

TCOD-175

K 7147

DOCKET NO.

In the Matter of — IN THE MATTER OF THE  
APPLICATION OF RCN TELECOM  
SERVICES, INC. FOR A CERTIFICATE  
OF AUTHORITY TO PROVIDE  
TELECOMMUNICATIONS SERVICES IN  
SOUTH DAKOTA

## DATE \_\_\_\_\_

## MEMORANDA

10/26	00	Received Application;
10/30	00	Received Check and Rocketed;
11/2	00	Weekly Filing;
11/29	00	Renused Application;
1/24	01	Renused Application;
2/13	01	Order Granting COA;
2/13	01	Rocket Closed.

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

THE WASHINGTON HARBOUR  
3000 K STREET, NW, SUITE 300  
WASHINGTON, DC 20007-5116  
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405 LEXINGTON AVENUE  
NEW YORK, NY 10174  
(212) 973-0111 FAX (212) 691-0398

October 25, 2000

**VIA OVERNIGHT DELIVERY**

**RECEIVED**

**OCT 26 2000**

Rolayne Ailts Wiest  
General Counsel  
South Dakota Public Utilities Commission  
500 E. Capitol Avenue  
State Capitol Building  
Pierre, SD 57501

**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION**

**Re: Petition for Approval of Pro Forma Corporate Restructuring of RCN Telecom Services, Inc., RCN Telecom Holding Company, and RCN Long Distance Company**

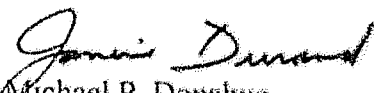
Dear Mr. Wiest:

On behalf of RCN Telecom Services Inc. ("RCN TS"), enclosed for filing is an original and one (1) copy of the above-referenced Petition for Approval of the *Pro Forma Corporate Restructuring*.

The enclosed materials are in response to the request received from the South Dakota Public utilities Commission, to RCN TS on September 27, 2000. Specifically, RCN TS is filing its request for approval of the pro forma corporate restructuring of RCN TS, RCN Telecom Holding Company, and RCN Long Distance Company.

Please date-stamp the enclosed extra copy of this filing and return it in the attached self-address, stamped envelop. Should you have any questions with respect to this matter, please do not hesitate to contact the undersigned at (202) 424-7500.

Very truly yours,

  
Michael P. Donahue  
Janine L. Durand

Counsel for RCN Telecom Services, Inc.

Enclosures

Before the  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

OCT 26 2000

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

Petition of

RCN TELECOM SERVICES, INC.

and

RCN LONG DISTANCE COMPANY

Docket No.

For Authority to Merge, Cancel and Reissue  
Certificate of Service Authority as Part of a  
*Pro Forma* Corporate Restructuring and for  
Authority to Provide Interexchange  
Telecommunications Services

**PETITION FOR AUTHORITY TO MERGE, CANCEL AND  
REISSUE CERTIFICATE OF SERVICE AUTHORITY AS PART OF  
A *PRO FORMA* CORPORATE RESTRUCTURING AND FOR  
AUTHORITY TO PROVIDE INTEREXCHANGE  
TELECOMMUNICATIONS SERVICES**

RCN Telecom Services, Inc. ("RCN TS"), and RCN Long Distance Company ("RCN LD") (collectively, the "Petitioners"), by their undersigned attorneys and pursuant to Sections 49-31-3, and 20:10:24:02 and 20:10:24:04:01 of the South Dakota Code of Law and the rules and regulations of the South Dakota Public Utilities Commission ("Commission"), respectfully request: (1) authority to merge RCN LD with and into RCN TS and to assign RCN LD's customers and operations to RCN TS, (2) cancellation of RCN LD's Certificates of Service Authority, and (3) issuance to RCN TS of Certificates of Service Authority identical to those currently held by RCN LD. As part of this *pro forma* corporate restructuring, RCN LD, along with certain other affiliated RCN subsidiaries operating in other states will be merged with and into RCN TS. As a result of the restructuring, RCN LD will cease to exist and RCN TS will assume RCN LD's customers and operations. As



described below, the restructuring will not change the ultimate ownership or control of RCN LD's operations in South Dakota.

In support of their Petition, the Petitioners provide the following information:

**I. THE PETITIONERS**

RCN Corporation is a publicly held Delaware corporation that is headquartered at 105 Carnegie Center, Princeton, New Jersey 08540. RCN Corporation is the ultimate corporate parent of the RCN subsidiaries, including the Petitioners. RCN Corporation and its operating subsidiaries are in the process of building high-speed, high-capacity advanced fiber optic networks to provide a package of services, including local and long distance telephone, video programming and data services to residential and business customers. In the state of South Dakota, RCN LD is authorized to provide intrastate interexchange services.<sup>1/</sup> Attachment A is the current certificate of authority for RCN TS to transact business in South Dakota. In addition, RCN TS is certificated or otherwise authorized to provide local exchange and/or long distance services in every state but Alaska and Hawaii.<sup>2/</sup>

Information concerning RCN TS's legal, technical, managerial and financial qualifications to operate in South Dakota is provided below. Additional information regarding RCN Corporation

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<sup>1/</sup> See *Commonwealth Long Distance Company Application for a certificate of interexchange service authority to operate as a reseller of telecommunication services within the State of Illinois*, Order, Docket 94-0496 (Feb. 8, 1995). On March 7, 1997, Commonwealth Long Distance Company submitted a letter advising the Commission of a corporate reorganization in which its name was changed to RCN Long Distance Company. The Commission acknowledged receipt of this notification on April 2, 1997.

<sup>2/</sup> RCN TS is in good standing in all these states and no complaints have been filed against RCN TS in any states nor with any federal regulatory commission regarding the unauthorized switching of a customer's service.

and its subsidiary's operations in South Dakota was submitted with the various application(s) filed with the Commission with respect to its subsidiary currently operating in South Dakota, and is, therefore, already a matter of record with the Commission. The Petitioners respectfully request that the Commission take official notice of this information and incorporate it by reference herein.

## **II. DESIGNATED CONTACTS**

The designated contacts for purposes of this Petition are:

Michael P. Donahue  
Janine Durand  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, N.W., Suite 300  
Washington, DC 20007  
Phone: (202) 424-7683  
Fax: (202) 424-7645

Copies of all correspondence, notices, inquiries and orders should be sent to:

Trudy M. Longnecker  
Tariff & Compliance Manager  
RCN Corporation  
105 Carnegie Center  
Princeton, NJ 08540  
Phone: (609) 734-3700  
Fax: (609) 734-3784

## **III. DESCRIPTION OF THE TRANSACTION**

RCN TS and RCN LD currently are wholly-owned subsidiaries of RCN Corporation, the ultimate parent company of the RCN Corporation subsidiaries. The proposed restructuring will take place as a merger of RCN LD, and certain other RCN Corporation subsidiaries operating in other jurisdictions, with and into RCN TS. Upon completion of all such transactions, RCN TS will assume RCN LD's customers and operations. As a result, RCN LD and the other affiliated companies will cease to exist as corporate entities and RCN TS will hold the certificates previously

held by the respective RCN Corporation companies. RCN Corporation will remain the ultimate corporate parent of the remaining entities.

The proposed restructuring is strictly *pro forma* and will not adversely affect the provision of telecommunication services in South Dakota. All of RCN LD's customers will be served by the same team of qualified consumer representatives and will be provided service pursuant to contracts and tariffs that offer all of the services currently offered by RCN LD, at the same rates, terms and conditions. RCN TS will file revised tariffs to reflect RCN Telecom Services, Inc. as the operating entity as a result of the proposed restructuring. There will be no change in the ultimate ownership or control of RCN TS or in the management of day-to-day operations in South Dakota. RCN TS will be led by the same team of experienced telecommunications personnel that led RCN LD. Thus, service will continue to be provided using the same network, billing systems and customer service operations as are used by RCN LD.

To the extent required, the Petitioners respectfully request that the Commission authorize the merger of RCN LD with and into RCN TS, issue authorizations to RCN TS identical to those currently held by RCN LD, and cancel RCN LD's authorizations.

#### **IV. QUALIFICATIONS OF RCN TS**

##### **A. Legal**

RCN TS's legal name is RCN Telecom Services, Inc. RCN TS was incorporated on June 30, 1987 in the Commonwealth of Pennsylvania as Commonwealth Cable Systems of Pennsylvania, Inc., which was later renamed RCN Telecom Services of Pennsylvania, Inc. and in September 1999 was renamed RCN TS. RCN TS's address of its principal place of business and phone number are set forth above. RCN TS's Federal Tax identification number is 23-2472885.

## **B. Technical**

A complete description of RCN TS's technical qualifications was previously provided to the Commission in RCN LD's application for certification. As the proposed restructuring of the RCN Companies is *pro forma* in nature, RCN TS will have access to the same technical resources that the Commission previously found sufficient to support RCN LD's operations. As explained in detail in RCN LD's original application, RCN TS's officers are well qualified to execute its business plan. RCN TS's interexchange operations will be directed by its existing corporate management, and technical and operations staffs who are responsible for the interexchange and local exchange operations of its affiliates in South Dakota and other states. These principals have been continuously involved in efforts to obtain and retain certification as well as the day-to-day operation of RCN TS's affiliates operating in South Dakota and other states. RCN TS will also draw heavily on the management resources of RCN Corporation for planning, marketing, network, and legal/regulatory assistance. A copy of the managerial and technical qualifications of RCN Corporation's officers is attached hereto as Attachment B.

Although the proposed transactions technically involve a transfer of RCN LD, the ultimate ownership of RCN TS will not be affected by the proposed restructuring. RCN TS will continue to have access to the same corporate technical, managerial and financial resources RCN LD currently enjoys. Indeed, the proposed restructuring will be virtually transparent to South Dakota customers and will not change the nature of services offered to those customers or RCN TS's ability to provide high quality services in South Dakota.

### **C. Financial**

RCN TS has the financial resources necessary to provide high quality service to South Dakota consumers. RCN TS's direct parent corporation, RCN Corporation is a publicly traded and widely-held corporation. As a direct subsidiary, RCN TS will have access to the substantial resources of its parent. Recent financial statements for RCN Corporation are provided in Attachment C. Moreover, the proposed corporate structure is expected to provide the RCN Corporation subsidiaries, including RCN TS, even greater access to working capital and allow RCN TS to realize marketing and administrative efficiencies. Thus, RCN TS has access to the financing and capital necessary to conduct its telecommunications operations and to meet the current and future capital needs of RCN TS's South Dakota operations.

### **D. Managerial**

Because the reorganization of the RCN companies is *pro forma* in nature, RCN TS will continue to be managed by a management team virtually identical to RCN LD's management team. By granting RCN TS's original certification application, the Commission has already found the extensive telecommunications experience and expertise possessed by the RCN Corporation management team sufficient to meet the needs of the RCN companies. Thus, because the management team overseeing the South Dakota operations remains largely unchanged, RCN TS respectfully submits that it is qualified to provide the telecommunications services for which authority is requested.

### **E. Service Descriptions**

Detailed information concerning RCN TS's service offerings and handling of customer complaint and inquiries was provided to the Commission in RCN LD's original certification

application and tariff. RCN TS does not intend to change its service offerings as a result of the proposed reorganization and does not currently seek to change its authorized service area. Upon approval of the transactions contemplated in this application, RCN TS will file a tariff in the name of RCN Telecom Services, Inc. incorporating identical services, rates, terms and conditions as currently offered by RCN LD.

**V. WAIVERS OF CERTAIN REGULATORY REQUIREMENTS**

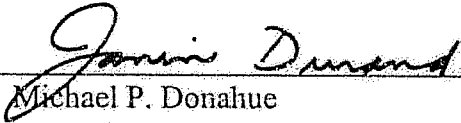
RCN TS will continue to maintain its accounting records in accordance with Generally Accepted Accounting Principles ("GAAP"), in sufficient detail to comply with applicable tax laws. RCN TS respectfully requests the same waivers that were previously granted by the Commission in RCN LD's initial application.

**VI. PUBLIC INTEREST STATEMENT**

RCN Corporation has determined that the proposed corporate restructuring will promote operational and administrative efficiencies for the RCN companies. The restructuring will enable the Company to reduce its administrative and operating expenses and realize operational and management efficiencies and other corporate benefits. These efficiencies will enable the Company to more effectively compete in the telecommunications market to the ultimate benefit of consumers in South Dakota. The restructuring will be made in a seamless fashion that will not adversely affect the provision of telecommunications services in South Dakota, but will, in fact, increase the financial strength of the entity which is providing service in South Dakota. The restructuring is simply a paper transaction that will be transparent to consumers and will not in any way inconvenience or cause harm to RCN LD's customers.

WHEREFORE, the Petitioners respectfully request that the Commission approve this Petition for approval of the merger of RCN Long Distance Company into RCN Telecom Services, Inc., issue a Certificate of Authority to RCN Telecom Services, Inc., identical to that currently held by RCN Long Distance Company, cancel RCN Long Distance Company's Certificate of Service Authority, and grant any other authority that the Commission may deem necessary with respect to this request.

Respectfully submitted,

By:   
Michael P. Donahue  
Janine Durand  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, N.W., Suite 300  
Washington, D.C. 20007  
Phone: (202)424-7683  
Fax: (202) 424-7645

Counsel for RCN Telecom Services, Inc. and  
RCN Long Distance Company

Dated: October 25, 2000

## ATTACHMENTS

Attachment A	Certificate of Incorporation and Certificate of Authority to Transact Business in South Dakota
Attachment B	Management Biographies
Attachment C	RCN Corporation SEC Form 10-K RCN Corporation SEC Form 10-Q



**ATTACHMENT A**

**Certificate of Incorporation and  
Certificate of Authority to Transact Business in South Dakota**

# Secretary of State

State Capitol, Ste 204  
500 East Capitol Avenue  
Pierre, South Dakota  
57501-5070  
sos@state.sd.us



JOYCE HAZELTINE

Secretary of State

TOM LECKEY

Deputy

To: C T CORPORATION SYSTEM  
ANN J WILLIAMS  
1635 MARKET ST  
PHILADELPHIA PA 19103

From: Secretary of State Joyce Hazeltine  
Corporations Division

Date: April 17, 2000

Re: RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH  
DAKOTA, INC.  
Foreign Certificate of Authority

The application for certificate of authority has been received and filed for the RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH DAKOTA, INC..

Enclosed is the Certificate attached to the duplicate application along with a receipt for the filing fee of \$90 + \$10 expedited for 1,000 common shares at \$1.

SDCL: 47-9-3 requires the filing of a corporate annual report with our office between the anniversary date of qualification and prior to the first day of the second month following. The report is due the year following qualification. An annual report form will be mailed to the corporate address listed in number five on the application for timely filing. Please contact our office if the corporate address changes or if the form is not received.

Thank you.

# State of South Dakota



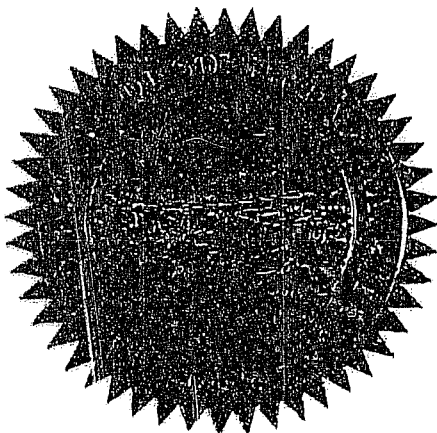
## OFFICE OF THE SECRETARY OF STATE

### Certificate of Authority

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH DAKOTA, INC. to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this April 17, 2000.



A handwritten signature in cursive script, reading "Joyce Hazeltine".

Joyce Hazeltine  
Secretary of State

SECRETARY OF STATE  
STATE CAPITOL  
500 E. CAPITOL  
PIERRE, S.D. 57501-5077  
605-773-4845  
FAX (605) 773-4550

FILE NO \_\_\_\_\_  
RECEIPT NO \_\_\_\_\_

## APPLICATION FOR CERTIFICATE OF AUTHORITY

RECEIVED

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

S.D. SEC. OF STATE

- (1) The name of the corporation is RCN Telecom Services, Inc.  
(Exact corporate name)
- (2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is  
RCN Telecom Services of South Dakota, Inc.
- (3) State where incorporated Pennsylvania Federal Taxpayer ID# 23-2472885
- (4) The date of its incorporation is June 30, 1987 and the period of its duration, which may be perpetual, is Perpetual
- (5) The address of its principal office in the state or country under the laws of which it is incorporated is  
1525 Valley Center Parkway, Bethlehem, Pennsylvania Zip Code 18018  
mailing address if different from above is: 105 Carnegie Center, Princeton, New Jersey  
Zip Code 08540
- (6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 319 S. Coteau  
Street, Pierre, South Dakota Zip 57501  
and the name of its proposed registered agent, in the State of South Dakota at that address is  
C T Corporation System
- (7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose) Provision of communication services.
- (8) The names and respective addresses of its directors and officers are:
- | Name                               | Officer Title | Street Address | City | State | Zip |
|------------------------------------|---------------|----------------|------|-------|-----|
| See attached list of directors and |               |                |      |       |     |
|                                    |               |                |      |       |     |
|                                    |               |                |      |       |     |
|                                    |               |                |      |       |     |
|                                    |               |                |      |       |     |
- (9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:
- | Number of shares | Class         | Series             | Par value per share or statement that shares are without par value |
|------------------|---------------|--------------------|--|
| <u>1,000</u>     | <u>Common</u> | <u>(No series)</u> | <u>\$1.00</u>  |

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>1,000</u>	<u>Common</u>	<u>(No series)</u>	<u>\$1.00</u>

(11) The amount of its stated capital is \$1,000.00

Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated April 10, ~~19~~ 2000

[Signature]  
(Signature) John D. Filipowicz

Senior Vice President  
(Title)

State of New Jersey  
County of Mercer

On this 10<sup>th</sup> day of April, ~~19~~ 2000, before me: DAVID F. KUNZ  
personally appeared John D. Filipowicz, known to me, or proved to me, to be  
the Senior Vice President of the corporation that is described in and that executed the  
within instrument and acknowledged to me that such corporation executed same.

My Commission Expires: 10/24/04

Notarial Seal

[Signature]  
(Notary Public)

\*\*\*\*\*

DAVID F. KUNZ  
NOTARY PUBLIC OF NEW JERSEY  
MY COMMISSION EXPIRES OCT 24, 2004

The Consent of Appointment below must be signed by the registered agent listed in number six.

## CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, C T Corporation System, hereby give my consent to serve as the  
(name of registered agent)

registered agent for RCN Telecom Services, Inc.  
(corporate name)

Dated April 14, ~~19~~ 2000

By [Signature]  
C T CORPORATION SYSTEM  
[Signature]

RCN Telecom Services, Inc.

Sole Director:

David C. McCourt

- 179 Stoney Brook Road  
Hopewell, NJ 08525

Officers:

Michael A. Adams

- President & Chief Operating Officer  
647A Summer Street  
Boston, MA 02210

John D. Filipowicz

- Senior Vice President, Assistant General Counsel and  
Assistant Secretary  
1189 Longmeadow Lane  
Yardley, PA 19067

John J. Jones

- Executive Vice President, General Counsel & Corporate  
Secretary  
120 Acadia Court  
Princeton, NJ 08540

Timothy J. Stoklosa

- Senior Vice President & Treasurer  
334 Burgundy Lane  
Newtown, PA 18940

The business address for all of the Directors and Officers is: 105 Carnegie Center,  
Princeton, New Jersey 08540.

RESOLUTION OF FOREIGN CORPORATION  
ADOPTING AN ASSUMED NAME

I, John D. Filipowicz, certify that I am the Senior Vice President of RCN Telecom Services, Inc., a corporation organized under the laws of the state of Pennsylvania, and that the following is a true and correct copy of a resolution duly adopted at a meeting of the board of directors of the corporation on the 10<sup>th</sup> day of April, 2000.

John D. Filipowicz  
John D. Filipowicz, Senior Vice President

RESOLVED, that the corporation adopts the name RCN Telecom Services of South Dakota, Inc. under which it shall operate in South Dakota because its corporate name is not available for use in South Dakota, that the secretary is authorized to certify a copy of this resolution and is directed to deliver the copy of the resolution to the secretary of state of South Dakota for filing.

## **ATTACHMENT B**

### **Biographies of Key Personnel of RCN Telecom Services, Inc.**

#### **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.



## **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.

## **TIMOTHY J. STOKLOSA**

Chief Financial Officer

Mr. Stoklosa brings nearly a decade of finance and treasury management experience to his role at RCN Corporation. Named RCN's Chief Financial Officer in January 2000, Mr. Stoklosa is responsible for managing all aspects of RCN's financial operations. Mr. Stoklosa previously served as Senior Vice President and Treasurer at RCN, responsible for directing the company's financial planning and analysis, treasury operations, and capital raising efforts.

Mr. Stoklosa joined the former C-TEC Corporation in August 1994 as Treasurer of its Commonwealth Telephone Enterprises subsidiary and in September 1997 was named Senior Vice President and Treasurer of RCN Corporation. As Treasurer of RCN Corporation, Stoklosa played a vital role in overseeing the division of C-TEC into three separate public companies: RCN Corporation (Nasdaq: RCNC), Commonwealth Telephone Enterprises, Inc. (Nasdaq: CTCO), and Cable Michigan, Inc. on September 30, 1997. Mr. Stoklosa was responsible for all financial analysis and financing associated with this complicated transaction.

In addition to his role at RCN, Mr. Stoklosa has served as Senior Vice President of Finance for Commonwealth Telephone Enterprises since February 1997 and Treasurer of the company since August 1994. Mr. Stoklosa also served as Executive Vice President, Chief Financial Officer and Director of Cable Michigan. On November 6, 1998, Cable Michigan was sold to Avalon Cable in a transaction valued at \$435 million.

Before joining C-TEC, Mr. Stoklosa was Manager of Mergers and Acquisitions at Peter Kiewit Sons, Inc. from October 1991 to August 1994 and Senior Financial Analyst of Corporate Development at Citizen's Utilities Co. from February 1990 to October 1991.

Mr. Stoklosa earned a Bachelor of Science in Engineering and a Masters of Business Administration from the State University of New York at Buffalo.

**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 management team, 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.

