVERNANCE OR THE CONSTRUCTION OF THIS AGREEMENT TO THE LAW OF ANOTHER JURISDICTION. If any provision of this Agreement or its application to any Person or circumstance is held invalid or unenforceable to any extent, the remainder of this Agreement and the application of such provision to other Persons or circumstances is not affected and such provision shall be enforced to the greatest extent permitted by law.

12.11 SPECIFIC PERFORMANCE. The Members agree that irreparable damage will result if this Agreement is not performed in accordance with its terms, and the Members agree that any damages available at law for a breach of this Agreement would not be an adequate remedy. Therefore, the provisions hereof and the obligations of the Members hereunder shall be enforceable in a court of equity, or other tribunal with jurisdiction, by a decree of specific performance, and appropriate injunctive relief may be applied for and granted in connection therewith. Such remedies and all other remedies provided for in this Agreement shall, however, be cumulative and not exclusive and shall be in addition to any other remedies that a Member may have under this Agreement, at law or in equity.

12.12 FURTHER ASSURANCES. In connection with this Agreement and the transactions contemplated by it, each Member shall execute and deliver any additional documents and instruments and perform any additional acts that may be necessary or appropriate to effectuate and perform the provisions of this Agreement and such transactions.

12.13 COUNTERPARTS. This Agreement may be executed in any number of counterparts with the same effect as if all signatories had signed the same document. All counterparts shall be construed together and constitute the same instrument.

12.14 INTERPRETATION. In the event of any dispute concerning the construction or interpretation of any provision of this Agreement or any ambiguity thereof, there shall be no presumption that this Agreement or any provision hereof be construed against the party who drafted this Agreement.

12.15 WAIVER OF PARTITION. Each of the Members hereby irrevocably waives any and all rights that such Member may have to maintain any action for partition of any of the Company's property.

12.16 SURVIVAL. All indemnities and reimbursement obligations made pursuant to this Agreement shall survive dissolution and liquidation of the Company until expiration of the longest applicable statute of limitations (including extensions and waivers) with respect to the matter for which a party would be entitled to be indemnified or reimbursed, as the case may be.

12.17 GENERAL. For purposes of paragraph (b) of the definition of Carrying Value under Section 1.1, the parties agree that the Carrying Value of the Non-Cash Capital Contributions shall not be adjusted pursuant to such paragraph (b).

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

MEMBERS:

RCN TELECOM SERVICES OF
WASHINGTON, D.C., INC.

By: _____

Name:
Title:

PEPCO COMMUNICATIONS, LLC

By: _____

Name:
Title:

Accepted and Agreed Only
with Respect to Section 5.1

RCN CORPORATION

By: _____
Name:
Title:

Accepted and Agreed Only
with Respect to Section 2.14

RCN TELECOM SERVICES, INC.

By: _____
Name:
Title:

CASH CAPITAL CONTRIBUTIONS

Period -----	Total -----	RCN-Sub -----	PCI-Sub -----
4th Quarter 1997 (Initial Capital Contribution)	\$25,000,000	\$12,500,000	\$12,500,000
1st Quarter 1998	\$15,000,000	\$ 7,500,000	\$ 7,500,000
2nd Quarter 1998	\$ 7,500,000	\$ 7,500,000	\$15,000,000
3rd Quarter 1998	\$20,000,000	\$10,000,000	\$10,000,000
4th Quarter 1998	\$37,500,000	\$18,750,000	\$18,750,000
1st Quarter 1999	\$37,500,000	\$18,750,000	\$18,750,000
2nd Quarter 1999	\$37,500,000	\$18,750,000	\$18,750,000
3rd Quarter 1999	\$37,500,000	\$18,750,000	\$18,750,000
4th Quarter 1999	\$25,000,000	\$12,500,000	\$12,500,000
1st Quarter 2000	\$20,000,000	\$10,000,000	\$10,000,000
2nd Quarter 2000	\$10,000,000	\$20,000,000	\$10,000,000
3rd Quarter 2000	\$10,000,000	\$ 5,000,000	\$ 5,000,000
	-----	-----	-----
Total Cash Capital Contribution	\$300,000,000 =====	\$150,000,000 =====	\$150,000,000 =====

The payments (after the first payment) are due on the first working day of the respective quarter.

