Final Report on the Transfer of RCN's Cable Properties To Yankee Cable and ABRY Partners

By
Ashpaugh & Sculco, CPAs, PLC
and
Front Range Consulting, Inc.
May 28, 2010

A&S
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EXECUTIVE SUMMARY

Ashpaugh & Sculco, CPAs PLC and Front Range Consulting, Inc. ("Consultants") have been retained by Miller & Van Eaton, PLLC, on behalf of its clients, the Office of Cable Television of the District of Columbia; the City of Boston, Massachusetts; the Office of the County Executive of Montgomery County, Maryland; and the County Attorney of Arlington County, Virginia (collectively the "Participating LGAs"), to conduct a financial review of the proposed transfer of control of the cable franchises from RCN Corporation to Yankee Cable and ultimately to ABRY Partners VI, L.P.

The transfer of the RCN cable properties is a complex transaction whereby RCN Corporation ("RCN") will undergo several internal reorganizations to separate itself into two entities, one holding the cable properties and one holding the fiber access properties. The cable properties will be acquired by Yankee Cable, which will be funded by new debt holders and equity investment by ABRY Partner's general and limited partners. The transaction will result in RCN effectively being taken private as ABRY Partners will be acquiring all of the outstanding common stock of RCN. According to RCN's Press Release, the offered share price of $15.00 is a 43% premium for RCN shareholders.

The Consultants have reviewed the underlying details of the transaction, including the historical and projected financial capabilities of RCN, Yankee Cable and ABRY Partners. This review process included requesting two additional data requests from RCN/Yankee Cable and analyzing the projected financial outlook for Yankee Cable. This final Report includes the results of the projection analysis based on the more detailed information from RCN/Yankee Cable provided on May 24, 2010.

Based on the completed review, Yankee Cable has presented projections that support the finding that it is a sufficiently funded entity, that projects that it will have positive cash flows from the cable operations and sufficient financing available to meets its capital needs. These projections are subject to significant potential downside risk, however. The Consultants believe that four potentially negative impacts could occur:

Overly optimistic projections resulting in increased financing requirements and/or increased cable rates;

Continuation of a no or limited growth philosophy resulting in the potential loss of market share;

Short-term investment strategy by ABRY Partners resulting in limited capital expansion of existing footprint; and

Risk of financial market downturn resulting in the inability to raise either the debt or equity funds.

However, these same concerns apply to RCN as it exists today, except for the short-term investment strategy. Most of the historical and projected data provided and reviewed was created jointly by RCN and Yankee Cable after the merger was announced.

OVERVIEW OF THE PROPOSED TRANSACTION

The ultimate acquisition by ABRY Partners VI, L.P. of RCN Corporation is a very complicated transaction requiring many reorganizations of RCN Corporation in order to create two business units that can be acquired by Yankee Cable and Yankee Metro. Yankee Cable and Yankee Metro will both be equity owned by ABRY Partners. ABRY Partners is an investment management firm that takes equity positions in entities and in turn is expecting to earn equity profits (either in cash earning or increase in value of the entity) to return a profit to its general and limited partners.[1] In response to a request[2], ABRY's counsel described ABRY Partners as:

> "…one of the most experienced and successful private equity investment firms in North America investing solely in media, communications and information businesses. ABRY has completed $21 billion of leveraged transactions and other private equity investments involving approximately 450 properties. The Firm presently is investing over $4.1 billion of capital on behalf of its limited partners, which includes Fortune 100 pension funds and foundations. ABRY investments include Atlantic Broadband, Grande Communications, Avalon Cable, WideOpenWest, Citadel Communications, Nexstar Broadcasting Group, Caprock Holdings, Pinnacle Towers, Language Line Services, Q9 Networks and Talent Partners."