**ATTACHMENT C**

**Form 10-K**

**Form 10-Q**

**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	22-3498533
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

105 Carnegie Center, Princeton, New Jersey	08540
(Address of principal executive offices)	(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](http://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 a 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 telephony 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	21,651
Subtotal On-Net .....	123,393	149,235	173,128	194,547	222,961
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	947,302
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 1,407,539 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 1 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 \$17 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 in 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-BECCOM, RCN, BECCOM 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 \$44 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 CLIC'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 MDO's.

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 strengthen 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 CTE 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 SESS-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-4)

(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)

**(19) Material Contracts**

(a) ~~Use~~ 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

**22\*** Consent of PricewaterhouseCoopers LLP with respect to RCN Corporation

**23\*** 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 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: As 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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<b>PRINCIPAL EXECUTIVE AND ACCOUNTING OFFICERS:</b>		
<u>David C. McCourt</u> David C. McCourt	Chairman and Chief Executive Officer	March 30, 2000
<u>Michael A. Adams</u> Michael A. Adams	President and Chief Operating Officer	March 30, 2000
<u>Timothy J. Stoklosa</u> Timothy J. Stoklosa	Executive Vice President and Chief Financial Officer	March 30, 2000
<u>Ralph S. Hromisin</u> Ralph S. Hromisin	Senior Vice President and Chief Accounting Officer	March 30, 2000

**DIRECTORS:**

<del>151</del> David C. McCourt	<u>March 30, 2000</u>
David C. McCourt	
<del>151</del> James Q. Crowe	<u>March 30, 2000</u>
James Q. Crowe	
<del>151</del> Walter E. Scott, Jr.	<u>March 30, 2000</u>
Walter E. Scott, Jr.	
<del>151</del> Richard R. Jaros	<u>March 30, 2000</u>
Richard R. Jaros	
<del>151</del> Thomas May	<u>March 30, 2000</u>
Thomas May	
<del>151</del> Alfred Fasola	<u>March 30, 2000</u>
Alfred Fasola	
<del>151</del> Thomas P. O'Neill, III	<u>March 30, 2000</u>
Thomas P. O'Neill, III	
<del>151</del> Eugene Roth	<u>March 30, 2000</u>
Eugene Roth	
<del>151</del> Stuart E. Graham	<u>March 30, 2000</u>
Stuart E. Graham	
<del>151</del> Michael B. Yanney	<u>March 30, 2000</u>
Michael B. Yanney	
<del>151</del> Edward S. Harris	<u>March 30, 2000</u>
Edward S. Harris	
<del>151</del> Michael J. Levitt	<u>March 30, 2000</u>
Michael J. Levitt	
<del>151</del> William D. Savoy	<u>March 30, 2000</u>
William D. Savoy	
<del>151</del> Michael A. Adams	<u>March 30, 2000</u>
Michael A. Adams	
<del>151</del> Timothy J. Stoklosa	<u>March 30, 2000</u>
Timothy J. Stoklosa	



## SCHEDULE I

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

For the Years Ended December 31.

	<u>1999</u>	<u>1998</u>
Sales	\$13	\$177
Other income (expense)	7,795	(18,293)
Gains and expenses	<u>23</u>	<u>177</u>
Operating income (loss)	7,785	(18,293)
Interest income	3,103	2,834
Interest expense	<u>(161,466)</u>	<u>(106,161)</u>
(Loss) before income taxes	(150,578)	(121,620)
(Benefits) for income taxes	(59,592)	(36,164)
Equity in (loss) of consolidated entities	<u>(264,042)</u>	<u>(119,989)</u>
Net (loss)	(355,028)	(205,442)
Preferred stock dividend and accretion requirements	<u>13,542</u>	-
Net (loss) to common shareholders	<u><u>\$(368,570)</u></u>	<u><u>\$(205,442)</u></u>
(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,

19991998**ASSETS**

## Current assets

Cash and temporary cash investments  
Accounts receivable from related parties  
Accounts receivable from affiliates  
Accounts receivable  
Prepayments & other  
Investments restricted for debt service

\$3,703

\$15

-

99

409,514

13,172

6

4

93,912

25,120

22,12822,500

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

25,8449,525

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

838152

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.

	<u>1999</u>	<u>1998</u>
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	<u>(406,727)</u>	<u>(9,162)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions	(53,322)	(47,028)
Other	(990,843)	(562,106)
Net cash (used in) investing activities	<u>(1,044,165)</u>	<u>(609,134)</u>
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	<u>1,454,580</u>	<u>618,311</u>
Net increase/(decrease) in cash and temporary cash investments	3,688	15
Beginning cash & temporary cash investments	<u>15</u>	<u>0</u>
Ending cash & temporary cash investments	<u>\$3,703</u>	<u>\$15</u>

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	ADDITION 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	\$12,238
1998	\$2,134	\$4,096	\$1,215	\$5,766
1997	\$861	\$2,732	\$997	\$2,134
ALLOWANCE FOR DEFERRED TAX ASSETS- DEDUCTED FROM DEFERRED TAX ASSETS IN THE CONSOLIDATED BALANCE SHEETS				
1999	\$82,068	\$163,144	\$363	\$215,175
1998	\$8,404	\$64,498	\$12,983	\$82,068
1997	\$3,691	\$5,777	\$-	\$8,404

**RCN CORPORATION**
**SELECTED FINANCIAL DATA**

Thousands of Dollars Except Per Share Amounts For the Years Ended December 31.

	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>	<u>1995</u>
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	\$628,083	\$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	-	-	-	-

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 13,400 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 service 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 personnel 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 names, 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 Larcit 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 \$8,100.

#### 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 175,343 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 Lanit 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 \$6,363 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 1998, 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 telephonic 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-BTC COM 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 1,187,439 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 ownership 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:

<u>Date</u>	<u>Description</u>	<u>Proceeds</u>	<u>Maturity</u>
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

<u>Date</u>	<u>Description/Price</u>	<u>Proceeds</u>	<u>Number of Shares</u>
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 \$11,053 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 Trials, 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.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
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)	(4,098)	(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)	(1,804)
(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	<u><u>\$ (368,570)</u></u>	<u><u>\$ (205,442)</u></u>	<u><u>\$ (52,391)</u></u>
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)	<u><u>\$ (5.12)</u></u>	<u><u>\$ (3.36)</u></u>	<u><u>\$ (0.95)</u></u>
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
<b>ASSETS</b>		
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	25,437
Total current assets	<u>1,904,939</u>	<u>1,092,868</u>
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	<u>\$3,192,114</u>	<u>\$1,907,615</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	\$1,225	\$4,097
Accounts payable to related parties	35,809	7,133
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	1,461	-
Accrued expenses	69,875	62,350
Total current liabilities	<u>249,445</u>	<u>178,069</u>
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)	(227,588)
Total common shareholders' equity	<u>392,303</u>	<u>371,416</u>
Total liabilities and shareholders' equity	<u>\$3,192,114</u>	<u>\$1,907,615</u>

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,		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
Cash flows from operating activities			
Net (loss)	\$(355,028)	\$(205,442)	\$(52,391)
Accretion of discounted debt	101,901	80,923	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	<u>(83,721)</u>	<u>35,110</u>	<u>2,060</u>
Cash flows from investing activities:			
Additions to property, plant and equipment	(526,240)	(285,867)	(79,012)
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	<u>(1,088,552)</u>	<u>(828,176)</u>	<u>(475,860)</u>



**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	112,856	-
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)	-	13,210
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	<u>1,443,559</u>	<u>690,282</u>	<u>634,858</u>
Net increase (decrease) in cash and temporary cash investments	271,286	(102,784)	161,067
Cash and temporary cash investments at beginning of year	<u>120,126</u>	<u>222,910</u>	<u>61,843</u>
Cash and temporary cash investments at end of year	<u>\$391,412</u>	<u>\$120,126</u>	<u>\$222,910</u>
Supplemental disclosures of cash flow information			
Cash paid during the periods for:			
Income taxes	<u>\$1,897</u>	<u>\$1,047</u>	<u>\$1,000</u>
Interest (net of \$5,126 and \$1,636 capitalized in 1999 and 1998, respectively)	<u>\$42,880</u>	<u>\$28,781</u>	<u>\$16,536</u>

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	<u>1,850</u>
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	<u>1,107</u>
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	<u>(55,000)</u>
Net cash paid (including out of pocket expenses of approximately \$1,400 and repayment of debt of approximately \$5,100)	<u>\$36,000</u>

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	<u>(5,700)</u>
Net cash paid	<u>\$7,700</u>

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	<u>\$1,300</u>

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	<u>\$400</u>

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	<u>(4,700)</u>
Net cash paid	<u>\$3,700</u>

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	<u>20</u>	<u>210</u>	
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	<u>6</u>	<u>207</u>	
Balance, December 31, 1999	<u>\$77,724</u>	<u>\$923,340</u>	<u>\$(591,128)</u>

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)	\$-	\$390,764
Net loss from 1/1/97 through 9/30/97		(35,275)			(35,275)
Net loss from 10/1/97 through 12/31/97					(17,146)
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	<u>\$(9,391)</u>	<u>\$-</u>	<u>\$(2,014)</u>	<u>\$(6,228)</u>	<u>\$792,103</u>

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)

	<u>Common Shares Issued</u>	<u>Treasury Stock</u>	<u>Shares Outstanding</u>
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	<u>20,518</u>		<u>20,518</u>
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		<u>(557,000)</u>	<u>(557,000)</u>
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		<u>(5,000)</u>	<u>(5,000)</u>
Balance, December 31, 1999	<u>77,724,070</u>	<u>(562,000)</u>	<u>77,162,070</u>

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:

	<u>Lives</u>	
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.

	<u>1999</u>	<u>1998</u>	<u>1997</u>
(Loss) before extraordinary item and cumulative effect of change in accounting principle	\$(354,604)	\$(204,801)	\$(49,181)
Preferred stock dividend and accretion requirements	<u>(13,542)</u>	<u>-</u>	<u>-</u>
	\$(368,146)	\$(204,801)	\$(49,181)
Basic (loss) per average common share: Weighted average shares outstanding	<u>71,996,301</u>	<u>61,187,354</u>	<u>54,965,716</u>
(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	<u>-</u>	<u>-</u>	<u>-</u>
	<u>71,996,301</u>	<u>61,187,354</u>	<u>54,965,716</u>
(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 \$14,000 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, Ultramet, Interport, Javanet and Lancet 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	
	<u>1998</u>	<u>1997</u>
(Unaudited)		
Proforma Data:		
Sales	\$226,272	\$159,611
(Loss) from continuing operations before extraordinary items	\$(220,271)	\$(106,338)
Net (loss)	<u>\$(220,912)</u>	<u>\$(109,548)</u>
Earnings Per Share:		
(Loss) from continuing operations before extraordinary items	\$(3.53)	\$(1.80)
Net (loss)	<u>\$(3.54)</u>	<u>\$(1.86)</u>

### 5. SHORT-TERM INVESTMENTS

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

	<u>1999</u>	<u>1998</u>
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	84,309
Asset backed securities	<u>279,637</u>	<u>163,860</u>
Total	<u>\$1,401,877</u>	<u>\$892,448</u>

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,

	<u>1999</u>	<u>1998</u>
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	<u>5,967</u>	<u>1,250</u>
Total property, plant and equipment	1,123,760	601,679
Less accumulated depreciation	<u>(230,581)</u>	<u>(153,304)</u>
Property, plant and equipment, net	<u>\$893,179</u>	<u>\$448,375</u>

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:

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

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.

	<u>1999</u>	<u>1998</u>
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	<u>6,270</u>	<u>24,576</u>
Total intangible assets	296,875	267,031
Less accumulated amortization	<u>(158,384)</u>	<u>(97,313)</u>
Intangible assets, net	<u>\$138,491</u>	<u>\$169,718</u>

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:

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

## 10. DEBT

### a. Long-term debt

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

	<u>1999</u>	<u>1998</u>
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	<u>2,746</u>	<u>2,517</u>
Total	2,144,321	1,267,133
Due within one year	<u>1,225</u>	<u>4,097</u>
Total Long-Term Debt	<u>\$2,143,096</u>	<u>\$1,263,036</u>

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.

Principal 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.

## II. INCOME TAXES

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

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

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:

	<u>1999</u>	<u>1998</u>
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	<u>5,203</u>	<u>6,734</u>
Total deferred tax assets	<u>258,320</u>	<u>106,722</u>
Property, plant and equipment	(24,409)	(18,177)
Intangible assets	-	(6,618)
All other	-	<u>(2,428)</u>
Total deferred liabilities	<u>(24,409)</u>	<u>(27,223)</u>
Subtotal	233,911	79,499
Valuation allowance	<u>(235,375)</u>	<u>(82,068)</u>
Total deferred taxes	<u>\$(1,464)</u>	<u>\$(2,569)</u>

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
<u>2017-2018</u>	<u>21,205</u>	<u>203,176</u>
<u>Total</u>	<u>\$458,925</u>	<u>\$694,195</u>

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,		
	<u>1999</u>	<u>1998</u>	<u>1997</u>
(Loss) before (benefit) for income taxes and extraordinary item			
	<u>\$(359,698)</u>	<u>\$(210,440)</u>	<u>\$(70,030)</u>
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	<u>719</u>	<u>(2,171)</u>	<u>397</u>
Total (benefit) for income taxes	<u>\$(5,094)</u>	<u>\$(4,998)</u>	<u>\$(20,849)</u>

## 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.

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

Stock Options Outstanding				Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
1.50-6.50	116,628	7.4	\$3.89	104,001	\$3.24
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	\$15.18
19.26-29.81	701,273	7.2	\$24.62	68,573	\$23.82
29.82-49.13	<u>2,743,700</u>	<u>6.6</u>	<u>\$44.02</u>	-	-
	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:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
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 3% 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:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
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	-	-	-
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:

	<u>1999</u>		<u>1998</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
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	\$426,747	\$398,827	\$351,611
Senior Discount Notes 9.8%	\$420,591	\$371,317	\$382,216	\$306,180
Senior Discount Notes 11.0%	\$176,495	\$166,897	\$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)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1999				
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				
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)	\$(64,791)
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 Juniomet 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.

#### **10. 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 RCM 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.

by Timothy J. Stoklosa  
Timothy J. Stoklosa  
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 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.

PRICEWATERHOUSECOOPERS LLP

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania

March 8, 2000

**Form 10-Q**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 1999

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition periods from to  
Commission file number 0-22825

**RCN CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware 22-3498533  
(State of other jurisdiction of (IRS Employer  
incorporation or organization) Identification No.)

105 Carnegie Center  
Princeton, New Jersey 08540  
(Address of principal executive offices)  
(Zip Code)

(609) 734-3700  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year,  
if changed since last report)

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 requirement for the past 90 days.

**YES X NO**

Indicate the number of shares outstanding of each of the issuer's classes of common stock (\$1.00 par value), as of September 30, 1999.

Common Stock 76,324,222

RCN CORPORATION

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**PART I. FINANCIAL INFORMATION**  
**Item 1. Financial Statements**

**RCN CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Dollars in Thousands, Except Per Share Data)  
(Unaudited)

			Quarters Ended September 30,	Nine Months Ended September 30,
			1999	1998
			1999	1998
Sales	\$69,622	\$58,172	\$205,939	\$148,118
Costs and expenses, excluding depreciation and amortization	102,209	74,750	283,381	182,832
Depreciation and amortization	36,133	24,146	98,948	60,978
Nonrecurring acquisition costs: technology	-	-	-	18,295
Operating (loss)	(68,720)	(40,724)	(178,390)	(113,581)
Interest income	23,729	16,424	56,222	43,231
Interest expense	(44,822)	(31,157)	(112,285)	(80,811)
Gain on the sale of subsidiary	-	-	8,930	-
Other (expense), net	(941)	(1,299)	(467)	(1,942)
(Loss) before income taxes	(90,754)	(56,756)	(225,990)	(153,109)
(Benefit) for income taxes	(1,437)	(30)	(3,971)	(9,831)
(Loss) before equity in unconsolidated entities and minority interest	(89,317)	(56,726)	(222,019)	(143,386)
Equity in (loss) of unconsolidated entities	(10,198)	(2,193)	(20,714)	(8,169)
Minority interest in loss of consolidated entities	7,741	4,491	19,847	11,548
Net (loss) before extraordinary item	(91,774)	(54,430)	(222,886)	(140,010)
Extraordinary item: Debt prepayment costs	-	-	(424)	-
Net (loss)	(91,774)	(54,430)	(223,310)	(140,010)
Preferred stock dividends and accretion requirements	4,446	-	8,529	-
Net (loss) to common shareholders	<u>\$ (96,220)</u>	<u>\$ (54,430)</u>	<u>\$ (231,839)</u>	<u>\$ (140,010)</u>
Basic and Diluted (loss) per average common share:				
Net (loss) before extraordinary item	<u>\$ (1.26)</u>	<u>\$ (0.84)</u>	<u>\$ (3.28)</u>	<u>\$ (2.11)</u>
Extraordinary item: Debt prepayment costs	<u>\$-</u>	<u>\$-</u>	<u>\$ (0.01)</u>	<u>\$-</u>
Net (loss) to common shareholders	<u>\$ (1.26)</u>	<u>\$ (0.84)</u>	<u>\$ (3.29)</u>	<u>\$ (2.11)</u>
Weighted average shares outstanding	76,184,604	65,090,384	70,416,096	69,608,831

See accompanying notes to Condensed Consolidated Financial Statements.

**RCN CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Dollars in Thousands)

(Unaudited)

September 30,

December 31,

1999

1998

**ASSETS**

**Current assets:**

Cash and temporary cash investments	\$181,058	\$120,126
Short-term investments	1,411,445	892,448
Accounts receivable from related parties	8,185	6,919
Accounts receivable, net of reserve for doubtful accounts of \$11,217 at September 30, 1999 and \$5,766 at December 31, 1998	42,004	29,988
Material and supply inventory, at average cost	11,858	3,870
Prepayments and other	25,383	15,368
Deferred income taxes	793	712
Investments restricted for debt service	<u>23,589</u>	<u>23,437</u>

Total current assets 1,704,315 1,092,868

Property, plant and equipment, net of accumulated depreciation of \$266,658 at September 30, 1999 and \$153,304 at December 31, 1998	736,096	448,375
Investments restricted for debt service	10,531	19,869
Investments	192,886	129,529
Intangible assets, net of accumulated amortization of \$138,287 at September 30, 1999 and \$97,313 at December 31, 1998	151,741	169,718
Deferred charges and other assets	<u>58,710</u>	<u>47,256</u>

Total assets \$2,854,279 \$1,907,615

**LIABILITIES AND SHAREHOLDERS' EQUITY**

**Current liabilities:**

Current maturities of long-term debt and capital lease obligations	\$385	\$4,097
Accounts payable	66,081	65,623
Accounts payable to related parties	11,027	7,153
Advance billings and customer deposits	16,324	21,679
Accrued interest	17,346	5,267
Accrued telephony cost of sales	21,858	12,000
Accrued expenses	<u>59,511</u>	<u>62,250</u>

Total current liabilities 192,532 178,069

Long-term debt 1,743,186 1,263,036

Deferred income taxes - 3,281

Other deferred credits 23,070 14,667

Minority interest 128,829 77,116

**Commitments and contingencies**

Preferred stock, par value \$1 per share: Authorized 25,000,000 shares; Issued and outstanding 248,529 at September 30, 1999; Liquidation Preference \$1,000 per share 248,807 -

**Common shareholders' equity:**

Common stock, par value \$1 per share: Authorized 200,000,000 shares; Issued and outstanding 76,886,221 at September 30, 1999 and 65,477,493 December 31, 1998	76,886	65,477
Class B Common stock, par value \$1 per share: Authorized 400,000,000 shares:	-	-
Additional paid-in capital	914,447	539,770
Cumulative translation adjustments	(3,001)	(3,055)
Unrealized depreciation / appreciation on investments	(6,689)	1,113
Treasury stock, 562,000 shares at cost at September 30, 1999 and 557,000 shares at cost December 31, 1998	(9,391)	(9,301)
Deficit	<u>(454,397)</u>	<u>(222,558)</u>

Total common shareholders' equity 517,855 371,446

Total liabilities and shareholders' equity \$2,854,279 \$1,907,615

See accompanying notes to Condensed Consolidated Financial Statements.

**RCN CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Dollars in Thousands)  
(Unaudited)

Nine Months Ended  
September 30

	1999	1998
<b>NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES</b>	<u><b>\$(89,358)</b></u>	<u><b>\$28,046</b></u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property, plant & equipment	(339,726)	(175,657)
Investment in unconsolidated joint venture	(9,455)	(12,500)
Purchase of short-term investments	(2,402,867)	(387,804)
Sales and maturities of short-term investments	1,887,908	135,463
Acquisitions & other investments	(55,137)	(46,244)
Proceeds from the sale of subsidiary	23,711	-
Purchase of Preferred Stock of Intertainer, Inc	(1,500)	-
Other	(3,198)	8,729
<b>Net cash (used in) investing activities</b>	<u><b>(898,764)</b></u>	<u><b>(478,013)</b></u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of long-term debt	500,000	502,587
Redemption of long-term debt & capital lease obligation	(100,691)	(1,118)
Proceeds from the issuance of common stock	344,342	112,836
Proceeds from the issuance of preferred stock	239,897	-
Purchase of treasury stock	(90)	(4,449)
Payments made for debt financing costs	(31,781)	(9,851)
Contribution to minority interest partner	(122)	(108)
Contribution from minority interest partner	82,320	53,998
Interest paid on Senior Notes	11,250	11,125
Proceeds from the exercise of stock options	3,929	1,854
<b>Net cash provided by financing activities</b>	<u><b>1,049,054</b></u>	<u><b>666,874</b></u>
<b>Net increase in cash and temporary cash investments</b>	<u><b>60,932</b></u>	<u><b>216,907</b></u>
<b>Cash and temporary cash investments at beginning of year</b>	<u><b>120,126</b></u>	<u><b>222,910</b></u>
<b>Cash and temporary cash investments at September 30</b>	<u><b>\$181,058</b></u>	<u><b>\$439,817</b></u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the periods for:		
Interest (net of amounts capitalized)	<u><b>\$96,516</b></u>	<u><b>\$73,355</b></u>
Income taxes	<u><b>\$505</b></u>	<u><b>\$897</b></u>

See accompanying notes to Condensed Consolidated Financial Statements.