SCHEDULE II

RELEVANT BUSINESS

- . Long Distance
- . Local Phone
- . Wireless Phone
- . Internet Services
- . Paging
- . Video (Wireline and Wireless)
- . Broadband Services (Wholesale Voice and Data)

RELEVANT MARKET

The following outlines the geographic area included in the Relevant Market

- I. Washington, D.C.
 Montgomery Country, Maryland
 Prince Georges County, Maryland

- II. Baltimore County and City, Maryland
 Anne Arundel, Maryland
 Howard County, Maryland
 Carroll County, Maryland
 Harford County, Maryland

- III. Fairfax and Arlington County, Virginia
 Loudoun County, Virginia
 Frederick County, Maryland
 Prince William County, Virginia
 Stafford County, Virginia
 Charles County, Maryland
 Saint Mary's County, Maryland
 Calvert County, Maryland
 Queen Anne's County, Maryland

SCHEDULE IV

SHARING RATIO

RCN-Sub	50%
PCI-Sub	50%

RCN CORPORATION
LIST OF SUBSIDIARIES

Exhibit 21

Name	State of Incorporation	PERCENTAGE OWNED
RCN Services, Inc	PA	100%
TEC Air, Inc.	DE	100%
RCN Financial Management, Inc.	DE	100%
ENET Holding, Inc.	DE	100%
UNET Holding, Inc.	DE	100%
LME Acquisition Corporation	NY	100%
C-TEC Financial Services, Inc.	NV	100%
C-TEC Cable Systems, Inc.	DE	100%
C-TEC Cable System Services, Inc.	PA	100%
RCN of New Jersey, Inc.	PA	100%
RCN of Southeast New York, Inc.	PA	100%
RCN Telecom Services of Pennsylvania, Inc.	PA	100%
RCN Telecom Services of Southeast New York, Inc.	NY	100%
Fiberfone of Pennsylvania, Inc	PA	100%
Fiberfone of New Jersey, Inc.	NJ	100%
Fiberfone of Michigan, Inc.	MI	100%
C-TEC Fiber Systems of New Jersey, Inc.	NJ	100%
RCN Long Distance Company	PA	100%
RCN International Holdings, Inc.	DE	100%
RCN Telecom Services, Inc.	DE	100%
RCN Operating Services, Inc.	NJ	100%
RCN Telecom Services of Illinois, Inc.	IL	100%
RCN Telecom Services of Maryland, Inc.	MD	100%
RCN Telecom Services of Massachusetts, Inc.	MA	100%
RCN Telecom Services of Michigan, Inc.	MI	100%
RCN Telecom Services of New York, Inc.	NY	100%
RCN Telecom Services of Washington, Inc.	WA	100%
RCN Telecom Services of Delaware, Inc.	DE	100%
RCN Telecom Services of California, Inc.	CA	100%
RCN Telecom Services of Philadelphia, Inc.	PA	100%
RCN Telecom Services of New Jersey, Inc.	NJ	100%
RCN Telecom Services of Virginia, Inc.	VA	100%
RCN Telecom Services of Washington, D.C., Inc.	DC	100%
RCN Telecom Services of Maine, Inc.	ME	100%
RCN Telecom Services of New Hampshire, Inc.	NH	100%
RCN Telecom Services of Vermont, Inc.	VT	100%
RCN Telecom Services of Rhode Island, Inc.	RI	100%
RCN Telecom Services of Connecticut, Inc.	CT	100%
FNY Holding Company, Inc.	NY	100%
RCN Corporate Services, Inc.	NJ	100%
RCN Financial Services, Inc.	DE	100%
Freedom New York L.L.C.	DE	100%
RCN-BecoCom, LLC	MA	51%
Starpower Communications, LLC	DE	50%
Homelink Limited Partnership	NJ	80.355%

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of RCN Corporation on Form S-8 (File Nos. 333-37959 and 333-38137) of our report dated March 13, 1998, on our audits of the consolidated financial statements and financial statement schedules of RCN Corporation and Subsidiaries as of December 31, 1997 and 1996, and for the years ended December 31, 1997, 1996 and 1995, which report is included in this Annual Report on Form 10-K.

/s/ Coopers & Lybrand L.L.P.

COOPERS & LYBRAND L.L.P.