RCN's SEC Form 10K describes the business as:

> "RCN is a competitive broadband services provider, delivering all-digital and high-definition video, high-speed internet and premium voice services to Residential and Small and Medium Business ("SMB") customers under the brand names of RCN and RCN Business Services, respectively. In addition, through our RCN Metro Optical Networks business unit ("RCN Metro"), we deliver fiber-based high-capacity data transport services to large commercial customers, primarily large enterprises and carriers, targeting the metropolitan central business districts in our geographic markets. We construct and operate our own networks, and our primary service areas include: Washington, D.C., Philadelphia, Lehigh Valley (PA), New York City, Boston and Chicago.
>
> Our RCN and RCN Business Services network passes over 1.4 million marketable homes and businesses, and we currently have licenses to provide video services to over 5 million licensed homes and businesses in our footprint. We serve approximately 429,000 residential and SMB customers.
>
> RCN Metro also has numerous points of presence in other key cities from Richmond, Virginia to Portland, Maine. RCN Metro currently enters approximately 1,500 locations through our own diverse fiber facilities, providing connectivity to private networks, as well as telecommunications carrier meet points, and local exchange central offices owned and operated by other carriers. Our RCN Metro fiber routes now total approximately 10,000 route miles, with thousands of additional commercial

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[1] Exhibit 1 to this Report contains the confidential financial statements of ABRY Partners.

[2] Response to Request No. 8, letter from Danielle Burt to Gerard Lavery Lederer, Esq., dated April 26, 2010.

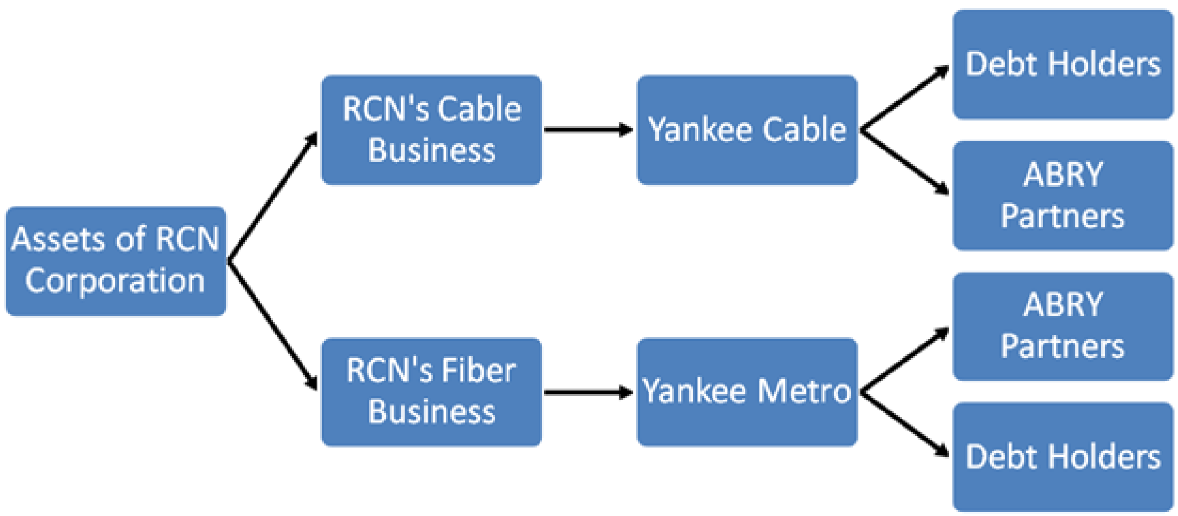
> buildings on or near our network. We also have approximately 335,000 fiber strand miles, which highlights the fact that many of our metro and intercity rings are fiber-rich."[3]

Because RCN has two very different businesses, a cable over-builder and a fiber access provider, one of the driving factors for both RCN and ultimately ABRY Partners appears to be the ability to decouple these two businesses and to allow each to be independently valued by investors.

In order to decouple these two businesses, a number of corporate reorganizations will be required to allow the two acquiring ABRY Partner organizations (Yankee Cable and Yankee Metro) to separately acquire the respective organizations from RCN. In simple terms, the reorganizations and acquisitions are outlined in the following chart (a complete detailed flow chart of the reorganizations and acquisitions is contained in Exhibit 2 attached to this Report).

Chart 1

[Current] [Reorganization] [Acquisition]



After the internal reorganization and the acquisition by Yankee Cable and Yankee Metro, the former RCN Corporation will technically be two separate companies. There will be management and service agreements in place for shared services and facilities, but the cable business and the fiber business will be both functionally and legally separate entities. Additionally, Yankee Cable and Yankee Metro will not be public companies and therefore will not be subject to annual reporting to shareholders and the SEC as RCN was. There will be no stock listed on a stock exchange or any trading by the public in these new companies.

ABRY Partners is acquiring RCN Corporation by proposing to acquire all of the outstanding stock of RCN for $15.00 per share which, according to the RCN press release, is a 43% premium over the average closing price of the stock for the 30 days prior to the announcement.[4] The total consideration being paid for RCN including the assumption of debt is in excess of $1.2 billion.

