

RCN Corporation

Corporate Profile

COMPANY OVERVIEW

RCN Corporation (Nasdaq: RCNC) headquartered in Princeton, New Jersey, provides bundled local and long distance telephone services, video programming and Internet access to residential consumers in New York City, Boston, Washington, D.C. and the Lehigh Valley region of Pennsylvania over an advanced fiber optic network. RCN is targeting the residential market in the Boston-Washington, D.C. corridor.

RESIDENTIAL MARKET FOCUS

- ! RCN is the only residentially focused competitive local exchange carrier (CLEC) in the industry.
- ! RCN is the only CLEC with a comprehensive bundled services offering that includes video.
- ! RCN is the first residential CLEC to challenge the incumbents in New York City, Boston, Washington, D.C. and the Lehigh Valley.

TARGET MARKETS

- ! The first and largest competitive facilities-based residential CLEC, RCN is operating in major cities in the Northeast where customer service is the poorest and rates are the highest.
- ! RCN has targeted the densely populated Northeast corridor representing approximately 28% of the nation's telecommunications usage but only 4% of its geography.
- ! RCN's target market is nine million homes along the Boston-Washington, D.C. corridor. Each home has three possible connections (phone, cable, Internet) which equals 27 million potential connections. RCN can efficiently and economically build networks on a scaleable, success-based formula to meet demand.

NETWORK

- ! RCN owns and/or controls an extensive fiber optic network in New York City, Boston, Washington, D.C. and the Lehigh Valley.
- ! By controlling the network, including its own telephone switches, RCN controls the customer relationship and is able to offer superior customer service and pricing with ample capacity to meet the growing demand for two-way transmission required for data and Internet communication delivery.

STRATEGIC ALLIANCES

- ! RCN entered into a joint venture with a subsidiary of Potomac Electric Power Company (PEPCO) to provide comprehensive telecom services to PEPCO's 682,000 customers in Washington, D.C. and portions of Maryland and Northern Virginia.
- ! RCN and Boston Edison joined forces to deliver "bundled" telecom services to Boston Edison's 650,000 customers in 47 communities. This was the first major alliance formed between a utility and a telecommunications company to deliver a comprehensive package of services.

- ! RCN has a long term lease arrangement with MFS/WorldCom to utilize its extensive fiber optic network in New York City and Boston, and has access to Boston Edison's 200 miles of fiber in Boston and surrounding communities.

MANAGEMENT EXPERTISE

- ! RCN has an experienced and entrepreneurial management team and Board members who are uniquely qualified to execute the company's business plan. In addition, each member of the management team has extensive telecommunications, high-technology and fiscal experience.
- ! Peter Kiewit Sons' Inc., which founded and developed the successful MFS business that was later sold to WorldCom, holds a significant interest in RCN. James Crowe, former Chairman and CEO of MFS is a member of the RCN Board and is President of Kiewit's Diversified Group.
- ! David C. McCourt, Chairman and CEO of RCN Corporation, has extensive telecom network building experience having built the MFS fiber network in Boston. McCourt also built hybrid fiber coax networks in the UK, in partnership with Kiewit, for many of the largest and well-known companies in the telecom industry.
- ! Michael J. Mahoney, President and Chief Operating Officer of RCN Corporation, joined the company in 1991 as Executive Vice President of the cable division before being appointed to his current position in 1994.
- ! Bruce Godfrey joined RCN as Executive Vice President and Chief Financial Officer in 1994. He previously spent 14 years with Daniels & Associates specializing in cable television, entertainment and mobile communications industries.

SALES AND MARKETING EXPERTISE

- ! RCN has a centralized customers service facility open 24 hours a day, seven days per week, and recently launched a successful advertising campaign to create awareness and to generate sales in New York City, Boston and the Lehigh Valley area of Pennsylvania.

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Visit the RCN WebSite at
www.rcn.com

NEWS

ARTICLES ABOUT RCN'S ACTIVITIES

BOSTON HERALD

Thursday, July 31, 1997

Cablevision vs. RCN

Could revolution spark price war?