2400 Eleven Penn Center
Philadelphia, Pennsylvania
March 31, 1998

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Thomas P. O'Neill, III do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ Thomas P. O'Neill, III (SEAL)

Thomas P. O'Neill, III

Witness:

/s/ Christine M. Walsh

Christine M. Walsh

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, James Q. Crowe do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998

/s/ James Q. Crowe (SEAL)

James Q. Crowe

Witness:

/s/ Dinah Sink

Dinah Sink

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, David C. McCourt do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ David C. McCourt (SEAL)

David C. McCourt

Witness:

/s/ Blair Turner

Blair Turner

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Michael B. Yanney do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 27th day of March, 1998.

/s/ Michael B. Yanney (SEAL)

Michael B. Yanney

Witness:

/s/ C.L. Buckingham

C.L. Buckingham

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Richard R. Jaros do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 27th day of March, 1998.

/s/ Richard R. Jaros (SEAL)

Richard R. Jaros

Witness:

/s/ Lori Jaros

Lori Jaros

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Alfred Fasola do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th of March, 1998.

/s/ Alfred Fasola (SEAL)

Alfred Fasola

Witness:

/s/ Susan Fasola

Susan Fasola

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Stuart E. Graham do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998 and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ Stuart E. Graham (SEAL)

Stuart E. Graham

Witness:

/s/ Camille D'Alessandro

Camille D'Alessandro

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Eugene Roth do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 24th day of March, 1998.

/s/ Eugene Roth (SEAL)

Eugene Roth

Witness:

/s/ Janet Kaye

Janet Kaye

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Thomas J. May do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 27th day of March, 1998.

/s/ Thomas J. May (SEAL)

Thomas J. May

Witness:

/s/ Carol O'Rourke

Carol O'Rourke

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Walter Scott, Jr. do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ Water Scott, Jr. (SEAL)

Walter Scott, Jr.

Witness:

/s/ Julie Haack

Julie Haack

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Michael J. Mahoney do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 23rd day of March, 1998.

/s/ Michael J. Mahoney (SEAL)

Michael J. Mahoney

Witness:

/s/ Kathleen Sparrowe

Kathleen Sparrowe

SPECIFIC POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that I, Dennis Spina do make, constitute and appoint Bruce C. Godfrey, RCN Corporation's Chief Financial Officer, as my true and lawful attorney for me and in my name:

1. I authorize said attorney in fact to specifically execute in my name and in my behalf the RCN Corporation Form 10-K for the fiscal year ended December 31, 1997, and to file said form to the Securities and Exchange Commission, 450 5th Street, N.W., Washington, D.C. 20549, and relative instruments in writing which I deem requisite or proper to effectuate specifically the execution and delivery of the above-mentioned form with the same validity as I could, if personally present, and I hereby ratify and affirm that my said attorney as I may deem to act for me, shall do, by virtue of these presents, herein set forth by me.

2. All rights, powers and authority of said attorney in fact to exercise any and all of the specific rights and powers herein granted shall commence and be in full force and effect as of March 30, 1998, and such specific rights, powers and authority shall remain in full force and effect thereafter until termination in writing by me.

3. I give to said attorney in fact full power and authority to appoint a substitute to perform all such of the acts that said attorney in fact is by this instrument authorized to perform, with the right to revoke such appointment of substitute at pleasure.

IN WITNESS WHEREOF, I hereunto set my hand and seal this 26th day of March, 1998.

/s/ Dennis Spina (SEAL)

Dennis Spina

Witness:

/s/ Taara C. Young

Taara C. Young

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<RESTATED>

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<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<RESTATED>

<MULTIPLIER> 1,000

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EXHIBIT 2

MANAGERIAL AND TECHNICAL QUALIFICATIONS

DAVID C. McCOURT
Chairman and Chief Executive Officer

Mr. McCourt was named Chairman and Chief Executive Officer of RCN Corporation's predecessor, C-TEC Corporation – a diversified telecommunications and high-technology company with operations including local and long-distance telephone, cable television, and network engineering – in October 1993, after Mr. McCourt and Peter Kiewit Sons' jointly purchased a controlling interest in C-TEC Corporation. Since that time, C-TEC completed nearly \$2 billion in transactions. Sales, net income, cash flow and total assets have posted impressive gains under the direction of Mr. McCourt and the leadership team he has assembled. During his tenure at C-TEC, Mr. McCourt also took the company international, acquiring a 40% stake in Megacable S.A. de C.V., Mexico's second-largest cable television company.