**RCN CORPORATION AND SUBSIDIARIES**  
**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

For the Nine Months Ended September 30, 1999

(Dollars in Thousands)

(Unaudited)

		Preferred	Common	Paid-in	Additional
			Stock	Stock	Deficit
				Capital	
Balance, December 31, 1998	-	65,477	539,770	(222,558)	
Net Loss 9/30/99				(231,839)	
Preferred stock offering	240,278				
Preferred stock dividend	8,529				
Common stock offering		9,200	335,142		
Stock options & warrants		1,781	21,285		
Common Stock issued in connection with acquisitions		420	18,043		
Purchase of treasury stock					
Unrealized depreciation on investments					
Cumulative translation adjustments					
Other		<u>8</u>	<u>207</u>		
Balance, September 30, 1999	<u>\$248,807</u>	<u>\$76,886</u>	<u>\$914,447</u>	<u>\$ (454,397)</u>	

See accompanying notes to Condensed Consolidated Financial Statements.



**RCN CORPORATION AND SUBSIDIARIES**  
**CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the Nine Months Ended September 30, 1999  
(Dollars in Thousands)  
(Unaudited)

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			Treasury Stock	Cumulative Translation Adjustment	Appreciation on Investments	Depreciation/ Shareholders' Equity	Total
Balance, December 31, 1998	(9,301)	(3,055)	1,113	371,446			
Net loss 9/30/99				(231,839)			
Preferred stock offering				240,278			
Preferred stock dividend				8,529			
Common stock offering				344,342			
Stock options & warrants				23,066			
Common Stock issued in connection with acquisitions				18,463			
Purchase of treasury stock	(90)			(90)			
Accumulated depreciation on investments			(7,802)	(7,802)			
Cumulative translation adjustments		54		54			
Other				215			
Balance, September 30, 1999	<u>\$(9,391)</u>	<u>\$(3,001)</u>	<u>\$(6,689)</u>	<u>\$766,662</u>			

See accompanying notes to Condensed Consolidated Financial Statements.

**RCN CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Thousands of Dollars, Except Per Share Amounts)

1. 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.

2. The Condensed Consolidated Financial Statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. However, in the opinion of the management of the Company, the Condensed Consolidated Financial Statements include all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial information. The Condensed Consolidated Financial Statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 1998.

3. 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 secure Mazon's indebtedness to the Company, which had a book value of \$18,373. As a result, the indebtedness was cancelled, and the Company currently owns a 48.96% equity interest in Megacable. The Company previously owned a 40% equity interest in Megacable. For the quarters ended September 30, 1999 and 1998, the Company recorded equity in the earnings of Megacable which consists of its proportionate share of income and amortization of excess cost over equity in net assets of \$(1,197) and \$(957), respectively. For the nine months ended September 30, 1999 and 1998, the Company recorded equity in the earnings of Megacable which consists of its proportionate share of income and amortization of excess cost over equity in net assets of \$(1,662) and \$(2,008), respectively.

Summarized information for the financial position and results of operations of Megacable, as of and for the nine months ended September 30, 1999 and 1998, is as follows:

	(In U.S. Dollars)		1999	1998
Assets	\$113,031	\$86,024		
Liabilities	26,985	10,756		
Shareholders' equity	86,046	75,268		
Sales	35,100	27,938		
Cost and expenses	25,364	19,684		
Foreign currency transaction losses	-	2,039		
Net income	\$8,306	\$7,240		

For the period October 1, 1996 through December 31, 1998, the Company considered Megacable to operate in a highly inflationary economy. 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 will be effected by the translation from the Mexican Peso. The Company's proportionate share of such adjustments were gains of \$54 for the nine month period ended September 30, 1999.

4. During the nine months ended September 30, 1999, approximately 2,747,571 options were granted, approximately 670,458 were exercised yielding cash proceeds of \$3,929 and approximately 796,498 options were canceled. At September 30, 1999, there are approximately 10,132,757 options outstanding at exercise prices ranging from \$1.30 to \$48.50 under RCN's 1997 Plan.

5. Basic earnings 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 earnings 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 quarter and nine months ended September 30, 1999 and have a dilutive effect if the Company had income from continuing operations is 11,989,675 and 9,308,844, respectively. The number of stock options which would have been assumed to be converted in the quarter and nine months ended September 30, 1998 and have a dilutive effect if the Company had income from continuing operations is 2,851,159 and 3,595,147, respectively.

			Quarter Ended September 30,		Nine Months Ended September 30,	
			1999	1998	1999	1998
Net (loss) from continuing operations	\$(96,220)	\$(54,430)	\$(231,413)	\$(140,010)		
Extraordinary item: Debt prepayment costs	-	-	(424)	-		
Net (loss) to common shareholders	\$(96,220)	\$(54,430)	\$(231,839)	\$(140,010)		
Basic earnings per average common share:						
Weighted average shares outstanding	76,184,604	65,090,284	70,416,096	59,905,854		
Loss from continuing operations	\$(1.26)	\$(0.84)	\$(3.28)	\$(2.34)		
Extraordinary item: Debt prepayment costs	\$-	\$-	\$(0.01)	\$-		
Net (loss) to common shareholders	\$(1.26)	\$(0.84)	\$(3.29)	\$(2.34)		
Diluted earnings per average common share:						
Weighted average shares outstanding	76,184,604	65,090,284	70,416,096	59,905,854		
Dilutive shares resulting from preferred stock and stock options	-	-	-	-		
Weighted average shares and common stock equivalents outstanding	76,184,604	65,090,284	70,416,096	59,905,854		
Loss from continuing operations	\$(1.26)	\$(0.84)	\$(3.28)	\$(2.34)		
Extraordinary item: Debt prepayment costs	\$-	\$-	\$(0.01)	\$-		
Net (loss) to common shareholders	\$(1.26)	\$(0.84)	\$(3.29)	\$(2.34)		

6. 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. The amount of other comprehensive loss for the quarter and the nine months ended September 30, 1999 was (\$93,974) and (\$231,058), respectively.

7. On April 7, 1999, Hicks, Muse, Tate & Furst, through Hicks, Muse, Tate & Furst Equity Fund IV, L.P., ("Hicks Muse Fund IV") purchased 250,000 shares of a new issue of RCN Series A 7% Senior Convertible Preferred Stock ("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 an 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 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 September 30, 1999 the Company paid dividends in the amount of \$8,329 in the form of additional shares of Series A Preferred Stock. At September 30, 1999, the number of common shares that would be issued upon conversion of the Series A Preferred Stock was 6,628,957. The Company incurred \$10,000 of issuance costs in connection with the sale of the Series A Preferred Stock.

8. On April 28, 1999, the Company acquired a 47.5% stake in JuniorNet Corporation, a commercial-free online learning service for children. The Company purchased the ownership stake for approximately \$47 million in cash. Concurrent with that transaction, JuniorNet purchased the Company's Lancit Media subsidiary ("Lancit") for approximately \$25 million in cash. The Company acquired Lancit in June 1998 for approximately \$0.4 million in cash and shares of its common stock with a fair value at the time of issuance of approximately \$7.4 million.

9. On May 27, 1999 the Company completed a public offering of 9,200,000 shares of RCN common stock, par value \$1 per share, with a price to the Public of \$39.00 per share. The net proceeds to the Company were approximately \$344,043 after deducting issuance costs.

10. 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") 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. At September 30, 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 September 30, 1999 approximately \$7,264 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, at which time any undrawn commitments expire. At September 30, 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 September 30, 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 option. For the 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 whether the Company's earnings before interest, income taxes, depreciation and amortization ("EBITDA") has become positive and thereafter upon the ratio of debt to EBITDA. 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, 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. In addition, the Borrowers are subject to a prohibition on granting pledges, as well as entering into certain other restrictive agreements, and subject to certain exemptions and reinvestment rights; the Borrowers must apply 50% of excess cash flow 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 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.

11) 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 discussed in Note 10. The early extinguishment of the previous term credit facility prompted the write off of the applicable unamortized debt issuance cost resulting in an extraordinary charge of approximately (\$424).

12) 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 shares of its common stock with a fair value at the time of issuance of approximately \$11,619.

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 shares of its common stock with a fair value at the time of issuance of approximately \$6,844.

Both of these transactions will be accounted for under the purchase method of accounting. The Company does not expect these acquisitions to have a material Proforma effect on its financial position or results of operations.

13) 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 Chase Facility to a fixed rate of approximately 6.08%. At September 30, 1999, the Company's reported interest expense was approximately \$259 higher due to these agreements.

14) 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 Registrant. 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.

Vulcan will generally be permitted to appoint two members to the Company's Board of Directors. 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.

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" for forward-looking statements. Certain information included in this Quarterly Report is forward-looking, such as information relating to expected capital expenditures, capital contributions to joint ventures by joint venture partners, and expected trends in operating losses and cash flows associated with investments in new markets. Such forward-looking information involves important risks and uncertainties that could significantly affect expected results in the future differently from those expressed in any forward-looking statements made by, or on behalf of, the Company. These risks and uncertainties 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, inventories and programming, the Company's ability to develop and penetrate existing and new markets, technological developments and changes in the competitive environment in which the Company operates.

The following discussion should be read in conjunction with the attached condensed consolidated financial statements and notes thereto, and with the Company's audited financial statements and notes thereto for the year ended December 31, 1998 included in the Company's Form 10-K.

#### 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 Company's 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 its 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."

## Results of Operations

### Three Months Ended September 30, 1999 Compared to Three Months Ended September 30, 1998

For the three months ended September 30, 1999, sales increased 19.7% to \$69,622 from \$58,172 for the same period in 1998. Operating loss before depreciation, and amortization was (\$32,587) as compared to (\$16,578) for the same period in 1998.

#### Sales

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. 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 advanced fiber customers, primarily in Lehigh Valley, New York City, Boston and Washington. Data sales represent Internet access fees billed at contracted rates. In June, the Company's management made the decision to reclassify sales to commercial customers into their respective voice, video and data components. Such sales had previously been recorded as commercial and other sales. Additionally, reciprocal compensation has been reclassified from voice sales to other sales.

Total sales increased \$11,450 or 19.7% to \$69,622 for the quarter ended September 30, 1999 from \$58,172 for the quarter ended September 30, 1998. The increase was fueled by higher average service connections which increased 19.5% to approximately 920,000 for the quarter ended September 30, 1999 (including connections of the Starpower joint venture) from approximately 770,000 for the quarter ended September 30, 1998. Total service connections increased 16.8% to approximately 944,000 at September 30, 1999 (including connections of the Starpower joint venture) from approximately 808,000 at September 30, 1998. The increase in average service connections resulted principally from growth in dial-up Internet connections and growth in average advanced fiber connections, which increased 219.3% from approximately 57,000 for the quarter ended September 30, 1998 to approximately 182,000 for the quarter ended September 30, 1999. Total advanced fiber connections increased 144.9% from approximately 83,000 at September 30, 1998 to approximately 195,000 at September 30, 1999. Advanced fiber units passed increased 157.5% to approximately 551,000 units at September 30, 1999 from approximately 214,000 units at September 30, 1998.

Voice sales increased \$3,349, or 34.5%, to \$13,068 for the quarter ended September 30, 1999 from \$9,719 for the quarter ended September 30, 1998. Increases in higher average connections contributed approximately \$4,600 of the increase and were offset by a decrease of approximately \$1,200 related to lower average revenue per connection as a result of lower revenue per minute of use. Average advanced fiber voice connections increased approximately 271.4% to approximately 52,000 for the quarter ended September 30, 1999 (including connections of the Starpower joint venture) from approximately 14,000 for the quarter ended September 30, 1998. Average off-net voice connections decreased approximately 5.5% to approximately 52,000 for the quarter ended September 30, 1999 from approximately 55,000 for the quarter ended September 30, 1998.

This decrease in average off-net voice connections results because during the fourth quarter of 1998, the Company ceased marketing resale of its competitors' local phone service to new customers. The Company believes that the effect of this decision will be lower revenue growth than would result if such resale continued; however, the Company also believes this decision will have a positive impact on the Company's overall gross margin percentage and a neutral effect on operating income (loss) before depreciation and amortization ("EBITDA").

Video sales increased \$2,680, or 9.3% to \$31,479 for the quarter ended September 30, 1999 from \$28,799 for the quarter ended September 30, 1998. The increase was primarily due to approximately 27,948 additional average video connections for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 1998. Average on-net video connections grew 74,000 or 180.5% to 115,000 for the quarter ended September 30, 1999 (including connections of the Starpower joint venture) from 41,000 for the quarter ended September 30, 1998. Average off-net video connections were approximately 211,000 and 165,000 for the quarters ended September 30, 1999 and 1998, respectively. Overall higher average service connections contributed approximately \$2,200 to the increase in video sales and higher average revenue per connection contributed the remainder.

Data sales increased \$3,869, or 29.1% to \$17,177 for the quarter ended September 30, 1999 from \$13,308 for the quarter ended September 30, 1998. The increase was primarily due to approximately 87,000 additional average data connections for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 1998. For the quarter ended September 30, 1999, the Company had approximately 521,000 average off-net data connections and approximately 15,000 average advanced fiber data connections, including connections of the Starpower joint venture. For the quarter ended September 30, 1998, the Company had approximately 447,000 average off-net data connections and approximately 2,000 average 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.

Other sales increased \$1,551, or 24.4% to \$7,897 for the quarter ended September 30, 1999 from \$6,346 for the quarter ended September 30, 1998. The increase was due primarily to higher reciprocal compensation. Reciprocal compensation is the fee local exchange carriers pay to terminate calls on each other's networks. Because of the uncertainty of various regulatory rulings which affect the collectibility of this revenue, the Company recognizes this revenue as it is realized.

The Company recognizes that managing customer turnover is an important factor in maximizing revenues and cash flow. For the three months ended September 30, 1999, the Company's average monthly churn rate was approximately 2.3%.

#### Costs and expenses, excluding depreciation and amortization

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

Direct expenses increased \$8,469, or 30.4% to \$36,344 for the quarter ended September 30, 1999 from \$27,875 for the quarter ended September 30, 1998. The increase is 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 \$18,990, or 40.5% to \$65,865 for the quarter ended September 30, 1999 from \$46,875 for the quarter ended September 30, 1998.



Customer service costs, including order processing, increased approximately \$324, or 3.7%, for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 1998. The increase is primarily personnel related to support the 19.5% increase in average connections over the end of the comparable period in 1998 and to increase the level of service.

Technical expense, including installation and provisioning, increased approximately \$5,766, or 65.2%, for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 1998. Technical expense increases of approximately \$8,300 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 utilities expense, primarily for material storage and hub sites, increased approximately \$1,700. These increases were partially offset by an increase of approximately \$3,400 in technical costs capitalized as part of the cost basis of the telecommunications network.

Sales and marketing costs increased approximately \$2,218, or 28.4%, for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 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 \$900 for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 1998. The increase is primarily related to costs incurred to begin to develop brand awareness in the California market.

General and administrative expenses increased approximately \$9,779, or 70.8%, for the quarter ended September 30, 1999 as compared to the quarter ended September 30, 1998. Information technology expenses increased approximately \$4,700. 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 the future periods until the planning and analysis stages of its IT systems development projects are complete.

Higher bad debt expense of approximately \$1,000 was associated with the increase in sales. Operating taxes, primarily property taxes, increased approximately \$500 as a result of expanded operations. Approximately \$4,300 of the increase in general and administrative expense is attributable to the acquisitions in 1998 of Erols, Ultramet, Interport Communications, Inc., Javanet, Inc. and Lancit Media. Rent expense increased approximately \$1,300 primarily related to additional space required to support the increase in headcount. The remaining increase primarily represents additional development and support expenses associated with expanding operations and new markets.

#### Depreciation and amortization

Depreciation and amortization is comprised principally of depreciation related to the Company's advanced fiber network, its wireless network, and its hybrid fiber/coaxial cable systems; and amortization of subscriber lists, building access rights and goodwill resulting primarily from its acquisitions in 1998.

Depreciation and amortization was \$36,133 for the three month period ending September 30, 1999 and \$24,146 for the three month period ending September 30, 1998. The increase of \$11,987, or 49.6% 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 September 30, 1999 and 1998 was \$942,754 and \$503,191, respectively. The basis of intangible assets was \$290,028 and \$297,763 at September 30, 1999 and 1998, respectively.

#### Interest income

Interest income was \$23,729 and \$16,424 for the three month periods ended September 30, 1999 and 1998, respectively. The increase of \$7,305, or 44.5%, results primarily 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 \$1,593,000 at September 30, 1999 and approximately \$1,108,000 at September 30, 1998. During 1999, proceeds from the following 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 \$239,979, (2) the issuance of 9,200,000 shares of the Company's common stock in May 1999, which yielded net proceeds of \$344,043 and (3) the \$500,000 from new borrowings, partially offset by the repayment of the Company's \$100,000 term loan (Note 11). These increases were partially offset principally by higher capital expenditures and higher working capital requirements.

#### Interest expense

For the quarter ended September 30, 1999, interest expense was \$44,822 as compared to \$31,157, for the quarter ended September 30, 1998. The increase of \$13,665 resulted primarily from higher interest and commitment fees of \$12,834 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%, the 9.8%, and the 11% senior discount notes issued in October 1997, February 1998 and June 1998, respectively, of \$2,536 and to higher amortization of debt issuance costs of approximately \$1,200.

#### Income tax

The Company's effective income tax rate was a benefit of 1.5% for the quarter ended September 30, 1999 and less than .1% for the quarter ended September 30, 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. 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.

#### Minority interest

For the third quarters of 1999 and 1998 minority interest of \$7,741 and \$4,491, 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 third quarter of 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 \$1,197, Starpower of \$2,816 and JuniorNet of \$6,185. For the third quarter of 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 \$957 and Starpower of \$1,238.

#### Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 1998

For the nine months ended September 30, 1999, sales increased 37.7% to \$203,939 from \$148,118 for the same period in 1998. Operating losses before depreciation, amortization and acquired in-process technology was \$(79,442) as compared to \$(34,514) for the same period in 1998.

#### Sales

Total sales increased \$55,821, or 37.7% to \$203,939 for the nine months ended September 30, 1999 from \$148,118 for the nine months ended September 30, 1998. The increase was fueled by higher average service connections which increased 40.8% to approximately 897,000 for the nine months ended September 30, 1999 (including connections of the Starpower joint venture) from approximately 637,000 for the nine months ended September 30, 1998. The increase in average service connections resulted principally from growth in dial-up Internet connections and growth in average advanced fiber connections, which increased 364.7% from approximately 34,000 for the nine months ended September 30, 1998 to approximately 158,000 for the nine months ended September 30, 1999. Total advanced fiber connections increased 134.9% from approximately 83,000 at September 30, 1998 to approximately 195,000 at September 30, 1999. Advanced fiber units passed increased 157.5% to approximately 551,000 units at September 30, 1999 from approximately 214,000 units at September 30, 1998.

Voice sales increased \$18,601, or 83.9%, to \$40,775 for the nine months ended September 30, 1999 from \$22,174 for the nine months ended September 30, 1998. Approximately \$17,400 of the increase in voice sales is attributable to higher average connections. Average advanced fiber voice connections increased approximately 450.0% to approximately 44,000 for the nine months ended September 30, 1999 (including connections of the Starpower joint venture) from approximately 8,000 for the nine months ended September 30, 1998. Average off-net voice connections increased approximately 28.9% to approximately 58,000 for the nine months ended September 30, 1999 from approximately 45,000 for the nine months ended September 30, 1998. The remaining increase in voice sales is principally attributable to higher revenue per connection.

Video sales increased \$9,450, or 11.3% to \$92,838 for the nine months ended September 30, 1999 from \$83,388 for the nine months ended September 30, 1998. The increase was primarily due to approximately 27,000 additional average video connections for the nine months ended September 30, 1999 as compared to the nine months ended September 30, 1998. Average on-net video connections grew 78,000 or 312.0% to approximately 103,000 for the nine months ended September 30, 1999 (including connections of the Starpower joint venture) from approximately 25,000 for the nine months ended September 30, 1998. Average off-net video connections were approximately 170,000 and 221,000 for the nine months ended September 30, 1999 and 1998, respectively. Overall higher service connections contributed approximately \$7,200 to the increase in video sales and higher average revenue per connection principally contributed the remainder.

Data sales increased \$23,991, or 164.0% to \$49,570 for the nine months ended September 30, 1999 from \$23,579 for the nine months ended September 30, 1998. The increase was primarily due to approximately 184,000 additional average data connections for the nine months ended September 30, 1999 as compared to the nine months ended September 30, 1998. Partially accounting for the increase in average data connections was the inclusion for a full nine months in 1999 of the subscribers acquired from Erols and UltraNet in late February 1998, from Interport in June of 1998 and from JavaNet in July 1998 (the "1998 Acquisitions").

For the nine months ended September 30, 1999, the Company had approximately 510,000 average off-net data connections and approximately 12,000 average advanced fiber data connections, including connections of the Starpower joint venture. For the nine months ended September 30, 1998, the Company had approximately 337,000 average off-net data connections and approximately 1,000 advanced fiber data connections, including connections of the Starpower joint venture.

Other sales increased \$3,778, or 22.3% to \$20,756 for the nine months ended September 30, 1999 from \$16,978 for the nine months ended September 30, 1998. The increase was due primarily to higher reciprocal compensation. Additionally, higher sales of Lancit, which was acquired in a later period of 1998 and sold in April 1999 (Note 8) contributed approximately \$1,000 to the increase.

The Company recognizes that managing customer turnover is an important factor in maximizing revenues and cash flow. For the nine months ended September 30, 1999, the Company's average monthly churn rate was approximately 2.2%.

Costs and expenses, excluding depreciation and amortization

Direct expenses increased \$35,491, or 50.6% to \$105,662 for the nine months ended September 30, 1999 from \$70,171 for the nine months ended September 30, 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 costs increased \$65,258, or 58.0% to \$177,719 for the nine months ended September 30, 1999 from \$112,461 for the nine months ended September 30, 1998.