By MONICA COLLINS

Cablevision, a pinko, stinko communist? No way. Boston's cable company is a capitalist tool out to wrench every penny from your pocket. Yet in a new advertising campaign. Cablevision rival RCN depicts the cable company as the Evil Empire that needs to be crushed by the little people - cable TV customers, presumably. Beleagured Boston subscribers -who can pay up to \$80 a month for TV service - do not want this revolution to begin without them.

But RCN itself could turn out to be just another bolt in the Info-Age Iron Curtain. A division of the C-Tec Corp. in Princeton, N.J., RCN hopes for a piece of Cablevision's business and claims it is very serious in its pursuit.

Earlier this summer, city attorneys granted RCN a preliminary license to sell its fiber-optic services in Boston. Those services include phone, TV and Internet access. This fall, the city is expected to give RCN full permission to operate, which means the company will have to work under the same guidelines as Cablevision. Until then, RCN is selling an image - the image of Cablevision as fascist dictator. In current full-page newspaper ads and MBTA bus billboards RCN is appealing to customer dissatisfaction with the Cablevision monopoly. The style of the RCN strategy suggests a low-rent version of the Apple personal computer campaign of years back, when Apple tried to smash the IBM monolith with its famed "1984" commercial.

"No Empire Lasts Forever" trumpets the RCN message, superimposed over a photograph of a statue of U.S.S.R. founding father Vladimir Lenin. The familiar stone visage has a noose around its neck. And there's this kicky rejoinder to the empire line: "Especially one that keeps you waiting 5 hours for a repairman."

Tighten that noose.

In the text of the message, RCN then promises to offer better rates for phone and cable service than Nynex or "your local cable company."

In another ad, there's a photo of a crowd laying siege to the Berlin Wall. "Sooner or later, all tyrannies crumble," says the RCN ad copy. "Those with excessive monthly rates tend to crumble sooner."

And the fine print: It's no small irony that, in a city at the center of the free world, local phone and cable customers wrestle daily with the frustrations of one-company rule."

Daily frustrations, not really - only when it's time to pay the cable bill.

In preparing for its own battle with RCN, Cablevision seeks rate relief. Herald business reporter Tony Munroe broke the story this week that Cablevision will ask the Federal Communications Commission to release the caps on the company's pricing.

If the FCC grants Cablevision's motion, then the company is expected to raise or lower some of its rates for services, depending on what RCN charges. For example, if RCN offers a deal on a premium channel like HBO, Cablevision could match it while charging more for Showtime.

Boston cable subscribers could be the beneficiaries of an old-fashioned price war. But buyer beware -- read the fine print. A cheaper sports channel could mean a steeper TNT.

Any day, the city will issue its request-for-proposal (RFP) containing the requirements for Cablevision to continue doing business in the city. Cablevision's 15-year license expires in December and, naturally, the company wants a renewal.

Even though Cablevision has been the only cable firm operating in Boston, it does not have the exclusive lock on the market. The city has an "open-franchise" rule allowing competition.

As RCN moves to the challenge, Cablevision will cry foul, arguing that RCN should be bound by the same rules. The steepest price of doing business is revenue sharing. Cablevision must give a portion of its potential profits to the city. Cablevision will no doubt argue it cannot afford the steep tithe because of the new competition.

RCN, available so far to only a couple of thousand customers, does not have to pay such a heavy price to the city. But it is much more perk-happy than Cablevision. RCN will offer various side benefits to those condominium associations and apartment management firms that invite the company to wire a building. Need a new roof? A lobby makeover? Call RCN.

Cablevision, on the other hand, is more inclined to do business politically -- through backchannels, campaign contributions, favors. Cablevision has cronies of Mayor Thomas Menino on its payroll, as

well as a couple of kingmakers with close ties to other powerful pols.

Perhaps because of this tie with local pols, at licensing time Cablevision will paint itself as a beloved local company -- the Hoodsie of cable. Nevermind the Cablevision headquarters are in Woodbury, Long Island.