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[3] RCN's 10K page 4

[4] RCN's 8K filed March 5, 2010, Ex 99.1

The resulting acquisition by ABRY Partners, including the retirement of RCN's outstanding debt and equity, will cause the combined ABRY Partners' debt level to increase in excess of twenty percent (20%) from RCN's level of debt.[5] Based on the outstanding amount of stock as of December 31, 2009, of approximately 35.6 million shares and the offering price of $15.00 per share, ABRY Partners is investing $534 million in RCN to acquire 100% control.

Yankee Cable has agreed to abide by the terms of the current franchise / OVS agreements and has no plans to change the management of the local cable systems. The role of the current senior management of RCN is unclear, which could impact the operations of the local systems.

REVIEW PROCESS

FCC Form 394

On March 17, 2010, March 22, 2010, March 23, 2010, and April 1, 2010, FCC Form 394s were filed with the Participating LGAs. The Form 394 was filed for the transfer of control of Starpower Communications, L.L.C. and RCN BecoCom LLC, subsidiaries of RCN, to Yankee Cable Acquisition, L.L.C., a wholly owned subsidiary of ABRY Partners VI, L.P. ("Yankee").[6] The legal entities that currently hold the cable franchises, which grant the right to provide service, would remain unchanged. The Consultants were provided copies of this filed information.

Upon review, it was determined that additional information was required from RCN and Yankee Cable concerning the proposed transfer. The initial request was submitted on April 26, 2010, and a follow-up request was submitted May 13, 2010. RCN / Yankee Cable responded to the initial request by letter dated May 7, 2010. The response to the follow-up request was provided in two parts. The non-confidential information was provided by email on May 21, 2010 and the confidential information was provided by overnight delivery on May 24.

The Consultants' review was based on data made available by the Participating LGAs, RCN and Yankee Cable, and additional information relative to RCN and Yankee Cable that is publically available. This information was used to assess the financial capability of Yankee Cable to meet the franchise requirements and to continue operating the cable and OVS systems.

Our typical review and analyses of these types of transactions includes our development of financial models of cash flow, capital expenditures, revenues and customers. Due to the time constraints involved in this review and the lack of data supporting this transaction, the Consultants had to rely on information produced by RCN and Yankee Cable to build the models; we then evaluated the models based on our experience with costs in the industry. Exhibit 8 to this report shows our model of EBIT (earnings before interest and taxes) and cash flow. The model shows that (1) RCN/Yankee appears to have made a math error in computing revenues for 2011, which when corrected reduces revenues by $8.25 million; and (2) changes, based on our experience, to direct expenses and selling, general and administrative expenses have a dramatic impact on the availability of cash.

Our findings from our review are discussed below.

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[5] *See* Exhibit 3.

[6] The right to serve is in the form of a cable franchise in Montgomery County, MD, a Certificate of Public Convenience and Necessity for Cable Television in Arlington County, VA, and open video system ("OVS") agreements in the District of Columbia and City of Boston, MA.

RCN – PRE-TRANSFER

Attached as Exhibit 4 are excerpts from RCN Corporation's Form 10-K, filed with the Securities and Exchange Commission (the "SEC") for the fiscal period ended December 31, 2009. This describes the services and service areas of RCN and its business segments: (1) Residential/SMB - all-digital and high-definition video, high-speed internet and premium voice services to Residential and Small and Medium Business ("SMB") customers under the brand names of RCN and RCN Business Services, respectively; and (2) RCN Metro Optical Networks business unit ("RCN Metro") providing fiber-based high-capacity data transport services to large commercial customers, primarily large enterprises and carriers, targeting the metropolitan central business districts in its geographic markets.

From the information provided, RCN's residential/SMB and RCN Metro have experienced little growth in customers over the last 3 years (2007 through 2009) and no growth in revenue per customer. During this period, direct expenses have increased [redacted]% and selling, general, and administrative expenses have decreased [redacted]%. Cash and cash equivalents have increased [redacted]% primarily due to recovery of the costs of assets used in the business (depreciation expense). RCN has reinvested approximately [redacted]% of these amounts in additions to property, plant, and equipment.

RCN has disclosed that its major competitors have significant advantages and in head-to-head competition with Verizon it has lost video customers and had decreases in video revenue. Since video is the largest component of RCN's income, this is a major factor.