Customer services costs, including order processing, increased approximately \$5,176, or 23.8%, for the nine months ended September 30, 1999 as compared to the nine months ended September 30, 1998. The increase is primarily personnel related to support the 40.8% increase in average connections over the comparable period in 1998 and to increase the level of service.

Technical expense, including installation and provisioning, increased approximately \$15,381, or 72.4%, for the nine months ended September 30, 1999 as compared to the nine months ended September 30, 1998. Technical expense increases of approximately \$20,500 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 \$4,300, partially offset by an increase of approximately \$8,000 in technical costs capitalized as part of the cost basis of the telecommunications network.

Sales and marketing costs increased approximately \$5,893, or 29.1%, for the nine months ended September 30, 1999 as compared to the nine months ended September 30, 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 \$1,700 for the nine months ended September 30, 1999 as compared to the nine months ended September 30, 1998. The increase is primarily related to costs incurred to begin to develop brand awareness in the California market.

General and administrative expenses increased approximately \$37,138, or 127.5%, for the nine months ended September 30, 1999 as compared to the nine months ended September 30, 1998. Information technology expenses increased approximately \$10,900. 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 the future periods until the planning and analysis stages of its IT systems development projects are complete.

Higher bad debt expense of approximately \$3,600 was associated with the increase in sales. Operating taxes, primarily property taxes, increased approximately \$1,500 as a result of expanded operations. External legal expense increased approximately \$2,100 primarily associated with the procurement of regulatory approvals for potential future markets. Approximately \$14,000 of the increase in general and administrative expense is attributable to the 1998 Acquisitions and the acquisition of Lancit Media, which were included for the full nine months in 1999. Rent and utility expense increased approximately \$3,000 primarily related to additional space required to support the increase in headcount. The remaining increase primarily represents additional development and support expenses associated with expanding operations and new markets.

#### Depreciation and amortization

Depreciation and amortization was \$98,948 for the nine month period ending September 30, 1999 and \$60,976 for the nine month period ending September 30, 1998. The increase of \$37,972, or 62.3% 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 September 30, 1999 and 1998 was \$942,754 and \$503,191, respectively. The basis of intangible assets was \$290,028 and \$297,763 at September 30, 1999 and 1998, respectively.

#### Non-recurring Acquisition Costs

Acquisition costs - In-process technology was \$18,293 for the six months ended June 30, 1998. In the allocation of purchase price associated with the acquisition of Erols and UltraNet, \$13,228 and \$5,065, 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 other 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 at the date of acquisition.

- 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 at the date of acquisition.

- E-Commerce Systems, consisting 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 at the date of acquisition.

-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 at the date of acquisition.

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.

#### Interest income

Interest income was \$56,222 and \$43,232 for the nine month periods ended September 30, 1999 and 1998, respectively. The increase of \$12,990, or 30.0%, 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 \$1,593,000 at September 30, 1999 and approximately \$1,108,000 at September 30, 1998. During 1999, proceeds from the following 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 \$239,979, (2) the issuance of 9,200,000 shares of the Company's common stock, in May 1999, which yielded net proceeds of approximately \$344,043 and (3) \$500,000 from new borrowings, partially offset by the repayment of the Company's \$100,000 term loan (Note 11). These increases were partially offset by higher capital expenditures and higher working capital requirements.

#### Interest expense

For the nine months ended September 30, 1999, interest expense was \$112,285 as compared to \$80,811 for the nine months ended September 30, 1998. The increase resulted primarily from higher interest and commitment fees of \$16,700 relating 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 \$18,365 and to higher amortization of debt issuance costs of approximately \$1,653. These increases were partially offset primarily by lower interest relating to the prepayment of the \$100,000 term loan (Note 11) and higher capitalized interest aggregating approximately \$3,459.

#### 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 1.8% and 6.6% for the nine months ended September 30, 1999 and September 30, 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.

#### Minority interest

For the nine months ended September 30, 1999 and 1998 minority interest of \$19,847 and \$11,545, 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 nine months ended September 30, 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 \$1,662, Starpower \$8,724 and JuniorNet of \$10,328. For the nine months ended September 30, 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 \$2,008 and Starpower of \$6,161.

#### Extraordinary Item - prepayment of debt

In June 1999, the Company prepaid a term loan with the proceeds of the Credit Facility (Note 11). 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).

#### 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, upgrading 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, 1999 through 2000 will be approximately \$1.8 billion, which include capital expenditures of approximately \$600 million in 1999 and approximately \$1 billion in 2000. 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 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 each expected to contribute approximately \$275 million, of which approximately \$208 million has been contributed, to the joint ventures through 2000 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 the Company, BECO had the right at the time of the distribution of RCN common stock in September 1997, and has the right every two years thereafter, to convert all or a portion of its ownership interest in the RCN-BECOCOM joint venture into RCN common stock pursuant to specific terms and conditions, including exercise periods, appraisal procedures and restrictions specifically set forth in the exchange agreement. BECO may exercise its conversion rights, in whole or in part, from time to time. The exchange agreement also grants customary registration rights to BECO with respect to shares of common stock issued upon exchange of its investment interest in RCN-BECOCOM. In February 1999, BECO converted a portion of its interest into 1,107,539 shares of RCN common stock pursuant to its rights under the exchange agreement. Capital contributions to the joint venture will continue to be made 49% by BECO and 51% by RCN unless BECO disposes of shares it receives on any conversion. On May 27, 1999, BECO exercised its right to convert BECO's remaining investment in RCN-BECOCOM, LLC as of that date to RCN common stock, less \$1.00. The number of our shares which BECO is entitled to receive on this additional conversion and the effect that the conversion will have on the current ownership interests of the parties in RCN-BECOCOM, LLC will be determined pursuant to an appraisal process which is currently in progress. Investments by BECO in RCN-BECOCOM, LLC following May 27, 1999 will not be subject to this conversion, but may be converted by BECO in the future pursuant to the exchange agreement. Thomas May, Chairman, President and Chief Executive Officer of BECO, was appointed as a director of RCN in September 1997.

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 approximately \$44,000 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. 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 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 9.8% Senior Discount Notes will mature on February 15, 2008. The 9.8% Senior Discount Notes will not bear cash interest prior to February 15, 2003. Thereafter, cash interest on the notes will accrue at 9.8% 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 5, 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 9.8% 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 9.8% 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, 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.

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 September 30, 1999 the Company paid dividends in the amount of \$8,529 in the form of additional shares of Series A Preferred Stock. At September 30, the number of common shares that would be issued upon conversion of the Series A Preferred Stock was 6,628,957. The Company incurred \$10,000 of issuance cost in connection with the sale of the Series A Preferred Stock.

On May 27, 1999 the Company completed a public offering of 9,200,000 shares of RCN common stock, par value \$1 per share, with a price to the Public of \$39.00 per share. The net proceeds to the Company were approximately \$344,043 after deducting issuance costs.

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 September 30, 1999 approximately \$7.264 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 September 30, 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 September 30, 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 whether the Company's EBITDA has become positive and thereafter upon the ratio of debt to EBITDA. 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, including financial covenants and covenants limiting debt, liens, investments, consolidations, merger, acquisitions, asset sales, sale and leaseback transactions, payments of dividends and other distributions, making of capital expenditures and transactions with affiliates. In addition, the Borrowers are subject to a prohibition on granting pledges, as well as entering into certain other restrictive agreements, and subject to certain exceptions and reinvestment rights; the Borrowers must apply 50% of excess cash flow for each fiscal year commencing with the fiscal year ending on December 31, 2002 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 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, 2001 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 September 30, 1999 the Company had an aggregate of approximately \$1,743,571 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 \$1,592,503 and a current ratio of approximately 8.85:1.

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.

For the nine months ended September 30, 1999, the Company's net cash used in operating activities was \$(89,358), comprised primarily of a net loss of \$(223,340) adjusted by non-cash depreciation and amortization of \$98,948, other non-cash items totaling \$74,279, working capital changes of \$(20,744). Net cash used in investing activities of \$(898,764) consisted primarily of purchases of short-term investments of \$2,402,867, additions to property, plant and equipment of \$339,726, acquisition costs of \$53,637, an investment in an unconsolidated joint venture of \$9,455 partially offset by sales and maturities of short-term investments of \$1,887,908 and the proceeds from the sale of a business segment of \$23,711. Net cash provided by financing activities of \$1,049,054 consisted primarily of proceeds from the issuance of common stock \$344,342, the issuance of preferred stock \$239,897, the issuance of long-term debt \$500,000, the contribution from minority interest partner of \$82,320, partially offset by a decrease in investments restricted for debt service of \$11,250, payments made for debt financing costs and capital lease obligations of \$31,781 and \$100,691 respectively.

## **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 (systems used in the management of the business) and non-information technology ("non-IT") systems (systems used to provide service to customers) which are subject to Year 2000 exposures and require remediation. The Company has established a Year 2000 Program Management Office ("PMO") 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 and, on a periodic basis, to a Year 2000 Steering Committee comprised of the Company's Chairman, President, Chief Financial Officer, Senior Vice President of IT, General Counsel and President of Network Technology. The PMO 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. The Company has renovated the current billing, operational support and customer service systems to be Year 2000 compliant.

The Company has completed most renovations critical to its IT systems. In addition, the Company has tested most of its critical business systems and expects to run thorough integration testing in mid-November, 1999. No IT projects have been deferred due to the Year 2000 remediation efforts.

The Company has completed the remediation and testing of all its mission critical cable systems. As a result of remediation and testing, we believe the Company's cable systems, including head-ends and set-top equipment, are Year 2000 compliant and meet applicable regulatory requirements.

The Company has also completed the remediation and testing of all its mission critical telephone systems. As a result of the remediation and testing, we believe that the Company's telephone systems, including telephone switches, are Year 2000 compliant and meet applicable regulatory requirements. The testing and remediation of the remainder of the non-critical telephone systems are expected to be completed during November.

The Company's Internet Systems are currently in the remediation phase. The compliance process has been slowed by recent acquisitions and ongoing consolidation efforts. Full compliance is anticipated by the end of November, 1999.

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 surveyed approximately 380 critical vendors to evaluate Year 2000 compliance. Despite these efforts, 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 will not have a material adverse effect on the Company's operations and financial condition.

## 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 \$4,500. This is comprised of approximately \$450 for salaries, approximately \$3,600 for consulting services which includes approximately \$800 for program code remediation, approximately \$230 for equipment replacement/rental and approximately \$240 in miscellaneous expenses. Through the end of September 1999, approximately \$2,103 has been incurred, of which approximately \$1,503 was incurred in the first six months of 1999. 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

The most reasonable likely risk of failure by the Company with respect to Year 2000 non-compliance would be an inability to provide service for the Company's customers and an inability on the part of the Company to timely process service request and bill its customers. As a result, while the Company believes its plan for Year 2000 remediation and testing is on schedule, the Company is unable to determine the impact that any system interruption in interconnected third party networks would have on the Company's business. However, the Company does not believe it is exposed to any significant Year 2000 risk with respect to its mission critical systems other than would be caused by substantial deviation from the plans and time frames set forth above. The Company is currently in the process of completing remediation and testing of other systems using the same five-step program as outlined above.

The Company acquired two new Internet subsidiaries in mid 1999. The Company expects to complete evaluation, remediation and testing of these new subsidiaries' systems before the end November 1999. RCN does not expect to find any major Year 2000 compliance issues. The possibility exists that remediation will not be complete before the year end transition. If problems arise that cannot be resolved before year-end, appropriate contingencies will be designed and implemented.

The facilities at the Interport internet subsidiary were determined to be inadequate for a Internet routing system. To better protect the Company's customers that are served by our Interport subsidiary the services provided are being consolidated into other facilities. The possibility exists that the consolidation process will not be completed by the end of the year. High priority services have been identified, and are being addressed first. If the consolidation is not complete by year-end, some low priority services may be unprotected against power outages.

Because the Interport and California subsidiaries are only a small portion of the Company's internet business, the potential non-compliance of these systems are not expected to have a material impact on the Company's operation.

There can be no assurance that the Company's Year 2000 readiness plan will progress as intended. The Company continues to refine its Year 2000 remediation efforts and the associated costs. The Company continues to develop and update its comprehensive contingency plan in the event of network, system or hardware failure and continues to monitor associated cost estimates.

The above discussion contains statements that are "forward-looking". The above information is based on the Company's current best estimates. Given the complexity of these issues and possible as yet unidentified risks, actual results may differ materially from those anticipated and discussed above. Specific factors that might cause such differences include, among others, the availability and cost of personnel trained in this area, the ability to locate and correct all affected computer codes, the timing and success of remedial efforts of our third party vendors and similar uncertainties. No assurance can be given that the third parties, on whom the Company depends for essential services (such as electric utilities, interexchange carriers, software and hardware equipment suppliers, etc.) will remediate their critical systems in a timely manner. Failure or delay by any of these parties could disrupt the Company's business.

### Item 3. Quantitative and 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 eight 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. 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 seek 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 13 to the unaudited financial statements included in Part I.



Part II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a.) Exhibits

(27) Financial Data Schedule

(99) Employee Stock Purchase Plan

(99) Equity Incentive Plan.

(b.) Reports on Form 8-K

On August 17, 1999, RCN filed a Current Report on Form 8-K describing the Senior Secured Credit Facility (the "Chase Facility") entered into between RCN Corporation and certain of its subsidiaries and with the Chase Manhattan Bank and certain other lenders. The collateralized facilities are comprised of a \$250,000,000 seven-year revolving credit facility (the "Revolver"), a \$250,000,000 seven-year multi-draw term loan facility (the "Term Loan A") and a \$500,000,000 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 "Chase Credit Agreement").

## SIGNATURES

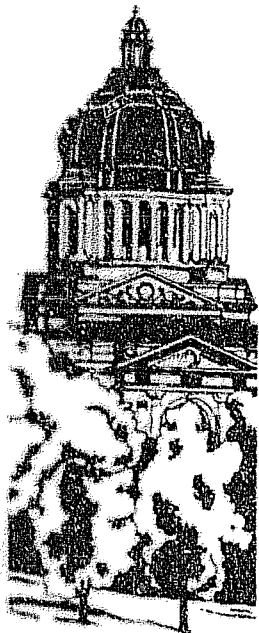
Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 15, 1999

RCN Corporation

/s/ Bruce C. Godfrey

Bruce C. Godfrey  
Executive Vice President and  
Chief Financial Officer



# South Dakota Public Utilities Commission



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VIA FAX: 202-424-7647

October 26, 2000

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Pam Nelson  
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Laska Schoenfelder  
Commissioner

William Bullard Jr.  
Executive Director

Harlan Best  
Martin C. Bettmann  
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Amy Kayser  
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Keith Senger  
Rolayne Ailts Wiest

RE: APPLICATION FOR CERTIFICATE OF AUTHORITY  
RCN Telecom Services, Inc.

Dear Mr. Donahue and Ms. Durand:

We received your Application for a Certificate of Authority to operate as interexchange telecommunications company in the state of South Dakota. Pursuant to SDCL 49-31-3, telecommunication companies shall submit a \$2 application fee when filing:

**SDCL 49-31-3.** Each telecommunications company that plans to offer or provide interexchange telecommunications service shall file an application for a certificate of authority with the commission pursuant to this section. Telecommunications companies seeking to provide any local exchange service shall submit an application for certification by the commission pursuant to §§ 49-31-1 through 49-31-89. Applications required by this section shall be filed by the company no less than sixty days before its initiation of telecommunications service in this state. The commission shall have the exclusive authority to grant a certificate of authority. Each telecommunications company shall submit a two hundred fifty dollar application fee with its application which shall be deposited into the gross receipts tax fund established pursuant to § 49-1A-2.

We cannot take any action on your application until we receive the applicable fee. Also, we require an original and ten copies for this type of filing. Please send nine more copies of the application. Thank you.

Sincerely,

*Delaine Kolbo*  
Delaine Kolbo

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

3000 K STREET, NW, SUITE 300

WASHINGTON, DC 20007-5116

TELEPHONE (202) 424-7500

FACSIMILE (202) 424-7645

JANINE L. DURAND  
DIRECT DIAL (202) 295-8365  
JDURAND@SWIDLAW.COM

NEW YORK OFFICE  
405 LEXINGTON AVENUE  
NEW YORK, NY 10174

October 27, 2000

RECEIVED

OCT 30 2000

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

**VIA OVERNIGHT MAIL**

Ms. Delaine Kolbo  
Legal Secretary  
South Dakota Public Utilities Commission  
State Capitol Building  
500 East Capitol Avenue  
Pierre, SD 57501

**Re: Application for Certificate of Authority RCN Telecom Services, Inc.**

Dear Ms. Kolbo:

Thank you for your letter of October 26, 2000. We are forwarding you an additional nine copies of the Application of RCN Telecom Services, Inc. to operate as an IXC company in South Dakota, as well as a \$250.00 application fee.

Thank you for your assistance and please contact me or Michael Donahue if you require anything further.

Very truly yours,

  
Janine L. Durand

Enclosure

cc: Michael P. Donahue, Esq.

REF. #	INV. #	DATE	INVOICE AMOUNT	INVOICE DESCRIPTION	AMOUNT PAID
129940	ST102700	10-27-00	250.00		250.00
TC00-175					
CUSTOMER NO.					

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP  
3000 K STREET, N.W. SUITE 300  
WASHINGTON, DC 20007

CHECK DATE  
10/27/00

CHECK NO. D 125798


Citibank DC Operating  
1775 Pennsylvania Avenue, NW  
Suite 440  
Washington, DC 20005

CHECK AMOUNT  
250.00\*\*\*\*\*

TWO HUNDRED FIFTY AND 00/100 Dollars

PAY  
TO THE  
ORDER OF

South Dakota Public Utilities Commission

TWO SIGNATURES REQUIRED ON CHECK  
OVER \$10,000.00  
  
OPERATING ACCOUNT

**South Dakota Public Utilities Commission**

**WEEKLY FILINGS**

**For the Period of October 26, 2000 through November 1, 2000**

If you need a complete copy of a filing faxed, overnight expressed, or mailed to you, please contact Delaine Kolbo within five business days of this filing.

Phone: 605-773-3705 Fax: 605-773-3809

**ELECTRIC**

**EL00-031 In the Matter of the Joint Request for Electric Service Territory Exception between Sioux Valley-Southwestern Electric Cooperative, Inc. and the City of Brookings, South Dakota.**

On October 30, 2000, the Commission received a joint request for electric service territory exception between The City of Brookings and Sioux Valley- Southwestern Electric Cooperative. The agreement between the two parties seeks an exception to the existing electric service territorial agreement to permit The City of Brookings to provide electric service to the Kathy Monnier residence in the Southwest quarter of Section 18, Township 110 North, Range 49 West.

Staff Analyst: Keith Senger

Staff Attorney: Kelly Frazier

Date Docketed: 10/30/00

Intervention Deadline: 11/17/00

**TELECOMMUNICATIONS**

**TC00-175 In the Matter of the Application of RCN Telecom Services, Inc. for a Certificate of Authority to Provide Telecommunications Services in South Dakota.**

RCN Telecom Services, Inc. (RCN TS) is seeking a Certificate of Authority to provide interexchange telecommunications services on a statewide basis. RCN TS in conjunction with RCN Long Distance Company (RCN LD) is requesting: 1) authority to merge RCN LD with and into RCN TS and to assign RCN LD's customers and operations to RCN TS, (2) cancellation of RCN LD's Certificate of Authority, and (3) issuance to RCN TS of a Certificate of Authority identical to those currently held by RCN LD. RCN TS will provide identical services, rates, terms, and conditions as are currently offered by RCN LD

Staff Analyst: Heather Forney

Staff Attorney: Kelly Frazier

Date Docketed: 10/30/00

Intervention Deadline: 11/17/00

You may receive this listing and other PUC publications via our website or via internet e-mail. You may subscribe or unsubscribe to the PUC mailing lists at <http://www.state.sd.us/puc/>

7600-17  
ORIGINAL

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

THE WASHINGTON HARBOUR  
3000 K STREET, NW, SUITE 300  
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TELEPHONE (202) 424-7500  
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WWW.SWIDLAW.COM

NEW YORK OFFICE  
405 LEXINGTON AVENUE  
NEW YORK, NY 10174  
(212) 971-0111 FAX (212) 971-9595

November 28, 2000

**VIA OVERNIGHT DELIVERY**

Heather K. Forney  
Utility Analyst  
South Dakota Public Utilities Commission  
500 E. Capitol Avenue  
State Capitol Building  
Pierre, SD 57501

**Re: Petition for Approval of Pro Forma Corporate Restructuring of RCN Telecom Services, Inc., RCN Telecom Holding Company, and RCN Long Distance Company**

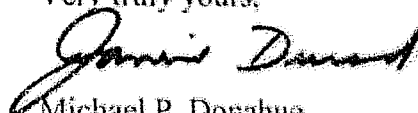
Dear Ms. Forney:

On behalf of RCN Telecom Services Inc. ("RCN TS"), enclosed for filing is an original and ten (10) copies of the above-referenced Petition for Approval of the *Pro Forma Corporate Restructuring*.

The enclosed materials are in response to the request received from the South Dakota Public Utilities Commission, to RCN TS on November 3, 2000. Specifically, RCN TS is filing its request for approval of the pro forma corporate restructuring of RCN TS, RCN Telecom Holding Company, and RCN Long Distance Company.

Please date-stamp the enclosed extra copy of this filing and return it in the attached self-address, stamped envelop. Should you have any questions with respect to this matter, please do not hesitate to contact the undersigned at (202) 424-7500.

Very truly yours,



Michael P. Donahue  
Janine L. Durand

Counsel for RCN Telecom Services, Inc.