Mr. McCourt's broad industry experience began more than (15) years ago, when he established an engineering, design, and construction firm to build communications networks in the United States, including several fiber optic networks for MFS Communications, presently a WorldCom subsidiary. Later he joined forces with Peter Kiewit Sons', one of the country's largest privately-held engineering and construction firms, to form McCourt/Kiewit International. At McCourt/Kiewit International, Mr. McCourt managed the design and construction of residential cable television and telephone networks for many of the largest and most successful companies in the United Kingdom.

Mr. McCourt serves on the boards of WorldCom, Megacable S.A. de C.V., Mercom, Inc., and Cable Satellite Public Affairs Network (C-SPAN). He is also a member of the Northeastern University Corporation and continues to serve the community by donating his time and resources to various national and local organizations.

Mr. McCourt is a graduate of Georgetown University in Washington, D.C.

BRUCE C. GODFREY
Executive Vice President, Chief Financial Officer & Secretary

Bruce C. Godfrey brings a wealth of financial management and capital market expertise to the RCN Corporation executive management team. In April 1994, Mr. Godfrey joined C-TEC Corporation as Executive Vice President and Chief Financial Officer. He is responsible for managing all aspects of RCN Corporation's financial resources and for pursuing development opportunities. Since his arrival, Mr. Godfrey has been involved in several key acquisitions and capital market transactions that have both focused and grown the company's operations while improving its capital structure.

Prior to joining C-TEC, Mr. Godfrey was a partner at Daniels & Associates, a Denver-based investment banking boutique, specializing in telecommunications industries. In his (10) years at Daniels, Mr. Godfrey was involved in a wide range of capital market, as well as merger and acquisition transactions. He also advised telecommunications companies in the United States and

overseas. Previously, he was a member of the corporate banking group at a Denver-based banking institution.

Mr. Godfrey has served on the C-TEC and then RCN Corporation Board of Directors since November 1996. He also serves on the Board of Directors of Megacable S.A. de C.V., Mexico's second largest cable television company, and Mercom, Inc.

Mr. Godfrey holds a bachelor's degree in economics from the University of Colorado at Boulder.

MICHAEL A. ADAMS
President and Chief Operating Officer

Mr. Adams joined RCN Corporation's predecessor, C-TEC Corporation, in 1993 as Vice President of Technology where he was responsible for determining the appropriate technologies for the Company's cable and telephone operations. His tenure with C-TEC and RCN Corporation have included positions as Executive Vice President and President of Technology & Network Development Group of RCN Corporation, President of Technology and Strategic Development and Executive Vice President of Commonwealth Communications, an engineering and technical services subsidiary of C-TEC. Significant projects Mr. Adams supervised include the upgrade of C-TEC Cable's New York systems; technical and purchasing support for Megacable S.A. de C.V., C-TEC's Mexican cable partner; design and construction of the Northwest Michigan College 120-mile regional network; project management of a regional network for MFS of New Jersey; design and installation of voice and data communications facilities for NatWest Bank; and expanded consulting services domestically in Michigan, Massachusetts and New Jersey and internationally to Latin America.

Mr. Adams holds a Master of Science Degree in Engineering from the Massachusetts Institute of Technology (M.I.T.) in Cambridge, Massachusetts. He completed his undergraduate studies at Northeastern University in Boston, with a Bachelor of Science Degree with honors in Engineering.

D.G. GULATI
Senior Vice President
Technical Strategic Development Group

Mr. Gulati has overall responsibility for the planning, development, engineering and subsequent deployment of voice and data services in the different strategic markets. His responsibilities also include the evaluation, development, and testing of new technologies for the Company.

Mr. Gulati came to RCN Corporation's predecessor, C-TEC Corporation, in 1995 with over twelve (12) years experience in the telecommunications industry. His tenure includes an Assistant Vice Presidency for Network Services at Warwick Telephone Company, Warwick, New York, as

well as several director level positions at Rochester Telephone, Rochester, New York, including Director of Network Sales, Director of Business Development, and Director of Network Operations at Rochester Telephone, Rochester, New York.

Mr. Gulati was awarded a Bachelors Degree in Engineering from City College of New York and holds an MBA in Corporate Finance from Pace University, New York.