FINANCIAL CAPABILITY OF YANKEE CABLE

Yankee Cable, as a yet-to-be formed new entity, has no historical financial track record on which to assess its financial capabilities. The companies have instead asserted that ABRY Partners have the necessary financial capabilities, and have included confidential financial statements of ABRY Partners.[7] Virtually all of the assets of ABRY Partners are investments in other companies. As such, ABRY Partners does not actually own any "hard" assets but rather investment vehicles in other companies. As stated in PricewaterhouseCoopers audit opinion of the financial statements, the "fair values [of the investments] have been estimated by the General Partner in the absence of readily ascertainable market values."

In order to investigate Yankee Cable's financial capability, RCN/Yankee Cable was asked:

> In Exhibit 111.2, "Yankee Cable submits that it has the necessary financial commitments to consummate the transaction described herein as provided in the Merger Agreement and to provide adequate working capital to meet the system's needs for the foreseeable future." Please provide the underlying financial information, analyses, projections and other similar financial documents (in addition to the Confidential Financial Statements of ARBY Partners VI, L.P.) that will allow us to replicate and verify these financial commitments, including projections used by Yankee Cable to conclude it has the necessary capital for the "foreseeable future."

RCN/Yankee Cable responded:

> ABRY Partners VI, L.P.'s confidential financial statements have been provided to Miller and Van Eaton, PLLC. Confidential financial information on the sources and uses of debt financing and projected cable cash flow relevant to question 2 are attached as Exhibit A and Exhibit B.

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[7] *See* Exhibit 1.

The response did provide some useful information regarding the sources and uses of the funds from ABRY Partners to complete this transaction. RCN/Yankee Cable also provided consolidated financial projections in response to request 19, which was attached to their response as confidential Exhibit I, and is attached as Exhibit 5 to this Report. RCN/Yankee Cable provided further documentation and details but has not provided the assumptions used to create these projections. From the review of Exhibits 5 and 6, including the provided B(2) in Exhibit 5, it appears that Yankee Cable may have underestimated programming cost increases and may have overestimated its ability to increase revenues without any significant customer acquisitions. The projections show no growth in customers, declines in revenue generating units, and slight growth in revenue per customer

In request 12 d, RCN/Yankee Cable was asked to provide:

> Metro Financing and Cable Financing agreements including all schedules and supporting documentation identified in sub section (a)

RCN/Yankee Cable responded:

> The Metro Financing agreement is irrelevant to Yankee Cable's legal, technical, and financial qualifications to own Starpower and RCN BecoCom, and is still being negotiated, with pricing to be established upon syndication. The Cable Financing agreement is still being negotiated, with pricing to be established upon syndication.

Again this calls into question how a financial projection can be prepared without having a final price on the debt being considered as part of the transaction. What has been provided shows that interest expenses for the RCN cable business will almost double as a result of this transaction.

POTENTIAL ISSUES

Based on the foregoing, we have identified several potential issues with the acquisition by Yankee Cable of RCN's cable properties. Because of the lack of access to the underlying assumptions used by Yankee Cable in its due diligence and its financial projections with respect to RCN's cable properties, we cannot determine if any of these potential issues will occur or which potential issues is more likely to occur. The identified potential issues are:

> Overly optimistic projections resulting in increased financing requirements and/or increased cable rates;
>
> Continuation of a no or limited growth philosophy resulting in the potential loss of market share;
>
> Short-term investment strategy by ABRY Partners resulting in limited capital expansion of existing footprint; and
>
> Risk of financial market downturn resulting in the inability to raise either the debt or equity funds.