Enclosures

RECEIVED

NOV 29 2000

358585.1

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION

Before the  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

<hr/>		
Petition of	)	
	)	
RCN TELECOM SERVICES, INC., (PA)	)	
d/b/a RCN Telecom Services of South Dakota, Inc.	)	
	)	Docket No.
For Authority to Merge, Cancel and Reissue	)	
Certificate of Service Authority as Part of a	)	
<i>Pro Forma</i> Corporate Restructuring and for	)	
Authority to Provide Interexchange	)	
Telecommunications Services	)	
<hr/>	)	

**PETITION FOR AUTHORITY TO MERGE, CANCEL AND  
REISSUE CERTIFICATE OF SERVICE AUTHORITY AS PART OF  
A *PRO FORMA* CORPORATE RESTRUCTURING AND FOR  
AUTHORITY TO PROVIDE INTEREXCHANGE  
TELECOMMUNICATIONS SERVICES**

RCN Telecom Services, Inc., (PA) d/b/a RCN Telecom Services of South Dakota, Inc. ("RCN TS"), and RCN Long Distance Company ("RCN LD") (collectively, the "Petitioners"), by their undersigned attorneys and pursuant to Sections 49-31-3, and 20:10:24:02 and 20:10:24:04:01 of the South Dakota Code of Law and the rules and regulations of the South Dakota Public Utilities Commission ("Commission"), respectfully request: (1) authority to merge RCN LD with and into RCN TS and to assign RCN LD's customers and operations to RCN TS, (2) cancellation of RCN LD's Certificates of Service Authority, and (3) issuance to RCN TS of Certificates of Service Authority identical to those currently held by RCN LD. As part of this *pro forma* corporate restructuring, RCN LD, along with certain other affiliated RCN subsidiaries operating in other states will be merged with and into RCN TS. As a result of the restructuring, RCN LD will cease to exist and RCN TS will assume RCN LD's customers and operations. As described below, the



restructuring will not change the ultimate ownership or control of RCN LD's operations in South Dakota.

In support of their Petition, the Petitioners provide the following information:

**1) The name, address, and telephone of the applicant:**

RCN Corporation is headquartered at 105 Carnegie Center, Princeton, New Jersey 08540

Phone: (609) 734-3700

**2) The name under which the applicant will provide these services if different than in subdivision (1) of this section.**

RCN Corporation is the ultimate corporate parent of the RCN subsidiaries, including the Petitioners. The applicant will provide services as RCN Telecom Services Inc.

**3) If the applicant is a corporation:**

RCN Corporation is a publicly held Delaware corporation.

**a) The state in which it is incorporated: Delaware**

**Date of incorporation.**

RCN TS's legal name is RCN Telecom Services, Inc. RCN TS was incorporated on June 30, 1987 in the Commonwealth of Pennsylvania as Commonwealth Cable Systems of Pennsylvania, Inc., which was later renamed RCN Telecom Services of Pennsylvania, Inc. and in September 1999 was renamed RCN TS. RCN TS's address of its principal place of business and phone number are set forth above.

**Copy of authority to transact business in South Dakota.**

Please see attachment A.

**b) Location of principal office, if any, in this state and the name and address of the current registered agent:**

At this time RCN TS does not maintain a principal office in South Dakota. The name and address of the current registered agent is:

Trudy M. Longnecker  
Tariff & Compliance Manager  
RCN Corporation  
105 Carnegie Center  
Princeton, NJ 08540

**c) Name and address of each corporation, association, partnership, cooperative, or individual holding a 20% or greater ownership or management interest in the applicant corporation and the amount and character of the ownership or management interest:**

Pursuant to ARSD 20:10:24:02(15) RCN TS respectfully request a waiver of the requirement to provide this information. This information is not publically available at this time.

**4) If the applicant is a partnership, the name, title, and business address of each partner, both general and limited.**

RCN TS is not a partnership.

**5) A description of the telecommunications services the applicant intends to offer.**

In the state of South Dakota, RCN LD is authorized to provide intrastate interexchange services.<sup>1</sup>

---

<sup>1/</sup> See *Commonwealth Long Distance Company Application for a certificate of interexchange service authority to operate as a reseller of telecommunication services within the State of Illinois*, Order, Docket 94-0496 (Feb. 8, 1995). On March 7, 1997, Commonwealth Long Distance Company submitted a letter advising the Commission of a corporate reorganization in which its name was changed to RCN Long Distance Company. The Commission acknowledged receipt of this

**6) A detailed statement of the means by which the applicant will provide its services.**

RCN TS 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. RCN TS intends to expand the services provided to customers through strategic alliances and opportunistic development of complementary products. In addition, RCN TS intends to use the excess capacity in its fiber optic networks to provide services to commercial customers.

**7) The geographic areas in which the services will be offered or a map describing the service area.**

RCN TS intends to provide telecommunications services throughout the state of South Dakota.

**8) Current financial statements of the applicant including a balance sheet, income statement, and cash flow statement; a copy of the applicant's latest annual report; a copy of the applicant's report to stockholders; and a copy of applicant's tariff with the terms and conditions of service.**

RCN TS has the financial resources necessary to provide high quality service to South Dakota consumers. RCN TS's direct parent corporation, RCN Corporation is a publicly traded and widely-held corporation. As a direct subsidiary, RCN TS will have access to the substantial resources of its parent. Moreover, the proposed corporate structure is expected to provide the RCN Corporation subsidiaries, including RCN TS, even greater access to working capital and allow RCN

---

notification on April 2, 1997.

TS to realize marketing and administrative efficiencies. Thus, RCN TS has access to the financing and capital necessary to conduct its telecommunications operations and to meet the current and future capital needs of RCN TS's South Dakota operations.

Applicant does not currently prepare financial statements and annual reports for public distribution. Therefore, Applicant respectfully requests a waiver of these requirements pursuant to ARSD 20:10:24:02(15).

**9) The names, addresses, telephone number, fax number, E-mail address, and toll free number of the applicant's representatives to whom all inquiries must be made regarding complaints and regulatory matters and a description of how the applicant handles customer billings and customer service matters.**

Customer complaint resolution and consumer issues will be managed by:

Margarita Leahy  
RCN Corporation  
105 Carnegie Center  
Princeton, NJ 08540  
Phone: (609) 734-3700  
Fax: (609) 734-3784  
Email: [mleahy@rcn.net](mailto:mleahy@rcn.net)

Detailed information concerning RCN TS's service offerings and handling of customer complaint and inquiries is provided to the Commission in RCN TS's tariff. RCN TS will respond to all customer billings and customer service matters expediently. RCN TS is committed to providing all customers excellent and reliable services.

**10) A list of the states in which the applicant is registered or certified to provide telecommunications services, whether the applicant has ever been denied registration or certification in any state and the reasons for any such denial, a statement as to whether or not**

the applicant is in good standing with the appropriate regulatory agency in the states where it is registered or certified, and a detailed explanation of why the applicant is not in good standing in a given state, if applicable.

RCN TS is certificated or otherwise authorized to provide local exchange and/or long distance services in every state but Alaska and Hawaii. RCN TS is in good standing in all these states and no complaints have been filed against RCN TS in any states nor with any federal regulatory commission regarding the unauthorized switching of a customer's service.

**11) A description of how the applicant intends to market its services, its target market, whether the applicant engages in any multilevel marketing, and copies of any company brochures used to assist in the sale of services.**

RCN Corporation and its operating subsidiaries are in the process of building high-speed, high-capacity advanced fiber optic networks to provide a package of services, including local and long distance telephone, video programming and data services to residential and business customers.

**12) Cost support for rates shown in the company's tariff for all noncompetitive or emerging competitive services.**

Applicant's tariff, revised to reflect RCN telecom Services, Inc. as the operating entity, is attached as Exhibit B. As the tariff contains the identical services, rates, terms, and conditions of service as those originally submitted by RCN LD in South Dakota which the Commission already approved, it is unnecessary to complete a cost study to demonstrate the reasonableness and sufficiency of these rates and charges.

**13) Federal tax identification number.**

RCN TS's Federal Tax identification number is 23-2472885.

**14) The number of complaints filed against the applicant with any state or federal regulatory commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered.**

RCN TS is in good standing in all the states in which they are authorized to provide telecommunications services and no complaints have been filed against RCN TS in any states nor with any federal regulatory commission regarding the unauthorized switching of a customer's service.

**15) A written request for waiver of those rules the applicant believes to be inapplicable.**

RCN TS will continue to maintain its accounting records in accordance with Generally Accepted Accounting Principles ("GAAP"), in sufficient detail to comply with applicable tax laws. RCN TS respectfully requests the same waivers that were previously granted by the Commission in RCN LD's initial application.

**16) Other information requested by the Commission needed to demonstrate that the applicant has sufficient technical, financial, and managerial capabilities to provide the interexchange services it intends to offer consistent with the requirements of this chapter and other applicable rules and laws.**

RCN Corporation has determined that the proposed corporate restructuring will promote operational and administrative efficiencies for the RCN companies. The restructuring will enable the Company to reduce its administrative and operating expenses and realize operational and management efficiencies and other corporate benefits. These efficiencies will enable the Company to more effectively compete in the telecommunications market to the ultimate benefit of consumers

in South Dakota. The restructuring will be made in a seamless fashion that will not adversely affect the provision of telecommunications services in South Dakota, but will, in fact, increase the financial strength of the entity which is providing service in South Dakota. The restructuring is simply a paper transaction that will be transparent to consumers and will not in any way inconvenience or cause harm to RCN LD's customers.

Respectfully submitted,

By:



Michael P. Donahue

Janine L. Durand

Swidler Berlin Shereff Friedman, LLP

3000 K Street, N.W., Suite 300

Washington, D.C. 20007

Phone: (202)424-7500

Fax: (202) 424-7645

Counsel for RCN Telecom Services, Inc. (PA)

d/b/a RCN Telecom Services of South Dakota, Inc.

Dated: November 28, 2000

## ATTACHMENTS

Attachment A	Certificate of Authority to Transact Business in South Dakota
Attachment B	Tariff



**ATTACHMENT A**

**Certificate of Authority to Transact Business in South Dakota**

# Secretary of State

State Capitol, Ste 204  
500 East Capitol Avenue  
Pierre, South Dakota  
57501-5070  
sdsos@state.sd.us



JOYCE HAZELTINE

Secretary of State

TOM LEGKEY  
Deputy

**To:** C T CORPORATION SYSTEM  
ANN J WILLIAMS  
1635 MARKET ST  
PHILADELPHIA PA 19103

**From:** Secretary of State Joyce Hazeltine  
Corporations Division

**Date:** April 17, 2000

**Re:** RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH DAKOTA, INC.  
Foreign Certificate of Authority

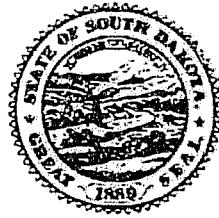
The application for certificate of authority has been received and filed for the RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH DAKOTA, INC..

Enclosed is the Certificate attached to the duplicate application along with a receipt for the filing fee of \$90 + \$10 expedited for 1,000 common shares at \$1.

SDCL: 47-9-3 requires the filing of a corporate annual report with our office between the anniversary date of qualification and prior to the first day of the second month following. The report is due the year following qualification. An annual report form will be mailed to the corporate address listed in number five on the application for timely filing. Please contact our office if the corporate address changes or if the form is not received.

Thank you.

# State of South Dakota



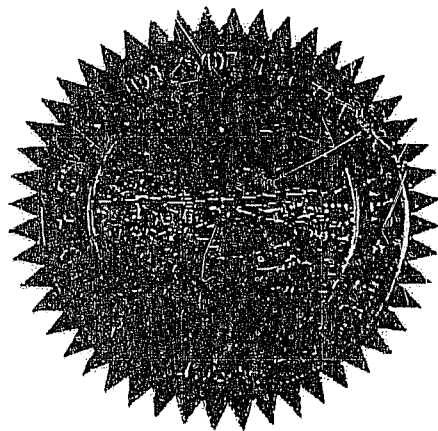
## OFFICE OF THE SECRETARY OF STATE

### Certificate of Authority

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH DAKOTA, INC. to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this April 17, 2000.



Joyce Hazeltine  
Secretary of State

SECRETARY OF STATE  
STATE CAPITOL  
500 E. CAPITOL  
PIERRE, S.D. 57501-5077  
605-773-4845  
FAX (605) 773-4550

FILE NO. \_\_\_\_\_  
RECEIPT NO. \_\_\_\_\_

## APPLICATION FOR CERTIFICATE OF AUTHORITY

RECEIVED

S.D. SEC. OF STATE

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

(1) The name of the corporation is RCN Telecom Services, Inc.

(Exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is

RCN Telecom Services of South Dakota, Inc.

(3) State where incorporated Pennsylvania Federal Taxpayer ID# 23-2472885

(4) The date of its incorporation is June 30, 1987 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is

1525 Valley Center Parkway, Bethlehem, Pennsylvania Zip Code 18018

mailing address if different from above is: 105 Carnegie Center, Princeton, New Jersey

Zip Code 08540

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 119 S. Coteau Zip 57501  
and the name of its proposed registered agent, in the State of South Dakota at that address is

C T Corporation System

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose) Provision of communication services.

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
See attached list of directors and					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>1,000</u>	<u>Common</u>	<u>(No series)</u>	<u>\$1.00</u>

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>1,000</u>	<u>Common</u>	<u>(No series)</u>	<u>\$1.00</u>

(11) The amount of its stated capital is \$1,000.00

Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS, TRUE AND CORRECT.

Dated April 10, 2000

[Signature]  
(Signature) John D. Filipowicz

Senior Vice President  
(Title)

State of New Jersey  
County of Mercer

On this 10<sup>th</sup> day of April, 2000, before me DAVID F. KUNZ  
personally appeared John D. Filipowicz known to me, or proved to me, to be  
the Senior Vice President of the corporation that is described in and that executed the  
within instrument and acknowledged to me that such corporation executed same

My Commission Expires: 10/24/04

[Signature]  
(Notary Public)

Notarial Seal

\*\*\*\*\*

DAVID F. KUNZ  
NOTARY PUBLIC OF NEW JERSEY  
MY COMMISSION EXPIRES OCT 24, 2004

The Consent of Appointment below must be signed by the registered agent listed in number six

## CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, C T Corporation System, hereby give my consent to serve as the  
(name of registered agent)

registered agent for RCN Telecom Services, Inc.  
(corporate name)

C T CORPORATION SYSTEM  
By DAVID F. KUNZ DAVID F. KUNZ

RCN Telecom Services, Inc.

Sole Director:

David C. McCourt - 179 Stoney Brook Road  
Hopewell, NJ 08525

Officers:

Michael A. Adams - President & Chief Operating Officer  
647A Summer Street  
Boston, MA 02210

John D. Filipowicz - Senior Vice President, Assistant General Counsel and  
Assistant Secretary  
1189 Longmeadow Lane  
Yardley, PA 19067

John J. Jones - Executive Vice President, General Counsel & Corporate  
Secretary  
120 Acadia Court  
Princeton, NJ 08540

Timothy J. Stoklosa - Senior Vice President & Treasurer  
334 Burgundy Lane  
Newtown, PA 18940

The business address for all of the Directors and Officers is: 105 Carnegie Center,  
Princeton, New Jersey 08540.

RESOLUTION OF FOREIGN CORPORATION  
ADOPTING AN ASSUMED NAME

I, John D. Filipowicz, certify that I am the Senior Vice President of RCN Telecom Services, Inc., a corporation organized under the laws of the state of Pennsylvania, and that the following is a true and correct copy of a resolution duly adopted at a meeting of the board of directors of the corporation on the 10<sup>th</sup> day of April, 2000.

John D. Filipowicz  
John D. Filipowicz, Senior Vice President

RESOLVED, that the corporation adopts the name RCN Telecom Services of South Dakota, Inc. under which it shall operate in South Dakota because its corporate name is not available for use in South Dakota, that the secretary is authorized to certify a copy of this resolution and is directed to deliver the copy of the resolution to the secretary of state of South Dakota for filing.

## **ATTACHMENT B**

### **Tariff**



**RCN TELECOM SERVICES, INC.**

<u>Competitive Telecommunication Services:</u>	<u>Page Reference:</u>
Residential Services	24 thru 25
Commercial Services	26 thru 28
Traditional and Alternative Operator Services	28

Issued under authority of order of the South Dakota Public Utilities Commission.

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of service and facilities for telecommunications services within the State of South Dakota by RCN Telecom Services, Inc. This tariff is on file with the South Dakota Public Utilities Commission, and copies may also be inspected, during normal business hours, at the following location: 105 Carnegie Center, Princeton, New Jersey 08540.

Issued: November 27, 2000

Effective: December 1, 2000

By: Joseph O. Kahl  
Director of Regulatory Affairs  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, New Jersey 08540

CHECK SHEET

Sheets 1 through 28 inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets are named below and comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

<u>SHEET</u>	<u>REVISION</u>	<u>SHEET</u>	<u>REVISION</u>
1	original	15	original
2	original	16	original
3	original	17	original
4	original	18	original
5	original	19	original
6	original	20	original
7	original	21	original
8	original	22	original
9	original	23	original
10	original	24	original
11	original	25	original
12	original	26	original
13	original	27	original
14	original	28	original

Issued: November 27, 2000

By: Joseph O. Kalil  
Director of Regulatory Affairs  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, New Jersey 08540

Effective: December 1, 2000

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### EXPLANATION OF SYMBOLS

- (C) To signify **changed** regulation
- (D) Delete or **discontinue**
- (I) Change resulting in an **increase** to a Customer's bill
- (M) **Moved** from another tariff location
- (N) **New**
- (R) Change resulting in a **reduction** to a Customer's bill
- (T) Change in **text** but no change in rate or charge

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### TARIFF FORMAT

- A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.
- B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.
- C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
  - 2.1.
  - 2.1.1.
  - 2.1.1.A.
  - 2.1.1.A.1.
  - 2.1.1.A.1.(a).
  - 2.1.1.A.1.(a).I.
  - 2.1.1.A.1.(a).I.(i).
  - 2.1.1.A.1.(a).I.(i).(1).

- D. Check Sheets - When a tariff filing is made with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the sheet contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Commission.

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## SECTION 1 - APPLICATION OF TARIFF

- 1.1. This tariff contains the rates applicable to the provision of intrastate interexchange resale telecommunications services by RCN Telecom Services, Inc. (RCN) between various locations in all counties within the State of South Dakota. Service is furnished subject to transmission, atmospheric and like conditions.
- 1.2. The telecommunications services of the Company are not part of a joint undertaking with any other entity providing telecommunications channels, facilities or services. However, services offered under this tariff are conditioned upon the continued availability of various services provided to the Company by its underlying carriers.
- 1.3. The rates and regulations contained in this tariff do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of the Company.

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## SECTION 2 - TECHNICAL TERMS AND ABBREVIATIONS

### Authorization Code:

A numerical code, one or more of which may be assigned to a Customer to enable identification of individual users or groups of users on an account and to allocate costs of service accordingly. Authorization Codes are the sole property of the Company, and no Customer shall have any property or other right or interest in the use of any particular Authorization Code.

### Automatic Numbering Identification (ANI):

A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

### Billed Party:

The person or entity responsible for payment of the Company's service. The Billed Party is the Customer associated with the Authorization Code used to place the call, with the following exceptions:

- (a) In the case of a calling card or credit card call, the Billed Party is the party assigned the Authorization Code for the calling card or credit card used by the Users; and
- (b) In the case of a collect or third party call, the Billed Party is the person responsible for the local telephone service at the telephone number that agrees to accept charges for the call.

### Called Station:

The terminating point of a call.

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**Calling Card:**

A card issued by Company containing such account numbers assigned to its Customer which enables the charges for calls made to be properly billed on a pre-arranged basis.

**Calling Station:**

The originating point of a call.

**Company:**

RCN Telecom Services, Inc. (RCN).

**Commission:**

The South Dakota Public Utilities Commission.

**Customer:**

The person, firm, corporation or other entity which orders or uses service and is responsible for payment of charges and compliance with tariff regulations.

**Customer Dialed Calling Card Call:**

A Calling Card Call which does not require intervention by an attended operator position to complete.

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**Telecommunications:**

The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or any other form of intelligence.

**User:**

A Customer, or any person or entity which makes use of services provided to a Customer under this tariff.

**Verified Account Code:**

A numerical code, one or more of which are available to a Customer to enable identification of individual users or groups of users on an account and to allocate costs of service accordingly. Account codes are verified against a predefined list of codes maintained by the Company.

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### SECTION 3 - TERMS AND CONDITIONS

#### 3.1. UNDERTAKING OF RCN TELECOM SERVICES, INC.

- 3.1.1. The Company undertakes to provide telecommunications services to Customers for their lawful direct transmission and reception of voice, data, and other types of communications in accordance with the terms and conditions set forth in this tariff.
- 3.1.2. All service is subject to the availability of necessary and suitable facilities and to the provisions of this tariff. The Company or its designee may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities, when authorized by the Customer, to allow connection of a Customer's location to a service provided by the Company. The Customer shall be responsible for all charges due for such service arrangement.
- 3.1.3. The Company's services are provided on a monthly basis unless otherwise provided, and are available twenty-four (24) hours per day, seven (7) days per week.
- 3.1.4. For additional cost, and subject to availability, the Customer may use Authorization Codes to identify the users or user groups on an account. The numerical composition of the codes shall be set by Company to assure compatibility with the Company's accounting and billing systems and to avoid the duplication of codes.
- 3.1.5. The Company shall not be responsible for any installation, operation or maintenance of any Customer-provided communications equipment. Where such equipment is connected to service furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of services under this tariff and to the maintenance and operation of such services in the proper manner.

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- 3.1.6. Customer-provided station equipment at the Customer's premises for use in connection with this service shall be so constructed, maintained and operated as to work satisfactorily with the facilities of the Company. The Company assumes no liability with respect to the operation or maintenance of such equipment.

### 3.2. LIMITATIONS

- 3.2.1. Company reserves the right to disconnect service immediately without incurring liability when necessitated by conditions beyond the Company's control or when the Customer is using the service in violation of either the provisions of this tariff or the laws, rules, regulations, or policies of the jurisdiction of the Calling Station or the Called Station, or the laws of the United States including rules, regulations and policies of the Federal Communications Commission.
- 3.2.2. The Company does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission or for failure to establish connections.
- 3.2.3. Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service.

### 3.3. USE

- 3.3.1. Services may be used for the lawful transmission of communications by the Customer consistent with the provisions of this tariff.
- 3.3.2. Service may not be used for any unlawful purpose. The use of the Company's services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

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- 3.3.3. The use of the Company's services without payment for service, as well as any attempt to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards, is prohibited.
- 3.3.4. The Company's services are available for use twenty-four (24) hours per day, seven (7) days per week.
- 3.3.5. Customers of service provided under this tariff may authorize or permit others to use these services, and may resell or share such services subject to the regulations contained in this tariff. The Customer remains responsible to the Company for payment of all charges for services used by others pursuant to this paragraph, with or without the Customer's knowledge, and is responsible for notifying the Company immediately of any unauthorized use of services.