Cablevision will then cast RCN as the Evil Carpetbagging Empire --outsiders preying on *us*.

And you have to wonder what's going to be more fun to watch: TV? Or struggle for the soul of your TV?

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Boston Herald*

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USA TODAY

MONDAY, SEPTEMBER 15, 1997

COMMUNICATIONS CHALLENGE

C-Tec surges ahead in phone, cable markets

By Steve Rosenbush
USA TODAY

NEW YORK -- If you hold C-Tec's annual report up to a mirror and study it closely, you'll find a secret message from David McCourt, chief executive of the telecommunications upstart.

Beneath the title, "The Revolution Continues," is a famous picture of a mob tearing down the Berlin Wall. The wall is covered with graffiti, so it's easy to miss three words -- written backward -- that McCourt has added: Bell Atlantic, Cablevision, Nynex. He equates his entrenched competitors with Communist-era "tyrannies."

At a time when many big companies are scaling back plans to compete in the residential local phone and cable markets, McCourt, 40, is waging the most aggressive challenge in the country.

C-Tec of Princeton, N.J., will spin off Commonwealth Telephone Enterprises, Cable Michigan and RCN Communications on Sept. 30. McCourt will run the newly independent RCN, which had \$60 million in fiscal 1997 revenue and is building a \$7 billion fiber-optic network that will carry voice, cable television and high-speed Internet access over the same wires to residential customers in 24 cities from Washington to Boston.

It's already operating in New York, Boston, Washington and the Lehigh Valley in Pennsylvania. "Someone has to jump in the water and prove that it isn't over everyone's head," McCourt says.

The water is turbulent, though. Phone and cable TV companies are upgrading their networks.

"We are not about to be out-marketed by anyone," Cablevision spokesman Charles Schueler says.

Cablevision has 3.2 million customers in Boston, New York and Cleveland. It's preparing to carry phone service and high speed Internet access and it's offering advanced services on Long Island, N.Y.

Critics note that RCN is still reselling Bell Atlantic service in some areas and accuse it of paying attention only to affluent markets.

The giants of the telecommunications business have been wading in the shallow water since the law unleashed competition last year. Long-distance carriers AT&T, MCI and Sprint are finding the going is slow as they begin offering local phone service to residential and business customers.

The regional Bell carriers have failed to invade each other's local territory. The cable TV companies have backed way from their threat to offer telephone service, and the Bells have backed away from their threat to offer TV.

Some analysts argue that competition in the local market is unrealistic. "Congress got it wrong. It thought the local loop is like long-distance," says analyst Scott Cleland of Legg Mason's Precursor Group. The local companies have networks worth \$270 billion. The longdistance networks are worth only \$40 billion.

Cleland says the local business is so expensive that it only makes sense to build one network. And competitors simply can't make money buying local service from the dominant carriers and re-selling it, he says.

Enter RCN. McCourt believes the Internet is stirring demand for networks that accommodate voice, video and data. He plans to grab the market while the big carriers fight among themselves.

"We realized that a brand new network designed and built around the Internet was the way to go," he says. He had planned to lease capacity on the network of partner MFS Communications which was acquired by WorldCom last year.

The leasing arrangement would have cut McCourt's capital expenses by half. But MFS, which built a fiber-optic system to provide local service to businesses, kept running out of capacity. It was 1995, the Internet was just beginning to surge in popularity and MFS suddenly didn't have capacity to spare.

"My first reaction was to panic," McCourt recalls. "But then I said, maybe our premise that we couldn't afford to build our own network was faulty. We were lucky the MFS deal didn't work out."

McCourt figures he can build his fiber network for about \$1,500 a customer, or half the cost of buying an existing cable TV system. He should know. Cablevision founder Chuck Dolan hired him years ago to build one of the first urban systems in the nation.