Optimistic Projections

The projections provided by RCN/Yankee Cable in Exhibits 5 and 6 suggest that its compound annual growth rates in revenues will be less than half of what it is projecting for its direct costs (basically programming costs). This would result in reducing overall margins because the projections show a declining customer penetration percentage. Additionally, the compounded annual growth rates in direct expenses seem overly optimistic as cable operators have been publically complaining that programming costs are increasing at a rate well in excess of inflation. Specifically, according to Comcast's 2009 SEC Form 10K, page 26, Comcast, the largest cable operator with reputedly some of the lowest programming costs, saw such costs increase 11.5% from 2007 to 2008 and another 8.8% from 2008 to 2009. The projections provided (see Exhibits 5 and 6) do not show direct cost increases anywhere near those reported by Comcast and call into question these projections. If the new Yankee Cable experiences programming increases along the lines of what Comcast has reported, the resulting operating cash flow could be significantly impacted and lead to the need for ABRY Partners to infuse more equity into Yankee Cable or, even worse, cause Yankee Cable to dramatically increase its cable prices in order to maintain these projected margins. Likewise, the projections show declining growth rates for its general and administrative expenses. This too seems overly optimistic. While it does appear that Yankee Cable will incur severance costs, the elimination of senior executive staff would not necessarily suggest that G&A expenses would decline. Attached as Exhibit 8 are revised projections using a higher growth rate in direct costs and annual growth in G&A expenses. This scenario results in negative free cash flow in several years that would require additional debt and/or equity infusions if the revenue projections remain static. In order to counteract this negative free cash flow, Yankee Cable could also propose increasing cable, phone and data rates more than in the current projections.

Growth Philosophy

In a similar vein, the customer growth projections of Exhibit 5 do not appear to be consistent with cable industry averages. Essentially, it does not appear that RCN has historically employed a strong customer growth philosophy of increasing its marketable homes and working hard to grow its customer base. This is accomplished by expanding the territory where service is available, commonly known as build-out, and with marketing. Instead Yankee Cable appears to be trying maintain what it already has. Exhibit 6, a copy of confidential Exhibit B of the May 7 response, as compared to Exhibit 7, a copy of the confidential Section 5.1(a) of the information provided to the Participating LGAs, shows a projected [redacted]% reduction in capital expenditures. It does not appear any funds will be expended on expanding the service territory. RCN and Yankee Cable have asserted that some of this is due to the reduced capital needs to move the systems to an all digital platform in 2008 and 2009. As with the optimistic projection issue, any downturn in customer penetration percentages could dramatically affect the resulting financial projections. This could cause Yankee Cable to need more working capital from ABRY Partners and it could impact its ability to service its increased debt load.

Short-term Investment

While, in response to a request, ABRY Partners has suggested that it has no predefined plans or exit strategy for its investment in Yankee Cable, it is entirely possible that ABRY Partners only plans on keeping its investment in Yankee Cable until it can realize a substantial return for its limited and general partners. Cable multiples are currently below historical levels, in part due to the current economic conditions, which suggests that as the economy returns to more normal levels, ABRY Partners investment in Yankee Cable will become more valuable. This could result in a sale to a current competitor like Verizon or Comcast or to another investment partner. With this potential, it is possible that Yankee Cable will likely keep its capital expenditures to a minimum so that it could increase the size of its ultimate return. Reduction in capital expenditures will not allow Yankee Cable to grow, as Yankee Cable will need capital to open new service areas. Also, this could mean that there will be another transfer request coming before the local authority in the near term.

Financial Market Downturn

As has occurred in the recent past, a downturn in the economy can cause the debt and equity markets to restrict financing activities. While it appears that ABRY Partners and its debt participants have made commitments to fund Yankee Cable, it would not be unrealistic to assume that these commitments had “out” clauses. Information concerning this debt was requested but was not provided. As such, if the economy falters it is possible that the debt covenants may not be achieved or that the credit terms will be stricter causing the debt holders to require additional equity commitments from ABRY Partners. This could have a negative impact on the profitability of Yankee Cable.

CONCLUSIONS

As identified in this final Report, there are potential red flags that suggest that the projected financial picture of Yankee Cable presented to the Participating LGAs might be overly optimistic, potentially resulting in the need for more capital, the need to increase rates, and/or the need to divest these properties. On balance though, the same operational and financial concerns, other than those arising as a result of the sale, apply to RCN’s cable business as it exists today.

About the Consultants

Ashpaugh & Sculco, CPAs PLC

Ashpaugh & Sculco ("A&S") was formed by Garth Ashpaugh and Carolyn Sculco December 1, 1999. A&S provides consulting services primarily to local government entities. Specifically, our services include franchise fee reviews, cable television rate filing reviews, franchise agreement analyses including renewals and financial analyses of new applicants, rate and cost of service studies, and litigation services and expert testimony. Garth has worked for over 200 cities and counties since 1992.

Garth has been engaged in utility matters and regulation full-time for over thirty years. His previous experience includes consulting since 1991 and working as Audit Supervisor with the Missouri Public Service Commission. He has a BS, Business Administration, from the University of Missouri, holds licenses as a Certified Public Accountant in the states of Missouri and Florida and maintains professional affiliations with the American Institute of Certified Public Accountants and National Association of Telecommunications Officers and Advisors.