#### **3.4. LIABILITIES OF THE COMPANY**

- 3.4.1. Except as stated in this Section 3.4, the Company shall have no liability for damages of any kind arising out of or related to events, acts, rights or privileges contemplated in this tariff.
- 3.4.2. The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to acts of God, fires, flood or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; or other labor difficulties.
- 3.4.3. The Company shall not be liable for any act or omission of any other entity furnishing to the Customer facilities, equipment, or services used with the Company's services. Nor shall the Company be liable for any damages or losses

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due to the failure or negligence of the Customer or due to the failure of Customer-provided equipment, facilities or services. Company is not liable for any act or omission of any other company or companies furnishing a portion of the service. No agents or employees of connecting, concurring or other participating carriers or companies shall be deemed to be agents or employees of the Company without written authorization.

- 3.4.4. Company shall not be liable for and Customer shall indemnify and hold Company harmless from any and all loss claims, demands, suits, or other action or liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement or destruction of the premises of the Customer or any other property, whether owned by the Customer or by others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of equipment or wiring provided by Company where such installation, operation, failure to operate, maintenance, condition, location or use is not the direct result of Company's negligence.
- 3.4.5. The liability of the Company for mistakes, omissions, interruptions, delays, errors, or defects in transmission shall not exceed an amount equivalent to the proportionate recurring charge to the Customer for the period of service during which such events occur. No credit shall be allowed for an interruption of a continuous duration of less than twenty-four (24) hours. For purposes of determining service credits, a month shall be deemed to have seven hundred twenty (720) hours. Any credits will be set off against charges billed during the next month.
- 3.4.6. Company shall be indemnified and held harmless by the Customer against:
- A. Claims for libel, slander, infringement of copyright or unauthorized use of any trademark, trade name or service mark arising out of the material.

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data, information or other content transmitted over Company's facilities;  
and

- B. Claims for patent infringement arising from combining or connecting Company's facilities with apparatus and systems of the Customer; and
- C. All other claims arising out of any act or omission of the Customer in connection with any service provided by Company.

3.4.7. The Company shall not be liable for damages or adjustment, refund, or cancellation of charges unless the Customer has notified the Company in writing, of any dispute concerning charges, or the basis of any claim for damages, within the applicable statute of limitations period after the invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demands. If notice of a dispute concerning the charges is not received, in writing, within the applicable statute of limitations period after an invoice is rendered or a debit is effected, such invoice shall be deemed to be correct, accepted, and binding upon the Customer.

### **3.5. OBLIGATIONS OF THE CUSTOMER**

3.5.1. The Customer shall provide the personnel, power and space required to operate all facilities and associated equipment installed on the premises of the Customer.

3.5.2. The Customer shall be responsible for providing Company personnel access to premises of the Customer at any reasonable hour for the purpose of testing the facilities or equipment of the Company.

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- 3.5.3. The Customer will be liable for damages to the facilities of the Company caused by negligence or willful acts of any officers, employees, agents or contractors of the Customer.
- 3.5.4. The Company may, upon notification of the Customer, at a reasonable time, make such tests and inspections as may be necessary to determine that the requirements of this tariff are being complied with in the installation, operation and maintenance of Customer-provided equipment and in the wiring of the connection of Customer channels to Company-owned facilities. The Company may temporarily suspend service without liability, while making such tests and inspections, and thereafter until any violations of such requirements are corrected.
- 3.5.5. The Company may take such action as necessary to protect its operations and personnel and will promptly notify the Customer by registered mail in writing of the need for protective action. In the event that the Customer fails to advise the Company within ten (10) days after such notice is received that corrective action has been taken, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its operations and personnel from harm. The Company will upon request twenty-four (24) hours in advance provide Customer with a statement of technical parameters that the Customer's equipment must meet.
- 3.5.6. The Customer is responsible for prompt payment of all charges for services rendered by the Company.
- 3.5.7. The name(s) of the Customer(s) desiring to use the service must be set forth in the application for service.

### 3.6. INTERRUPTION OF SERVICE

Credit allowance for interruptions of service which are not due to Company's testing or adjusting, to the negligence or willful acts of the Customer, or to the failure of channels.

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equipment and/or communications equipment provided by the Customer, are subject to the general liability provisions set forth in Section 3.4, herein. It shall be the obligation of the Customer to notify Company of any interruptions of service. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission of the Customer, not within the Customer's control, and/or is not in the wiring or equipment connected to the terminal of the Company.

### **3.7. RESTORATION OF SERVICE**

The use and restoration of service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities.

### **3.8. PAYMENTS AND BILLING**

- 3.8.1. Service is provided and billed on a monthly basis. Unless otherwise agreed, the minimum service period is one (1) month. Service continues to be provided until canceled by the Customer in accordance with the provisions of this tariff.
- 3.8.2. The Customer is responsible for the payment of all charges for services furnished by the Company. Charges are based on actual usage during a month and will be billed monthly in arrears.
- 3.8.3. Bills are due and payable upon receipt and past due thirty (30) days after issuance. Past due amounts are subject to late charges assessed at a rate of eighteen percent (18%) per annum.
- 3.8.4. An additional charge will be assessed for each Customer check returned as non-payable. Such charge shall not exceed twenty dollars (\$20.00) per check returned.

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- 3.8.5. Customer questions, complaints and disputes regarding billing or service provided by the Company may be referred to RCN's customer care division in writing at 100 Lake Street, Dallas, Pennsylvania 18612 or by telephone at 800-443-4253.

### 3.9. CANCELLATION BY CUSTOMER

- 3.9.1. Residential customers may cancel service by giving notice to RCN; however, the Customer shall remain liable for charges incurred prior to such cancellation. Business Customers may cancel service upon not less than thirty (30) days' written notice to RCN unless a longer notice period is specified in an applicable service contract executed by the Customer.
- 3.9.2. If the Customer has ordered service requiring special facilities dedicated to the Customer's use and then cancels the order before completion of the minimum service period or some other period mutually agreed with the Customer, the Customer shall be liable for the nonrecoverable portions of expenditures or liabilities incurred expressly on behalf of the Customer by Company.

### 3.10. INTERCONNECTION

- 3.10.1. Service furnished by Company may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitations established by Company. Any special interface of equipment or facilities necessary to achieve compatibility between the facilities of Company and other participating carriers shall be provided at the Customer's expense.
- 3.10.2. Interconnection between the facilities or services of other carriers shall be under the applicable terms and conditions of the other carriers' tariffs. The Customer is responsible for taking all necessary legal steps for interconnecting Customer provided terminal equipment or communications equipment with Company's

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facilities. The Customer shall secure all licenses, permits, rights-of-way, and other such arrangements necessary for interconnection.

### 3.11. CANCELLATION BY COMPANY

- 3.11.1. Service may be discontinued or temporarily suspended by the Company, without notice to the Customer, and Company may block traffic to certain cities or NXX exchanges, or block calls using certain Authorization Codes, when the Company deems it necessary to take such action to prevent the unlawful, unauthorized or hazardous use of its service. The Company will restore service as soon as it can be provided without undue risk.
- 3.11.2. Without incurring liability, the Company may discontinue the provision of service to a Customer or to a particular Customer location, or may withhold the provision of ordered or contracted services:
- A. Upon ten (10) days' written notice, for nonpayment of any sum due the Company for more than thirty (30) days after issuance of the bill for the amount due;
  - B. For violation of any of the provisions of this tariff or any applicable service contract;
  - C. For violation of any law, rule, regulation or policy of any governing authority having jurisdiction over the Company's services;
  - D. By reason of any order or decision of a court, public service commission or federal regulatory body or other governing authority prohibiting the Company from furnishing its services; or

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- E. In the event that the Company's underlying carrier(s) cease providing services to the Company which are necessary in order for the Company to provide the services described herein.

### 3.12. DEPOSITS

RCN will perform credit history review and credit reference checks for all 800 number accounts and any other accounts that are anticipated to have monthly charges of five hundred dollars (\$500) or more. RCN also reserves the right to require deposits from Customers.

### 3.13. TAXES

All state and local taxes (i.e. gross receipts tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates. Customers shall be responsible for any applicable taxes.

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## SECTION 4 - DESCRIPTION OF SERVICE

### 4.1. TIMING OF CALLS

#### 4.1.1. Time Periods

As set forth in Section 5, billing for certain services is based in part on the time of day during which the call is made. Calls are billed based on the rate in effect for the actual time period(s) during which the call occurs, as set forth in the table below. Calls that cross rate period boundaries are billed the rates applicable to the time recorded in each rate period.

Time	Mon	Tue	Wed	Thur	Fri	Sat	Sun
8:00 AM to 5:00 PM*	DAY	DAY	DAY	DAY	DAY	NIGHT	NIGHT
5:00 PM to 11:00 PM*	EVE	EVE	EVE	EVE	EVE	NIGHT	NIGHT
11:00 PM to 8:00 AM*	NIGHT	NIGHT	NIGHT	NIGHT	NIGHT	NIGHT	NIGHT

\* Up to but not including.

RCN's Night Rate applies to residential service on selected holidays (New Year's Day, Independence Day, Thanksgiving Day and Christmas Day). On these holidays the Night Rate applies all day, unless a lower rate would normally apply.

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- 4.1.2. The minimum call duration for billing purposes is as specified for each of the services described in Section 5.
- 4.1.3. For billing purposes, usage is measured and rounded to the next highest billing increment as specified for subscribed services.
- 4.1.4. There is no billing for incomplete calls.

## **4.2. RCN LONG DISTANCE SERVICES**

RCN provides switched inbound and outbound services to residential Customers; switched and dedicated inbound and outbound services to business Customers; the RCN 25 Cent Card, which is an 800 access calling card; directory assistance services for presubscribed Customers; and traditional and alternative operator services. RCN's residential services may be billed directly or through the local exchange carrier ("LEC") at the customer's option. The applicable rates and charges are the same under either option, except that the discounts described in Section 5.2.I.D. are not available to LEC-billed residential customers. Commercial services are billed directly by RCN.

The rates and other charges applicable to RCN's services are set forth in Section 5.

## **4.3. COMMITMENT PERIOD**

As set forth in Section 5, rates for RCN's commercial outbound and inbound services vary depending upon the term for which the Customer commits to use RCN services.

## **4.4. MINIMUM CALL COMPLETION RATE**

A Customer can expect a call completion rate (number of calls completed/number of calls attempted) of at least ninety-seven percent (97%) during peak use periods.

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**SECTION 5 - RATES****5.1. RATE CALCULATIONS**

The aggregate per minute rates for each service offered by RCN are listed below, along with the increments in which those charges are billed. Call times are rounded up to the next highest billing increment. Applicable monthly charges, installation fees, and other requirements are set forth below.

**5.2. RESIDENTIAL SERVICE RATES****5.2.1. Direct-Billed Residential Rates****5.2.1.A. RCN Switched Outbound - Residential (Billed in full minute increments)**

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.210	0.160	0.140

**5.2.1.B. RCN Switched Inbound - Residential (Billed in full minute increments)**

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.180	0.180	0.180

\$4.00 per month recurring service fee.  
One time \$10.00 installation fee.

**5.2.1.C. RCN Residential Calling Card (Billed in full minute increments)**

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.250	0.250	0.250

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5.2.1.D. RCN Residential Directory Assistance

\$1.040 per call (limit two numbers per call).

5.2.1.E. RCN Direct-Billed Residential Usage Discounts

Residential Customers billed directly by RCN rather than by the local exchange carrier receive the following discounts on charges for presubscribed outbound toll calls based on their total Qualifying Monthly Usage:

<u>Qualifying Monthly Usage</u>	<u>Discount</u>
\$10.00 - \$25.00	10%
\$25.00+	25%

Qualifying Monthly Usage means the Customer's total monthly long distance charges excluding monthly recurring service charges, installation charges, reconnection charges and taxes. However, the discount applies only to charges for domestic presubscribed outbound toll calls. The discount does not apply to charges for international calls, inbound calls, calling card calls, directory assistance calls, installation, reconnection and monthly recurring service fees, or to any applicable taxes. Although the discount does not apply to charges for international calls, charges for such calls are included for purposes of determining Qualifying Monthly Usage.

5.2.2. LEC-Billed Residential Rates

Residential customers electing to be billed through their local exchange carrier receive the same rates set forth in Section 5.2.1., except that the discounts in Section 5.2.1.E. do not apply.

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**5.3. COMMERCIAL SERVICE RATES****5.3.1. Commercial Rates****5.3.1.A. Commercial Switched Inbound and Outbound Services - (Initial billing increment is 18 seconds; additional increments of 6 seconds)**

<u>Term Commitment</u>	<u>Square One</u>	
	<u>Inbound</u>	<u>Outbound</u>
Month-to-Month	0.1275	0.1265
One Year	0.1275	0.1265
Two Years	0.1275	0.1265

\$5.00 per month minimum charge (Inbound Services only).

**5.3.1.B. Commercial Dedicated Inbound and Outbound Services - (Initial billing increment is 18 seconds; additional increments of 6 seconds)**Square One

Outbound	0.090
Inbound	0.100

Charges for dedicated access channels, including installation fees and monthly recurring charges, are determined by the access provider, and RCN reserves the right to charge the Customer RCN's cost of providing such channels plus fifteen percent (15%).

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5.3.1.C. RCN Commercial Calling Card (Initial billing increment is 18 seconds; additional increments of 6 seconds)

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.250	0.250	0.250

5.3.1.D. Commercial Directory Assistance

\$0.960 per call (limit two numbers per call).

5.3.1.E. RCN Direct-Billed Commercial Usage Discounts

Commercial Customers billed directly by RCN rather than by the local exchange carrier receive the discounts set forth in the schedule below based on the Customer's Qualifying Monthly Usage:

<u>Qualifying Monthly Dedicated Usage</u>	<u>Applicable Discount</u>
\$0.00 - \$2,499.99	0%
\$2,500.00 - \$5,499.99	5.55%
\$5,500.00+	11.11%

Qualifying Monthly Usage means the commercial Customer's total monthly charges excluding all charges for installation, reconnection, monthly recurring service fees, calling card calls, directory assistance calls and all applicable taxes. The discounts apply to charges for domestic inbound and outbound interstate and intrastate toll calls by commercial Customers for which the Customer has met the Qualifying Monthly Usage threshold during that month. The discounts do not apply to charges for international calls, calling card calls and installation, reconnection, monthly recurring service fees and any applicable taxes. Although the discount does not apply to charges for

international calls, charges for such calls are included for purposes of determining Qualifying Monthly Usage.

#### **5.4. TRADITIONAL AND ALTERNATIVE OPERATOR SERVICES RATES**

The following rates apply to traditional and alternative operator services provided on an intrastate, IntraLATA and InterLATA basis by the Company:

MTS: \$0.36 per minute.

Customer-dialed calling card calls: \$1.70.

Operator-handled calls: \$2.50.

Person-to-Person calls: \$4.80.

#### **5.5. CUSTOMIZED SERVICE PACKAGES**

Customized service packages and competitive pricing arrangements at negotiated rates may be furnished on a case-by-case basis in response to requests by Customers for proposals or competitive bids. Service offered under this tariff provision will be provided to Customers pursuant to contract. Unless otherwise specified, the rates, terms and conditions for such arrangements are in addition to the applicable regulations and prices in other sections of the tariff. Specialized rates or charges will be made available to similarly situated Customers on a non-discriminatory basis. Such contracts shall be filed at the Commission under a 0-day notice.

#### **5.6. PROMOTIONS**

The Company may, from time to time, engage in special promotional offerings or trial service offerings limited to certain dates, times and/or locations in order to attract new Customers or increase usage by existing Customers. In such cases, the rates will not exceed those specified herein.

Issued: November 27, 2000

Effective: December 1, 2000

By: Joseph O. Kahl  
Director of Regulatory Affairs  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, New Jersey 08540

SWIDLER BERLIN SHEREFF FRIEDMAN, LLP

ORIGINAL

THE WASHINGTON HARBOUR  
3000 K STREET, NW, SUITE 300  
WASHINGTON, DC 20007-5116  
TELEPHONE (202) 424-7500  
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WWW.SWIDLAW.COM

NEW YORK OFFICE  
403 LEXINGTON AVENUE  
NEW YORK, NY 10174  
(212) 973-0111 FAX (212) 501-9598

January 23, 2001

**VIA OVERNIGHT DELIVERY**

Heather K. Forney  
Utility Analyst  
South Dakota Public Utilities Commission  
500 E. Capitol Avenue  
State Capitol Building  
Pierre, SD 57501

**RECEIVED**

JAN 24 2001

**SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION**

**Re: Petition for Approval of Pro Forma Corporate Restructuring of RCN Telecom Services, Inc., RCN Telecom Holding Company, and RCN Long Distance Company**

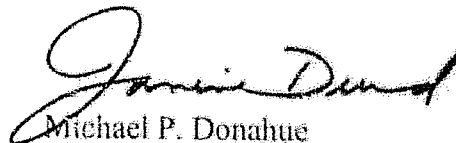
Dear Ms. Forney:

On behalf of RCN Telecom Services Inc. ("RCN TS"), enclosed for filing is an original and ten (10) copies of the above-referenced Petition for Approval of the *Pro Forma* Corporate Restructuring.

The enclosed materials are in response to the request received from the South Dakota Public Utilities Commission, to RCN TS on November 29, 2000. Specifically, RCN TS is filing its request for approval of the pro forma corporate restructuring of RCN TS, RCN Telecom Holding Company, and RCN Long Distance Company.

Please date-stamp the enclosed extra copy of this filing and return it in the attached self-address, stamped envelope. Should you have any questions with respect to this matter, please do not hesitate to contact the undersigned at (202) 424-7500.

Very truly yours,

  
Michael P. Donahue  
Janine L. Durand

Counsel for RCN Telecom Services, Inc.

Enclosures

Before the  
SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

Petition of \_\_\_\_\_ )

RCN TELECOM SERVICES, INC. , (PA) )

d/b/a RCN Telecom Services of South Dakota, Inc. )

Docket No. TC00-175

For Authority to Merge, Cancel and Reissue )

Certificate of Service Authority as Part of a )

*Pro Forma* Corporate Restructuring and for )

Authority to Provide Interexchange )

Telecommunications Services )

PETITION FOR AUTHORITY TO MERGE, CANCEL AND  
REISSUE CERTIFICATE OF SERVICE AUTHORITY AS PART OF  
A *PRO FORMA* CORPORATE RESTRUCTURING AND FOR  
AUTHORITY TO PROVIDE INTEREXCHANGE  
TELECOMMUNICATIONS SERVICES

RCN Telecom Services, Inc., (PA) d/b/a RCN Telecom Services of South Dakota, Inc. ("RCN TS"), and RCN Long Distance Company ("RCN LD") (collectively, the "Petitioners"), by their undersigned attorneys and pursuant to Sections 49-31-3, and 20:10:24:02 and 20:10:24:04:01 of the South Dakota Code of Law and the rules and regulations of the South Dakota Public Utilities Commission ("Commission"), respectfully request: (1) authority to merge RCN LD with and into RCN TS and to assign RCN LD's customers and operations to RCN TS, (2) cancellation of RCN LD's Certificates of Service Authority, and (3) issuance to RCN TS of Certificates of Service Authority identical to those currently held by RCN LD. As part of this *pro forma* corporate restructuring, RCN LD, along with certain other affiliated RCN subsidiaries operating in other states will be merged with and into RCN TS. As a result of the restructuring, RCN LD will cease to exist and RCN TS will assume RCN LD's customers and operations. As described below, the

restructuring will not change the ultimate ownership or control of RCN LD's operations in South Dakota.

In support of their Petition, the Petitioners provide the following information:

**1) The name, address, and telephone of the applicant:**

RCN Corporation is headquartered at 105 Carnegie Center, Princeton, New Jersey 08540

Phone: (609) 734-3700

**2) The name under which the applicant will provide these services if different than in subdivision (1) of this section.**

RCN Corporation is the ultimate corporate parent of the RCN subsidiaries, including the Petitioners. The applicant will provide services as RCN Telecom Services of South Dakota, Inc.

**3) If the applicant is a corporation:**

RCN Corporation is a publicly held Delaware corporation.

**a) The state in which it is incorporated: Delaware**

**Date of incorporation.**

RCN TS's legal name is RCN Telecom Services, Inc. RCN TS was incorporated on June 30, 1987 in the Commonwealth of Pennsylvania as Commonwealth Cable Systems of Pennsylvania, Inc., which was later renamed RCN Telecom Services of Pennsylvania, Inc. and in September 1999 was renamed RCN TS. RCN TS's address of its principal place of business and phone number are set forth above.

**Copy of authority to transact business in South Dakota.**

Please see attachment A.

**b) Location of principal office, if any, in this state and the name and address of the current registered agent:**

At this time RCN TS does not maintain a principal office in South Dakota. The name and address of the current registered agent is:

Trudy M. Longnecker  
Tariff & Compliance Manager  
RCN Corporation  
105 Carnegie Center  
Princeton, NJ 08540

**c) Name and address of each corporation, association, partnership, cooperative, or individual holding a 20% or greater ownership or management interest in the applicant corporation and the amount and character of the ownership or management interest:**

Pursuant to ARSD 20:10:24:02(15) RCN TS respectfully request a waiver of the requirement to provide this information. This information is not publically available at this time.

**4) If the applicant is a partnership, the name, title, and business address of each partner, both general and limited.**

RCN TS is not a partnership.

**5) A description of the telecommunications services the applicant intends to offer.**

In the state of South Dakota, RCN LD is authorized to provide intrastate interexchange services.<sup>1/</sup>

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<sup>1/</sup> See Commonwealth Long Distance Company Application for a certificate of interexchange service authority to operate as a reseller of telecommunication services within the State of Illinois, Order, Docket 94-0496 (Feb. 8, 1995). On March 7, 1997, Commonwealth Long Distance Company submitted a letter advising the Commission of a corporate reorganization in which its name was changed to RCN Long Distance Company. The Commission acknowledged receipt of this



**6) A detailed statement of the means by which the applicant will provide its services.**

RCN TS 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. RCN TS intends to expand the services provided to customers through strategic alliances and opportunistic development of complementary products. In addition, RCN TS intends to use the excess capacity in its fiber optic networks to provide services to commercial customers.