Entering one market every 90 days, McCourt expects RCN to cover 24 markets within six years. He's waging an aggressive marketing campaign, running ads that compare phone competition to the toppling of the Berlin Wall. He's rolled \$35 million of his own money into the business. He believes RCN will be to the residential market what MFS was to the business market.

Dillon Read telecommunications analyst Bruce Roberts thinks RCN can do it. He predicts net losses will rise until 2001, and decline until the company breaks even in 2004.

"The smaller companies are in a better position," he says. Big companies will need more time to expand their services because they have so many customers. "AT&T has 80 million customers. How is it going to provide them local service right away?"

It's been an eventful summer: C-Tec stock has climbed more than 20% since last month. RCN agreed in August to send communications over Potomac Electric Power's 350-mile fiber network in greater Washington. It plans a high-yield debt offering with Merrill Lynch in early October. RCN has 75,000 cable and phone customers in Boston, New York and Washington. It expects to add 16,000 in September.

"I think David McCourt will be running a very profitable and very formidable residential telephone company," says analyst Jack Grubman of Salomon Bros.

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A Promise The First Step In Future Path

By Steve Rosenbush

USA TODAY

NEW YORK -- David McCourt is counting on his background in the construction industry to help make RCN Communications work.

He was one of seven children and grew up in Watertown, Mass., an industrial city where his late father ran a construction company. B.F. Goodrich and Underwood Deviled Ham plants were fixtures in town. The IrishCatholic family lived in a four-bedroom home on a quarter-acre plot. An average student, McCourt liked to play sports and wanted to be a cop when he grew up.

His interests shifted in college. He studied to be a social worker at Georgetown University in Washington and worked as a probation officer's aide in the city after graduation.

McCourt spent a summer working for his father and noticed that Cablevision was planning to build a cable network in Boston. A news story said urban cable systems wouldn't work because it was too expensive to dig up city streets.

McCourt told Cablevision founder Chuck Dolan that he could build the system by Thanksgiving and got the job. "It was probably stupidity or inexperience that made me think I could do it."

McCourt and Dolan got into a disagreement over money. Dolan wanted McCourt to reduce his bill for the later part of the job, saying he had overpaid McCourt during the first part, McCourt says. The dispute was finally settled, McCourt says, after he dug up part of the cable. Dolan could not be reached for comment. The young entrepreneur, then 24, used the estimated \$1 million to invest in his first communications business: a phone network that bypassed the local carrier and provided businesses a direct, discount link to their long-distance service.

Construction giant Peter Kiewit & Sons was running a similar telephone bypass business in Chicago called MFS Communications. The two companies combined operations, giving McCourt 20% of the new company and a seat on the board. He ran the Boston network and then went to Britain to run McCourt-Kiewit International.

McCourt came back from Europe four years ago and bought C-Tec as a vehicle to launch a residential telecommunications business. Now he's breaking up C-Tec and focusing on RCN. He sold his \$35 million MFS stake and put it in the new business.

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About David McCourt

Offbeat move: Ran a television station in Grenada in 1985, restoring service after the U.S. invasion.

Most memorable lesson: Don't whine. A friend bit McCourts nose during dinner at a Boston restaurant one night to stop his whining about his dispute with Cablevision.

Family: Wife, Deborah; two children. "I met Deborah in a furniture store. I was buying a couch at the same time she was buying a chair. A year later, I ran into her again at a function in Boston. It's another example of me being lucky."

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FOR MORE INFORMATION

For more information about RCN's activities, see the following:

Pepco Plans Phone, Web, Cable Service; Joint Venture to Invest Millions to Challenge Local Monopolies, Washington Post, August 6, 1997.

website: <http://www.washingtonpost.com>

Sale of Erol's Sends Rivals a Message, Washington Post, January 22, 1998.

website: <http://www.washingtonpost.com>

RCN: The Little Phone Company that Can? Business Week Online, January 27, 1998.

website: <http://www.businessweek.com>

RCN's High Wire Act, Forbes, December 29, 1997.

website: <http://www.rcn.com/hqfr-forbes.html>

Or visit RCN's WebSite at:

www.rcn.com