SCOTT BURNSIDE

Senior Vice President Regulatory and Government Affairs

Scott Burnside is responsible for all regulatory matters at the local, state, and federal levels. In addition, Mr. Burnside is responsible for maintaining RCN Corporation's legislative relations with the United States Congress, state, and local governments.

Previously, Mr. Burnside held the position of Vice President, Regulatory and Government Affairs for RCN Corporation's predecessor C-TEC. In that position, Mr. Burnside was responsible for all regulatory matters including tariff creation and filing, certifications and authorizations necessary for C-TEC companies to operate in federal and state jurisdictions, and the development and maintenance of all government relations with the company. Prior to his C-TEC responsibilities, Mr. Burnside held a number of management positions with Commonwealth Telephone Company and Commonwealth Communications, Inc., both C-TEC subsidiaries.

Mr. Burnside is a member of the Pennsylvania State Chamber of Business and Industry's task force on telecommunications, board member of Alliance for Telecommunications Industry Solutions (ATIS), and a former director of the Greater Wilkes-Barre Area Chamber of Commerce. He is also an active member of numerous industry associations and committees.

Mr. Burnside is a graduate of Wilkes College, Wilkes-Barre, Pennsylvania.

JOSEPH O. KAHL

Director of Regulatory Affairs

Mr. Kahl is responsible for company related regulatory issues, maintaining certifications and compliance in the States where the Company does business. He is also responsible for the Company's tariff filings.

Prior to his joining the C-TEC, Mr. Kahl served in a similar capacity at MFS WorldCom for three and one-half years and has over eight years of regulatory experience in the telecommunications industry.

Mr. Kahl is a graduate of Rutgers University with a Bachelors Degree in Accounting and Economics.

EXHIBIT 3

Certificate of Authority to Transact Business



FLORIDA DEPARTMENT OF STATE
Katherine Harris
Secretary of State

October 25, 1999

CT CORPORATION SYSTEM
TALLAHASSEE, FL

Qualification documents for RCN TELECOM SERVICES, INC. were filed on October 25, 1999 and assigned document number F99000005463. Please refer to this number whenever corresponding with this office.

Your corporation is now qualified and authorized to transact business in Florida as of the file date.

A corporation annual report will be due this office between January 1 and May 1 of the year following the calendar year of the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the corporate address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6091, the Foreign Qualification/Tax Lien Section.

Buck Kohr
Corporate Specialist
Division of Corporations

Letter Number: 699A00051237

APPLICATION BY FOREIGN CORPORATION FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 607.1503, FLORIDA STATUTES, THE FOLLOWING IS
 SUBMITTED TO REGISTER A FOREIGN CORPORATION TO TRANSACT BUSINESS IN THE
 STATE OF FLORIDA:

990023
 PH 3:38

1. RCN Telecom Services, Inc.
 (Name of corporation: must include the word "INCORPORATED", "COMPANY", "CORPORATION", or words or abbreviations of like import in language as will clearly indicate that it is a corporation instead of a natural person or partnership if not so contained in the name at present.)
2. Pennsylvania
 (State or country under the law of which it is incorporated)
3. 23-2472885
 (FEI number, if applicable)
4. June 30, 1987
 (Date of incorporation)
5. Perpetual
 (Duration: Year corp. will cease to exist or "perpetual")
6. January 1, 2000
 (Date first transacted business in Florida. (See sections 607.1501, 607.1502, and 817.155, F.S.))
7. 105 Carnegie Center, Princeton, New Jersey 08540
 (Current mailing address)
8. provision of communication services
 (Purpose(s) of corporation authorized in home state or country to be carried out in the state of Florida)
9. Name and street address of Florida registered agent:
 Name: C T Corporation System
 Office Address: c/o C T Corporation System, 1200 South Pine Island Road
Plantation, Florida, 33324
 (Zip Code)
10. Registered agent acceptance:
 Having been named as registered agent and to accept service of process for the above stated corporation at the place designated in this application. I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relative to the proper and complete performance of my duties, and I am familiar with and accept the obligation of my position as registered agent.
 C T Corporation System
Ann J. Williams
 (Registered agent's signature) (Officer)
ANN J. WILLIAMS
 Assistant Vice President
 (Type Name and Title of Officer)