**7) The geographic areas in which the services will be offered or a map describing the service area.**

RCN TS intends to provide telecommunications services throughout the state of South Dakota.

**8) Current financial statements of the applicant including a balance sheet, income statement, and cash flow statement; a copy of the applicant's latest annual report; a copy of the applicant's report to stockholders; and a copy of applicant's tariff with the terms and conditions of service.**

RCN TS has the financial resources necessary to provide high quality service to South Dakota consumers. RCN TS's direct parent corporation, RCN Corporation is a publicly traded and widely-held corporation. As a direct subsidiary, RCN TS will have access to the substantial resources of its parent. Moreover, the proposed corporate structure is expected to provide the RCN Corporation subsidiaries, including RCN TS, even greater access to working capital and allow RCN

---

notification on April 2, 1997.

TS to realize marketing and administrative efficiencies. Thus, RCN TS has access to the financing and capital necessary to conduct its telecommunications operations and to meet the current and future capital needs of RCN TS's South Dakota operations.

Applicant does not currently prepare financial statements and annual reports for public distribution. Therefore, Applicant agrees to restrictions proposed by the Commission, on the offering of prepaid services and from collecting customer deposits or advanced payments. Applicant understands that pursuant to Commission practice, service restriction language will be placed in the Commission Order granting authority.

**9) The names, addresses, telephone number, fax number, E-mail address, and toll free number of the applicant's representatives to whom all inquiries must be made regarding complaints and regulatory matters and a description of how the applicant handles customer billings and customer service matters.**

Customer complaint resolution and consumer issues will be managed by:

Margarita Leahy  
RCN Corporation  
105 Carnegie Center  
Princeton, NJ 08540  
Phone: (609) 734-3700  
Fax: (609) 734-3784  
Email: [mleahy@rcn.net](mailto:mleahy@rcn.net)

Detailed information concerning RCN TS's service offerings and handling of customer complaint and inquiries is provided to the Commission in RCN TS's tariff. RCN TS will respond to all customer billings and customer service matters expediently. RCN TS is committed to providing all customers excellent and reliable services.

10) A list of the states in which the applicant is registered or certified to provide telecommunications services, whether the applicant has ever been denied registration or certification in any state and the reasons for any such denial, a statement as to whether or not the applicant is in good standing with the appropriate regulatory agency in the states where it is registered or certified, and a detailed explanation of why the applicant is not in good standing in a given state, if applicable.

RCN TS is certificated or otherwise authorized to provide local exchange and/or long distance services in every state but Alaska and Hawaii. RCN TS is in good standing in all these states. RCN TS has never been denied registration or certification in any state. No complaints have been filed against RCN TS in any states nor with any federal regulatory commission regarding the unauthorized switching of a customer's service.

11) A description of how the applicant intends to market its services, its target market, whether the applicant engages in any multilevel marketing, and copies of any company brochures used to assist in the sale of services.

RCN Corporation and its operating subsidiaries are in the process of building high-speed, high-capacity advanced fiber optic networks to provide a package of services, including local and long distance telephone, video programming and data services to residential and business customers. RCN intends to offer residential and commercial services to various areas in South Dakota, targeting secondary markets, initially. RCN Corp. generally uses a variety of marketing techniques to launch new services and packages to its customers. RCN TS is currently working with its staff to determine more specifics regarding its South Dakota marketing plan. Presently, information regarding RCN Corporation services is available on the internet at [www.rcn.com](http://www.rcn.com). Currently there are no company

brochures in print, however RCN TS will update this application when a complete marketing plan is in place and printed material becomes available. RCN TS does not plan to engage in multi level marketing at this time.

**12) Cost support for rates shown in the company's tariff for all noncompetitive or emerging competitive services.**

Applicant's tariff, revised to reflect RCN telecom Services, Inc. as the operating entity, is attached as Exhibit B. As the tariff contains the identical services, rates, terms, and conditions of service as those originally submitted by RCN LD in South Dakota which the Commission already approved, it is unnecessary to complete a cost study to demonstrate the reasonableness and sufficiency of these rates and charges.

**13) Federal tax identification number.**

RCN TS's Federal Tax identification number is 23-2472885.

**14) The number of complaints filed against the applicant with any state or federal regulatory commission regarding the unauthorized switching of a customer's telecommunications provider and the act of charging customers for services that have not been ordered.**

RCN TS is in good standing in all the states in which they are authorized to provide telecommunications services and no complaints have been filed against RCN TS in any states nor with any federal regulatory commission regarding the unauthorized switching of a customer's service.

**15) A written request for waiver of those rules the applicant believes to be inapplicable.**

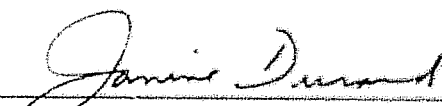
RCN TS will continue to maintain its accounting records in accordance with Generally Accepted Accounting Principles ("GAAP"), in sufficient detail to comply with applicable tax laws. RCN TS respectfully requests the same waivers that were previously granted by the Commission in RCN LD's initial application.

**16) Other information requested by the Commission needed to demonstrate that the applicant has sufficient technical, financial, and managerial capabilities to provide the interexchange services it intends to offer consistent with the requirements of this chapter and other applicable rules and laws.**

RCN Corporation has determined that the proposed corporate restructuring will promote operational and administrative efficiencies for the RCN companies. The restructuring will enable the Company to reduce its administrative and operating expenses and realize operational and management efficiencies and other corporate benefits. These efficiencies will enable the Company to more effectively compete in the telecommunications market to the ultimate benefit of consumers in South Dakota. The restructuring will be made in a seamless fashion that will not adversely affect the provision of telecommunications services in South Dakota, but will, in fact, increase the financial strength of the entity which is providing service in South Dakota. The restructuring is simply a paper transaction that will be transparent to consumers and will not in any way inconvenience or cause harm to RCN LD's customers.

Respectfully submitted,

By:

  
Michael P. Donahue

Janine L. Durand  
Swidler Berlin Shereff Friedman, LLP  
3000 K Street, N.W., Suite 300  
Washington, D.C. 20007  
Phone: (202)424-7500  
Fax: (202) 424-7645

Counsel for RCN Telecom Services, Inc. (PA)  
d/b/a RCN Telecom Services of South Dakota, Inc.

Dated: November 28, 2000

## **ATTACHMENTS**

Attachment A	Certificate of Authority to Transact Business in South Dakota
Attachment B	Tariff

**ATTACHMENT A**

**Certificate of Authority to Transact Business in South Dakota**



# Secretary of State

State Capitol, Ste 204  
500 East Capitol Avenue  
Pierre, South Dakota  
57501-5070  
sdsos@state.sd.us



JOYCE HAZELTINE  
Secretary of State

TOM LECKEY  
Deputy

To: C T CORPORATION SYSTEM  
ANN J WILLIAMS  
1635 MARKET ST  
PHILADELPHIA PA 19103

From: Secretary of State Joyce Hazeltine  
Corporations Division

Date: April 17, 2000

Re: RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH  
DAKOTA, INC.  
Foreign Certificate of Authority

The application for certificate of authority has been received and filed for the RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH DAKOTA, INC..

Enclosed is the Certificate attached to the duplicate application along with a receipt for the filing fee of \$90 + \$10 expedited for 1,000 common shares at \$1.

SDCL: 47-9-3 requires the filing of a corporate annual report with our office between the anniversary date of qualification and prior to the first day of the second month following. The report is due the year following qualification. An annual report form will be mailed to the corporate address listed in number five on the application for timely filing. Please contact our office if the corporate address changes or if the form is not received.

Thank you.

# State of South Dakota



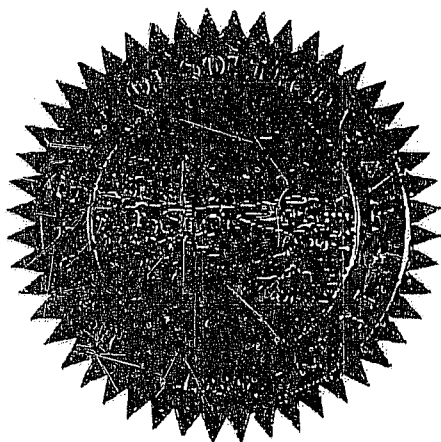
## OFFICE OF THE SECRETARY OF STATE

### Certificate of Authority

I, JOYCE HAZELTINE, Secretary of State of the State of South Dakota, hereby certify that the Application for a Certificate of Authority of RCN TELECOM SERVICES, INC. (PA) d/b/a RCN TELECOM SERVICES OF SOUTH DAKOTA, INC. to transact business in this state duly signed and verified pursuant to the provisions of the South Dakota Corporation Acts, have been received in this office and are found to conform to law.

ACCORDINGLY and by virtue of the authority vested in me by law, I hereby issue this Certificate of Authority and attach hereto a duplicate of the application to transact business in this state.

IN TESTIMONY WHEREOF, I have hereunto set my hand and affixed the Great Seal of the State of South Dakota, at Pierre, the Capital, this April 17, 2000.



Joyce Hazeltine  
Secretary of State

SECRETARY OF STATE  
STATE CAPITOL  
500 E. CAPITOL  
PIERRE, S.D. 57501-5077  
605-773-4845  
FAX (605) 773-4550

FILE NO. \_\_\_\_\_  
RECEIPT NO. \_\_\_\_\_

## APPLICATION FOR CERTIFICATE OF AUTHORITY

RECEIVED

Pursuant to the provisions of SDCL 47-8-7, the undersigned corporation hereby applies for a Certificate of Authority to transact business in the State of South Dakota and for that purpose submits the following statement:

S.D. SEC. OF STATE

(1) The name of the corporation is RCN Telecom Services, Inc.

(Exact corporate name)

(2) If the name of the corporation does not contain the word "corporation", "company", "incorporated" or "limited" or does not contain an abbreviation of one of such words, then the name of the corporation with the word or abbreviation which it elects to add thereto for use in this state is

RCN Telecom Services of South Dakota, Inc.

(3) State where incorporated Pennsylvania Federal Taxpayer ID# 23-2472885

(4) The date of its incorporation is June 30, 1987 and the period of its duration, which may be perpetual, is Perpetual

(5) The address of its principal office in the state or country under the laws of which it is incorporated is

1525 Valley Center Parkway, Berthleham, Pennsylvania Zip Code 18018

mailing address if different from above is: 105 Carnegie Center, Princeton, New Jersey

Zip Code 08540

(6) The street address, or a statement that there is no street address, of its proposed registered office in the State of South Dakota is c/o C T Corporation System, 319 S. Coteau Zip 57501  
and the name of its proposed registered agent, in the State of South Dakota at that address is

C T Corporation System

(7) The purposes which it proposes to pursue in the transaction of business in the State of South Dakota are: (state specific purpose) Provision of communication services.

(8) The names and respective addresses of its directors and officers are:

Name	Officer Title	Street Address	City	State	Zip
See attached list of directors and					

(9) The aggregate number of shares which it has authority to issue, itemized by classes, par value of shares, shares without par value, and series, if any, within a class is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
<u>1,000</u>	<u>Common</u>	<u>(No series)</u>	<u>\$1.00</u>

(10) The aggregate number of its issued shares, itemized by classes, par value of shares, shares without par value, and series, if any, within a class, is:

Number of shares	Class	Series	Par value per share or statement that shares are without par value
1,000	Common	(No series)	\$1.00

(11) The amount of its stated capital is \$1,000.00

Shares issued times par value equals stated capital. In the case of no par value stock, stated capital is the consideration received for the issued shares.

(12) This application is accompanied by a CERTIFICATE OF FACT or a CERTIFICATE OF GOOD STANDING duly acknowledged by the secretary of state or other officer having custody of corporate records in the state or country under whose laws it is incorporated.

(13) That such corporation shall not directly or indirectly combine or make any contract with any incorporated company, foreign or domestic, through their stockholders or the trustees or assigns of such stockholders, or with any copartnership or association of persons, or in any manner whatever to fix the prices, limit the production or regulate the transportation of any product or commodity so as to prevent competition in such prices, production or transportation or to establish excessive prices therefor.

(14) That such corporation, as a consideration of its being permitted to begin or continue doing business within the State of South Dakota, will comply with all the laws of the said State with regard to foreign corporations.

The application must be signed, in the presence of a notary public, by the chairman of the board of directors, or by the president or by another officer.

I DECLARE AND AFFIRM UNDER THE PENALTY OF PERJURY THAT THIS APPLICATION IS IN ALL THINGS TRUE AND CORRECT.

Dated April 10, ~~19~~ 2000

[Signature]  
(Signature) John D. Filipowicz

Senior Vice President  
(Title)

State of New Jersey  
County of Mercer

On this 10<sup>th</sup> day of April, ~~19~~ 2000, before me: DAVID F. KUNZ  
personally appeared John D. Filipowicz, known to me, or proved to me, to be  
the Senior Vice President of the corporation that is described in and that executed the  
within instrument and acknowledged to me that such corporation executed same.

My Commission Expires: 10/24/04

[Signature]  
(Notary Public)

Notarial Seal

\*\*\*\*\*

DAVID F. KUNZ  
NOTARY PUBLIC OF NEW JERSEY  
MY COMMISSION EXPIRES OCT 24, 2004

The Consent of Appointment below must be signed by the registered agent listed in number six

## CONSENT OF APPOINTMENT BY THE REGISTERED AGENT

I, C T Corporation System, hereby give my consent to serve as the  
(name of registered agent)

registered agent for RCN Telecom Services, Inc.  
(corporate name)

Dated April 14, ~~19~~ 2000

By: [Signature] TANN, J. WILLIAMS  
C T CORPORATION SYSTEM

RCN Telecom Services, Inc.

Sole Director:

David C. McCourt - 179 Stoney Brook Road  
Hopewell, NJ 08525

Officers:

Michael A. Adams - President & Chief Operating Officer  
647A Summer Street  
Boston, MA 02210

John D. Filipowicz - Senior Vice President, Assistant General Counsel and  
Assistant Secretary  
1189 Longmeadow Lane  
Yardley, PA 19067

John J. Jones - Executive Vice President, General Counsel & Corporate  
Secretary  
120 Acadia Court  
Princeton, NJ 08540

Timothy J. Stoklosa - Senior Vice President & Treasurer  
334 Burgundy Lane  
Newtown, PA 18940

The business address for all of the Directors and Officers is: 105 Carnegie Center,  
Princeton, New Jersey 08540.

RESOLUTION OF FOREIGN CORPORATION  
ADOPTING AN ASSUMED NAME

I, John D. Filipowicz, certify that I am the Senior Vice President of RCN Telecom Services, Inc., a corporation organized under the laws of the state of Pennsylvania, and that the following is a true and correct copy of a resolution duly adopted at a meeting of the board of directors of the corporation on the 10<sup>th</sup> day of April, 2000.

John D. Filipowicz  
John D. Filipowicz, Senior Vice President

RESOLVED, that the corporation adopts the name RCN Telecom Services of South Dakota, Inc. under which it shall operate in South Dakota because its corporate name is not available for use in South Dakota, that the secretary is authorized to certify a copy of this resolution and is directed to deliver the copy of the resolution to the secretary of state of South Dakota for filing.

## **ATTACHMENT B**

### **Tariff**

**RCN TELECOM SERVICES, INC.**

<u>Competitive Telecommunication Services:</u>	<u>Page Reference:</u>
Residential Services	24 thru 25
Commercial Services	26 thru 28
Traditional and Alternative Operator Services	28

Issued under authority of order of the South Dakota Public Utilities Commission.

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of service and facilities for telecommunications services within the State of South Dakota by RCN Telecom Services, Inc. This tariff is on file with the South Dakota Public Utilities Commission, and copies may also be inspected, during normal business hours, at the following location: 105 Carnegie Center, Princeton, New Jersey 08540.

Issued: November 27, 2000

By: Joseph O. Kahl  
Director of Regulatory Affairs  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, New Jersey 08540

Effective: 2001



CHECK SHEET

Sheets 1 through 28 inclusive of this tariff are effective as of the date shown at the bottom of the respective sheet(s). Original and revised sheets are named below and comprise all changes from the original tariff and are currently in effect as of the date on the bottom of this page.

<u>SHEET</u>	<u>REVISION</u>	<u>SHEET</u>	<u>REVISION</u>
1	original	15	original
2	original	16	original
3	original	17	original
4	original	18	original
5	original	19	original
6	original	20	original
7	original	21	original
8	original	22	original
9	original	23	original
10	original	24	original
11	original	25	original
12	original	26	original
13	original	27	original
14	original	28	original

Issued: November 27, 2000

By: Joseph O. Kahl  
Director of Regulatory Affairs  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, New Jersey 08540

Effective: 2001

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Issued: November 27, 2000

Effective: 2001

By: Joseph O. Kahl  
Director of Regulatory Affairs  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, New Jersey 08540

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Issued: November 27, 2000

By: Joseph O. Kahl  
 Director of Regulatory Affairs  
 RCN Telecom Services, Inc.  
 105 Carnegie Center  
 Princeton, New Jersey 08540

Effective: 2001

### EXPLANATION OF SYMBOLS

- (C) To signify **changed** regulation
- (D) Delete or **discontinue**
- (I) Change resulting in an **increase** to a Customer's bill
- (M) **Moved** from another tariff location
- (N) **New**
- (R) Change resulting in a **reduction** to a Customer's bill
- (T) Change in **text** but no change in rate or charge

Issued: November 27, 2000

By: Joseph O. Kahl  
Director of Regulatory Affairs  
RCN Telecom Services, Inc.  
105 Carnegie Center  
Princeton, New Jersey 08540

Effective: 2001

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## TARIFF FORMAT

- A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.
- B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.
- C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:
- 2.
  - 2.1.
  - 2.1.1.
  - 2.1.1.A.
  - 2.1.1.A.1.
  - 2.1.1.A.1.(a).
  - 2.1.1.A.1.(a).I.
  - 2.1.1.A.1.(a).I.(i).
  - 2.1.1.A.1.(a).I.(i).(1).

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- D. Check Sheets - When a tariff filing is made with the Commission, an updated check sheet accompanies the tariff filing. The check sheet lists the sheet contained in the tariff, with a cross reference to the current revision number. When new pages are added, the check sheet is changed to reflect the revision. All revisions made in a given filing are designated by an asterisk (\*). There will be no other symbols used on this page if these are the only changes made to it (i.e., the format, etc. remains the same, just revised revision levels on some pages). The tariff user should refer to the latest check sheet to find out if a particular sheet is the most current on file with the Commission.

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## SECTION 1 - APPLICATION OF TARIFF

- 1.1. This tariff contains the rates applicable to the provision of intrastate interexchange resale telecommunications services by RCN Telecom Services, Inc. (RCN) between various locations in all counties within the State of South Dakota. Service is furnished subject to transmission, atmospheric and like conditions.
- 1.2. The telecommunications services of the Company are not part of a joint undertaking with any other entity providing telecommunications channels, facilities or services. However, services offered under this tariff are conditioned upon the continued availability of various services provided to the Company by its underlying carriers.
- 1.3. The rates and regulations contained in this tariff do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of the Company.

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## SECTION 2 - TECHNICAL TERMS AND ABBREVIATIONS

### Authorization Code:

A numerical code, one or more of which may be assigned to a Customer to enable identification of individual users or groups of users on an account and to allocate costs of service accordingly. Authorization Codes are the sole property of the Company, and no Customer shall have any property or other right or interest in the use of any particular Authorization Code.

### Automatic Numbering Identification (ANI):

A type of signaling provided by a local exchange telephone company which automatically identifies the local exchange line from which a call originates.

### Billed Party:

The person or entity responsible for payment of the Company's service. The Billed Party is the Customer associated with the Authorization Code used to place the call, with the following exceptions:

- (a) In the case of a calling card or credit card call, the Billed Party is the party assigned the Authorization Code for the calling card or credit card used by the Users; and
- (b) In the case of a collect or third party call, the Billed Party is the person responsible for the local telephone service at the telephone number that agrees to accept charges for the call.

### Called Station:

The terminating point of a call.

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**Calling Card:**

A card issued by Company containing such account numbers assigned to its Customer which enables the charges for calls made to be properly billed on a pre-arranged basis.

**Calling Station:**

The originating point of a call.

**Company:**

RCN Telecom Services, Inc. (RCN).

**Commission:**

The South Dakota Public Utilities Commission.

**Customer:**

The person, firm, corporation or other entity which orders or uses service and is responsible for payment of charges and compliance with tariff regulations.

**Customer Dialed Calling Card Call:**

A Calling Card Call which does not require intervention by an attended operator position to complete.

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**Telecommunications:**

The transmission of voice communications or, subject to the transmission capabilities of the service, the transmission of data, facsimile, signaling, metering, or any other form of intelligence.

**User:**

A Customer, or any person or entity which makes use of services provided to a Customer under this tariff.

**Verified Account Code:**

A numerical code, one or more of which are available to a Customer to enable identification of individual users or groups of users on an account and to allocate costs of service accordingly. Account codes are verified against a predefined list of codes maintained by the Company.

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### SECTION 3 - TERMS AND CONDITIONS

#### 3.1. UNDERTAKING OF RCN TELECOM SERVICES, INC.

- 3.1.1. The Company undertakes to provide telecommunications services to Customers for their lawful direct transmission and reception of voice, data, and other types of communications in accordance with the terms and conditions set forth in this tariff.
- 3.1.2. All service is subject to the availability of necessary and suitable facilities and to the provisions of this tariff. The Company or its designee may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities, when authorized by the Customer, to allow connection of a Customer's location to a service provided by the Company. The Customer shall be responsible for all charges due for such service arrangement.
- 3.1.3. The Company's services are provided on a monthly basis unless otherwise provided, and are available twenty-four (24) hours per day, seven (7) days per week.
- 3.1.4. For additional cost, and subject to availability, the Customer may use Authorization Codes to identify the users or user groups on an account. The numerical composition of the codes shall be set by Company to assure compatibility with the Company's accounting and billing systems and to avoid the duplication of codes.
- 3.1.5. The Company shall not be responsible for any installation, operation or maintenance of any Customer-provided communications equipment. Where such equipment is connected to service furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of services under this tariff and to the maintenance and operation of such services in the proper manner.

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- 3.1.6. Customer-provided station equipment at the Customer's premises for use in connection with this service shall be so constructed, maintained and operated as to work satisfactorily with the facilities of the Company. The Company assumes no liability with respect to the operation or maintenance of such equipment.

### 3.2. LIMITATIONS

- 3.2.1. Company reserves the right to disconnect service immediately without incurring liability when necessitated by conditions beyond the Company's control or when the Customer is using the service in violation of either the provisions of this tariff or the laws, rules, regulations, or policies of the jurisdiction of the Calling Station or the Called Station, or the laws of the United States including rules, regulations and policies of the Federal Communications Commission.
- 3.2.2. The Company does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission or for failure to establish connections.
- 3.2.3. Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service.

### 3.3. USE

- 3.3.1. Services may be used for the lawful transmission of communications by the Customer consistent with the provisions of this tariff.
- 3.3.2. Service may not be used for any unlawful purpose. The use of the Company's services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

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- 3.3.3. The use of the Company's services without payment for service, as well as any attempt to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards, is prohibited.
- 3.3.4. The Company's services are available for use twenty-four (24) hours per day, seven (7) days per week.
- 3.3.5. Customers of service provided under this tariff may authorize or permit others to use these services, and may resell or share such services subject to the regulations contained in this tariff. The Customer remains responsible to the Company for payment of all charges for services used by others pursuant to this paragraph, with or without the Customer's knowledge, and is responsible for notifying the Company immediately of any unauthorized use of services.

#### **3.4. LIABILITIES OF THE COMPANY**

- 3.4.1. Except as stated in this Section 3.4, the Company shall have no liability for damages of any kind arising out of or related to events, acts, rights or privileges contemplated in this tariff.
- 3.4.2. The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to acts of God, fires, flood or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; or other labor difficulties.
- 3.4.3. The Company shall not be liable for any act or omission of any other entity furnishing to the Customer facilities, equipment, or services used with the Company's services. Nor shall the Company be liable for any damages or losses

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due to the failure or negligence of the Customer or due to the failure of Customer-provided equipment, facilities or services. Company is not liable for any act or omission of any other company or companies furnishing a portion of the service. No agents or employees of connecting, concurring or other participating carriers or companies shall be deemed to be agents or employees of the Company without written authorization.

- 3.4.4. Company shall not be liable for and Customer shall indemnify and hold Company harmless from any and all loss claims, demands, suits, or other action or liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement or destruction of the premises of the Customer or any other property, whether owned by the Customer or by others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of equipment or wiring provided by Company where such installation, operation, failure to operate, maintenance, condition, location or use is not the direct result of Company's negligence.
- 3.4.5. The liability of the Company for mistakes, omissions, interruptions, delays, errors, or defects in transmission shall be determined in accordance with SDCL Section 49-13-1 and Section 49-13-1.1 and any other applicable law.
- 3.4.6. Company shall be indemnified and held harmless by the Customer against:
- A. Claims for libel, slander, infringement of copyright or unauthorized use of any trademark, trade name or service mark arising out of the material, data, information or other content transmitted over Company's facilities; and
  - B. Claims for patent infringement arising from combining or connecting Company's facilities with apparatus and systems of the Customer; and

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C. All other claims arising out of any act or omission of the Customer in connection with any service provided by Company.

3.4.7. The Company shall not be liable for damages or adjustment, refund, or cancellation of charges unless the Customer has notified the Company in writing, of any dispute concerning charges, or the basis of any claim for damages, within the applicable statute of limitations period after the invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demands. If notice of a dispute concerning the charges is not received, in writing, within a 180 day period after an invoice is rendered or a debit is effected, such invoice shall be deemed to be correct, accepted, and binding upon the Customer.

### **3.5. OBLIGATIONS OF THE CUSTOMER**

3.5.1. The Customer shall provide the personnel, power and space required to operate all facilities and associated equipment installed on the premises of the Customer.

3.5.2. The Customer shall be responsible for providing Company personnel access to premises of the Customer at any reasonable hour for the purpose of testing the facilities or equipment of the Company.

3.5.3. The Customer will be liable for damages to the facilities of the Company caused by negligence or willful acts of any officers, employees, agents or contractors of the Customer.

3.5.4. The Company may, upon notification of the Customer, at a reasonable time, make such tests and inspections as may be necessary to determine that the requirements of this tariff are being complied with in the installation, operation and maintenance of Customer-provided equipment and in the wiring of the connection of Customer channels to Company-owned facilities. The Company may

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temporarily suspend service without liability, while making such tests and inspections, and thereafter until any violations of such requirements are corrected.

3.5.5. The Company may take such action as necessary to protect its operations and personnel and will promptly notify the Customer by registered mail in writing of the need for protective action. In the event that the Customer fails to advise the Company within ten (10) days after such notice is received that corrective action has been taken, the Company may take whatever additional action is deemed necessary, including the suspension of service, to protect its operations and personnel from harm. The Company will upon request twenty-four (24) hours in advance provide Customer with a statement of technical parameters that the Customer's equipment must meet.

3.5.6. The Customer is responsible for prompt payment of all charges for services rendered by the Company.

3.5.7. The name(s) of the Customer(s) desiring to use the service must be set forth in the application for service.

### **3.6. INTERRUPTION OF SERVICE**

Credit allowance for interruptions of service which are not due to Company's testing or adjusting, to the negligence or willful acts of the Customer, or to the failure of channels, equipment and/or communications equipment provided by the Customer, are subject to the general liability provisions set forth in Section 3.4, herein. It shall be the obligation of the Customer to notify Company of any interruptions of service. Before giving such notice, the Customer shall ascertain that the trouble is not being caused by any action or omission of the Customer, not within the Customer's control, and/or is not in the wiring or equipment connected to the terminal of the Company.

### **3.7. RESTORATION OF SERVICE**

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The use and restoration of service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities.

### **3.8. PAYMENTS AND BILLING**

- 3.8.1. Service is provided and billed on a monthly basis. Unless otherwise agreed, the minimum service period is one (1) month. Service continues to be provided until canceled by the Customer in accordance with the provisions of this tariff.
- 3.8.2. The Customer is responsible for the payment of all charges for services furnished by the Company. Charges are based on actual usage during a month and will be billed monthly in arrears.
- 3.8.3. Bills are due and payable upon receipt and past due thirty (30) days after issuance. Past due amounts are subject to late charges assessed at a rate of eighteen percent (18%) per annum.
- 3.8.4. An additional charge will be assessed for each Customer check returned as non-payable. Such charge shall not exceed twenty dollars (\$20.00) per check returned.
- 3.8.5. Customer questions, complaints and disputes regarding billing or service provided by the Company may be referred to RCN's customer care division in writing at 100 Lake Street, Dallas, Pennsylvania 18612 or by telephone at 800-443-4253.

The South Dakota Public Utilities Commission may be contacted at the State Capitol Building, 500 East Capitol Avenue, Pierre, SD 57501-5070, toll free number 1-800-877-1113, and TTY Through Relay South Dakota number 1-800-877-1113.

Customer disputes regarding billing must be presented to RCN in writing within 180 days from the date the invoice was rendered.

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### 3.9. CANCELLATION BY CUSTOMER

- 3.9.1. Residential customers may cancel service by giving notice to RCN; however, the Customer shall remain liable for charges incurred prior to such cancellation. Business Customers may cancel service upon not less than thirty (30) days' written notice to RCN unless a longer notice period is specified in an applicable service contract executed by the Customer.
- 3.9.2. If the Customer has ordered service requiring special facilities dedicated to the Customer's use and then cancels the order before completion of the minimum service period or some other period mutually agreed with the Customer, the Customer shall be liable for the nonrecoverable portions of expenditures or liabilities incurred expressly on behalf of the Customer by Company.

### 3.10. INTERCONNECTION

- 3.10.1. Service furnished by Company may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitations established by Company. Any special interface of equipment or facilities necessary to achieve compatibility between the facilities of Company and other participating carriers shall be provided at the Customer's expense.
- 3.10.2. Interconnection between the facilities or services of other carriers shall be under the applicable terms and conditions of the other carriers' tariffs. The Customer is responsible for taking all necessary legal steps for interconnecting Customer provided terminal equipment or communications equipment with Company's facilities. The Customer shall secure all licenses, permits, rights-of-way, and other such arrangements necessary for interconnection.

### 3.11. CANCELLATION BY COMPANY

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- 3.11.1. Service may be discontinued or temporarily suspended by the Company, without notice to the Customer, and Company may block traffic to certain cities or NXX exchanges, or block calls using certain Authorization Codes, when the Company deems it necessary to take such action to prevent the unlawful, unauthorized or hazardous use of its service. The Company will restore service as soon as it can be provided without undue risk.
- 3.11.2. Without incurring liability, the Company may discontinue the provision of service to a Customer or to a particular Customer location, or may withhold the provision of ordered or contracted services:
- A. Upon ten (10) days' written notice, for nonpayment of any sum due the Company for more than thirty (30) days after issuance of the bill for the amount due;
  - B. For violation of any of the provisions of this tariff or any applicable service contract;
  - C. For violation of any law, rule, regulation or policy of any governing authority having jurisdiction over the Company's services;
  - D. By reason of any order or decision of a court, public service commission or federal regulatory body or other governing authority prohibiting the Company from furnishing its services; or
  - E. In the event that the Company's underlying carrier(s) cease providing services to the Company which are necessary in order for the Company to provide the services described herein.

### 3.12. DEPOSITS

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RCN will perform credit history review and credit reference checks for all 800 number accounts and any other accounts that are anticipated to have monthly charges of five hundred dollars (\$500) or more. RCN also reserves the right to require deposits from Customers.

### 3.13. TAXES

All state and local taxes (i.e. gross receipts tax, sales tax, municipal utilities tax) are listed as separate line items and are not included in the quoted rates. Customers shall be responsible for any applicable taxes.

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**SECTION 4 - DESCRIPTION OF SERVICE****4.1. TIMING OF CALLS****4.1.1. Time Periods**

As set forth in Section 5, billing for certain services is based in part on the time of day during which the call is made. Calls are billed based on the rate in effect for the actual time period(s) during which the call occurs, as set forth in the table below. Calls that cross rate period boundaries are billed the rates applicable to the time recorded in each rate period.

Time	Mon	Tue	Wed	Thur	Fri	Sat	Sun
8:00 AM to 5:00 PM*	DAY	DAY	DAY	DAY	DAY	NIGHT	NIGHT
5:00 PM to 11:00 PM*	EVE	EVE	EVE	EVE	EVE	NIGHT	NIGHT
11:00 PM to 8:00 AM*	NIGHT	NIGHT	NIGHT	NIGHT	NIGHT	NIGHT	NIGHT

\* Up to but not including.

RCN's Night Rate applies to residential service on selected holidays (New Year's Day, Independence Day, Thanksgiving Day and Christmas Day). On these holidays the Night Rate applies all day, unless a lower rate would normally apply.

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- 4.1.2. The minimum call duration for billing purposes is as specified for each of the services described in Section 5.
- 4.1.3. For billing purposes, usage is measured and rounded to the next highest billing increment as specified for subscribed services.
- 4.1.4. There is no billing for incomplete calls.

#### **4.2. RCN LONG DISTANCE SERVICES**

RCN provides switched inbound and outbound services to residential Customers; switched and dedicated inbound and outbound services to business Customers; the RCN 25 Cent Card, which is an 800 access calling card; directory assistance services for presubscribed Customers; and traditional and alternative operator services. RCN's residential services may be billed directly or through the local exchange carrier ("LEC") at the customer's option. The applicable rates and charges are the same under either option, except that the discounts described in Section 5.2.1.D. are not available to LEC-billed residential customers. Commercial services are billed directly by RCN.

The rates and other charges applicable to RCN's services are set forth in Section 5.

#### **4.3. COMMITMENT PERIOD**

As set forth in Section 5, rates for RCN's commercial outbound and inbound services vary depending upon the term for which the Customer commits to use RCN services.

#### **4.4. MINIMUM CALL COMPLETION RATE**

A Customer can expect a call completion rate (number of calls completed/number of calls attempted) of at least ninety-seven percent (97%) during peak use periods.

**SECTION 5 - RATES****5.1. RATE CALCULATIONS**

The aggregate per minute rates for each service offered by RCN are listed below, along with the increments in which those charges are billed. Call times are rounded up to the next highest billing increment. Applicable monthly charges, installation fees, and other requirements are set forth below.

**5.2. RESIDENTIAL SERVICE RATES****5.2.1. Direct-Billed Residential Rates****5.2.1.A. RCN Switched Outbound - Residential (Billed in full minute increments)**

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.210	0.160	0.140

**5.2.1.B. RCN Switched Inbound - Residential (Billed in full minute increments)**

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.180	0.180	0.180

\$4.00 per month recurring service fee.  
One time \$10.00 installation fee.

**5.2.1.C. RCN Residential Calling Card (Billed in full minute increments)**

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.250	0.250	0.250

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5.2.1.D. RCN Residential Directory Assistance

\$1.040 per call (limit two numbers per call).

5.2.1.E. RCN Direct-Billed Residential Usage Discounts

Residential Customers billed directly by RCN rather than by the local exchange carrier receive the following discounts on charges for presubscribed outbound toll calls based on their total Qualifying Monthly Usage:

<u>Qualifying Monthly Usage</u>	<u>Discount</u>
\$10.00 - \$25.00	10%
\$25.00+	25%

Qualifying Monthly Usage means the Customer's total monthly long distance charges excluding monthly recurring service charges, installation charges, reconnection charges and taxes. However, the discount applies only to charges for domestic presubscribed outbound toll calls. The discount does not apply to charges for international calls, inbound calls, calling card calls, directory assistance calls, installation, reconnection and monthly recurring service fees, or to any applicable taxes. Although the discount does not apply to charges for international calls, charges for such calls are included for purposes of determining Qualifying Monthly Usage.

5.2.2. LEC-Billed Residential Rates

Residential customers electing to be billed through their local exchange carrier receive the same rates set forth in Section 5.2.1., except that the discounts in Section 5.2.1.E. do not apply.

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### 5.3. COMMERCIAL SERVICE RATES

#### 5.3.1. Commercial Rates

##### 5.3.1.A. Commercial Switched Inbound and Outbound Services - (Initial billing increment is 18 seconds; additional increments of 6 seconds)

<u>Term Commitment</u>	<u>Square One</u>	
	<u>Inbound</u>	<u>Outbound</u>
Month-to-Month	0.1275	0.1265
One Year	0.1275	0.1265
Two Years	0.1275	0.1265

\$5.00 per month minimum charge (Inbound Services only).

##### 5.3.1.B. Commercial Dedicated Inbound and Outbound Services - (Initial billing increment is 18 seconds; additional increments of 6 seconds)

#### Square One

Outbound	0.090
Inbound	0.100

Charges for dedicated access channels, including installation fees and monthly recurring charges, are determined by the access provider, and RCN reserves the right to charge the Customer RCN's cost of providing such channels plus fifteen percent (15%).

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5.3.1.C. RCN Commercial Calling Card (Initial billing increment is 18 seconds; additional increments of 6 seconds)

<u>Day</u>	<u>Eve.</u>	<u>Night</u>
0.250	0.250	0.250

5.3.1.D. Commercial Directory Assistance

\$0.960 per call (limit two numbers per call).

5.3.1.E. RCN Direct-Billed Commercial Usage Discounts

Commercial Customers billed directly by RCN rather than by the local exchange carrier receive the discounts set forth in the schedule below based on the Customer's Qualifying Monthly Usage:

<u>Qualifying Monthly Dedicated Usage</u>	<u>Applicable Discount</u>
\$0.00 - \$2,499.99	0%
\$2,500.00 - \$5,499.99	5.55%
\$5,500.00+	11.11%

Qualifying Monthly Usage means the commercial Customer's total monthly charges excluding all charges for installation, reconnection, monthly recurring service fees, calling card calls, directory assistance calls and all applicable taxes. The discounts apply to charges for domestic inbound and outbound interstate and intrastate toll calls by commercial Customers for which the Customer has met the Qualifying Monthly Usage threshold during that month. The discounts do not apply to charges for international calls, calling card calls and installation, reconnection, monthly recurring service fees and any applicable taxes. Although the discount does not apply to charges for

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international calls, charges for such calls are included for purposes of determining Qualifying Monthly Usage.

#### **5.4. TRADITIONAL AND ALTERNATIVE OPERATOR SERVICES RATES**

The following rates apply to traditional and alternative operator services provided on an intrastate, IntraLATA and InterLATA basis by the Company:

MTS: \$0.36 per minute.

Customer-dialed calling card calls: \$1.70.

Operator-handled calls: \$2.50.

Person-to-Person calls: \$4.80.

#### **5.5. CUSTOMIZED SERVICE PACKAGES**

Customized service packages and competitive pricing arrangements at negotiated rates may be furnished on a case-by-case basis in response to requests by Customers for proposals or competitive bids. Service offered under this tariff provision will be provided to Customers pursuant to contract. Unless otherwise specified, the rates, terms and conditions for such arrangements are in addition to the applicable regulations and prices in other sections of the tariff. Specialized rates or charges will be made available to similarly situated Customers on a non-discriminatory basis. Such contracts shall be filed at the Commission under a 0-day notice.

#### **5.6. PROMOTIONS**

The Company may, from time to time, engage in special promotional offerings or trial service offerings limited to certain dates, times and/or locations in order to attract new Customers or increase usage by existing Customers. In such cases, the rates will not exceed those specified herein.

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF SOUTH DAKOTA**

IN THE MATTER OF THE APPLICATION OF )	ORDER GRANTING
RCN TELECOM SERVICES, INC. FOR A )	CERTIFICATE OF
CERTIFICATE OF AUTHORITY TO PROVIDE )	AUTHORITY
INTEREXCHANGE TELECOMMUNICATIONS )	
SERVICES IN SOUTH DAKOTA )	TC00-175

On October 30, 2000, the Public Utilities Commission (Commission), in accordance with SDCL 49-31-3 and ARSD 20:10:24:02, received an application for a certificate of authority from RCN Telecom Services, Inc. (RCN TS).

RCN TS proposes to offer interexchange telecommunications services on a statewide basis. RCN TS in conjunction with RCN Long Distance Company (RCN LD) is requesting: (1) authority to merge RCN LD with and into RCN TS and to assign RCN LD's customers and operations to RCN TS, (2) cancellation of RCN LD's certificate of authority, and (3) issuance to RCN TS of a certificate of authority identical to those currently held by RCN LD. RCN TS will provide identical services, rates, terms, and conditions as are currently offered by RCN LD. A proposed tariff was filed by RCN TS. The Commission has classified long distance service as fully competitive.

On November 2, 2000, the Commission electronically transmitted notice of the filing and the intervention deadline of November 17, 2000, to interested individuals and entities. No petitions to intervene or comments were filed and at its February 6, 2001, meeting, the Commission considered RCN TS' request for a certificate of authority. Commission Staff recommended granting a certificate of authority, subject to the condition that RCN TS not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. Commission Staff further recommended a waiver of ARSD 20:10:24:02(3)(c) and (8).

The Commission finds that it has jurisdiction over this matter pursuant to SDCL Chapter 49-31, specifically 49-31-3 and ARSD 20:10:24:02 and 20:10:24:03. The Commission finds that RCN TS has met the legal requirements established for the granting of a certificate of authority. RCN TS has, in accordance with SDCL 49-31-3, demonstrated sufficient technical, financial and managerial capabilities to offer telecommunications services in South Dakota. Further, the Commission finds that there is good cause to waive ARSD 20:10:24:02(3)(c) and (8). The Commission approves RCN TS' application for a certificate of authority, subject to the condition that RCN TS not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. As the Commission's final decision in this matter, it is therefore

ORDERED, that RCN TS' application for a certificate of authority is hereby granted, subject to the condition that RCN TS not offer a prepaid calling card or require deposits or advance payments without prior approval of the Commission. It is

FURTHER ORDERED, that the Commission finds good cause to waive ARSD 20:10:24:02(3)(c) and (8). It is

FURTHER ORDERED, that RCN TS shall file informational copies of tariff changes with the Commission as the changes occur.

Dated at Pierre, South Dakota, this 13<sup>th</sup> day of February, 2001.

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that this document has been served today upon all parties of record in this docket, as listed on the docket service list, by first class mail, in properly addressed envelopes, with charges prepaid thereon.

By: Heather Kalbs

Date: 2/15/01

(OFFICIAL SEAL)

BY ORDER OF THE COMMISSION:

James A. Burg  
JAMES A. BURG, Chairman

Pam Nelson  
PAM NELSON, Commissioner

# SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

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## CERTIFICATE OF AUTHORITY

To Conduct Business As A Telecommunications Company  
Within The State of South Dakota

Authority was Granted as of the date of the  
Order Granting Certificate of Authority  
Docket No. TC00-175

*This is to certify that*

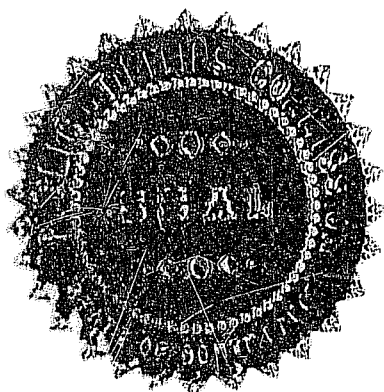
**RCN TELECOM SERVICES, INC.**

is authorized to provide interexchange telecommunications services in  
South Dakota, subject to the condition that it not offer a prepaid calling  
card or require deposits or advance payments without prior approval of the  
Commission.

This certificate is issued in accordance with SDCL 49-31-3 and ARSD  
20:10:24:02, and is subject to all of the conditions and limitations contained in the  
rules and statutes governing its conduct of offering telecommunications services.

Dated at Pierre, South Dakota, this 13<sup>th</sup> day of February, 2001.

SOUTH DAKOTA PUBLIC  
UTILITIES COMMISSION:



*James A. Burg*  
JAMES A. BURG, Chairman

*Pam Nelson*  
PAM NELSON, Commissioner