Front Range Consulting, Inc.

Front Range Consulting, Inc. (FRC) was formed in 2002 by Mr. Richard D. Treich, formerly Senior Vice President, Rate and Regulatory Matters at AT&T Broadband. Mr. Treich serves as FRC's CEO and is responsible for the strategic direction of the company and all of the consulting activities of FRC. In forming the company Mr. Treich decided to use his ten years of Cable TV knowledge with AT&T and its predecessor TCI and twenty years of utility regulatory knowledge to assist clients in the governmental telecommunications sector. The firm is dedicated to this arena. FRC assists governmental entities with a variety of professional services in the telecommunications arena including: Financial Analyses including Franchise Transfers and Renewals; Franchise Fee Reviews and Audits; FCC Rate Regulatory Filings (Forms 1205, 1210 and 1240); Effective Competition Filings; Customer Service Standards and Reviews; and Regulatory and Litigation Support.

Exhibit 1

ABRY Partners Financial Statements

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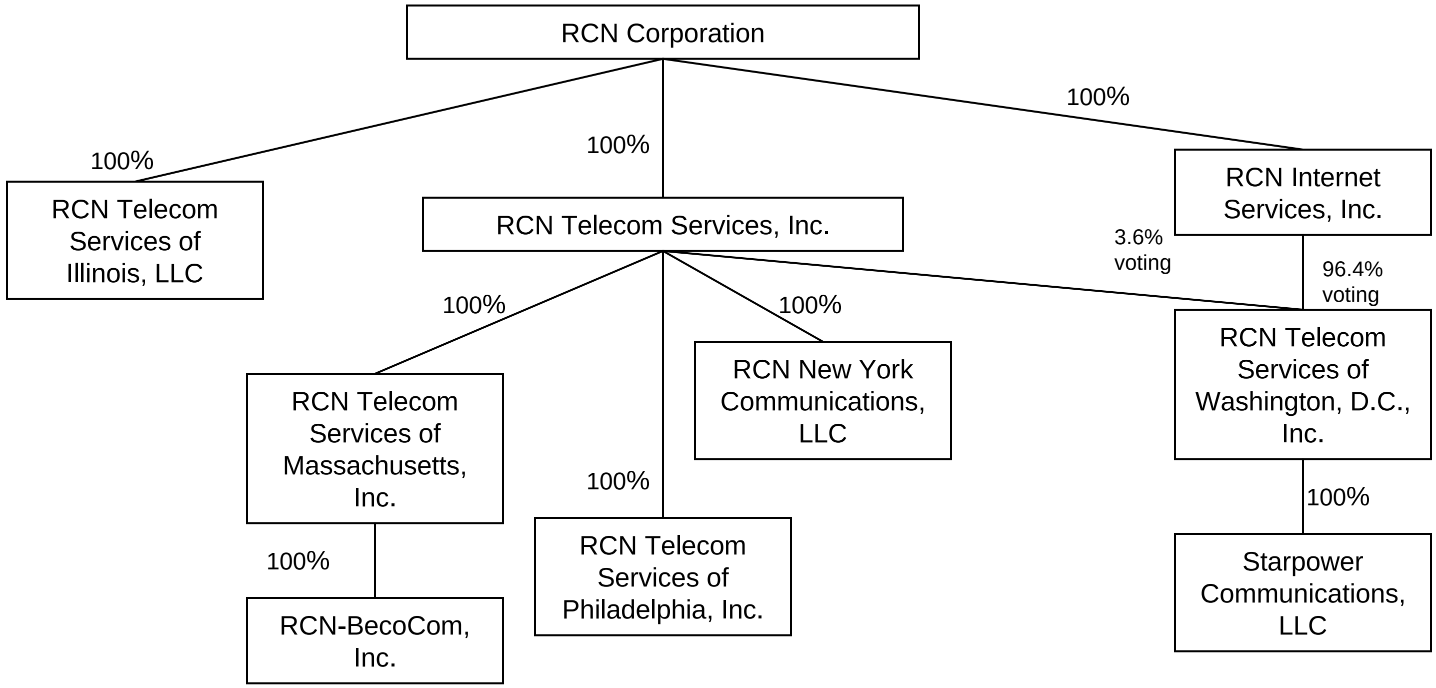
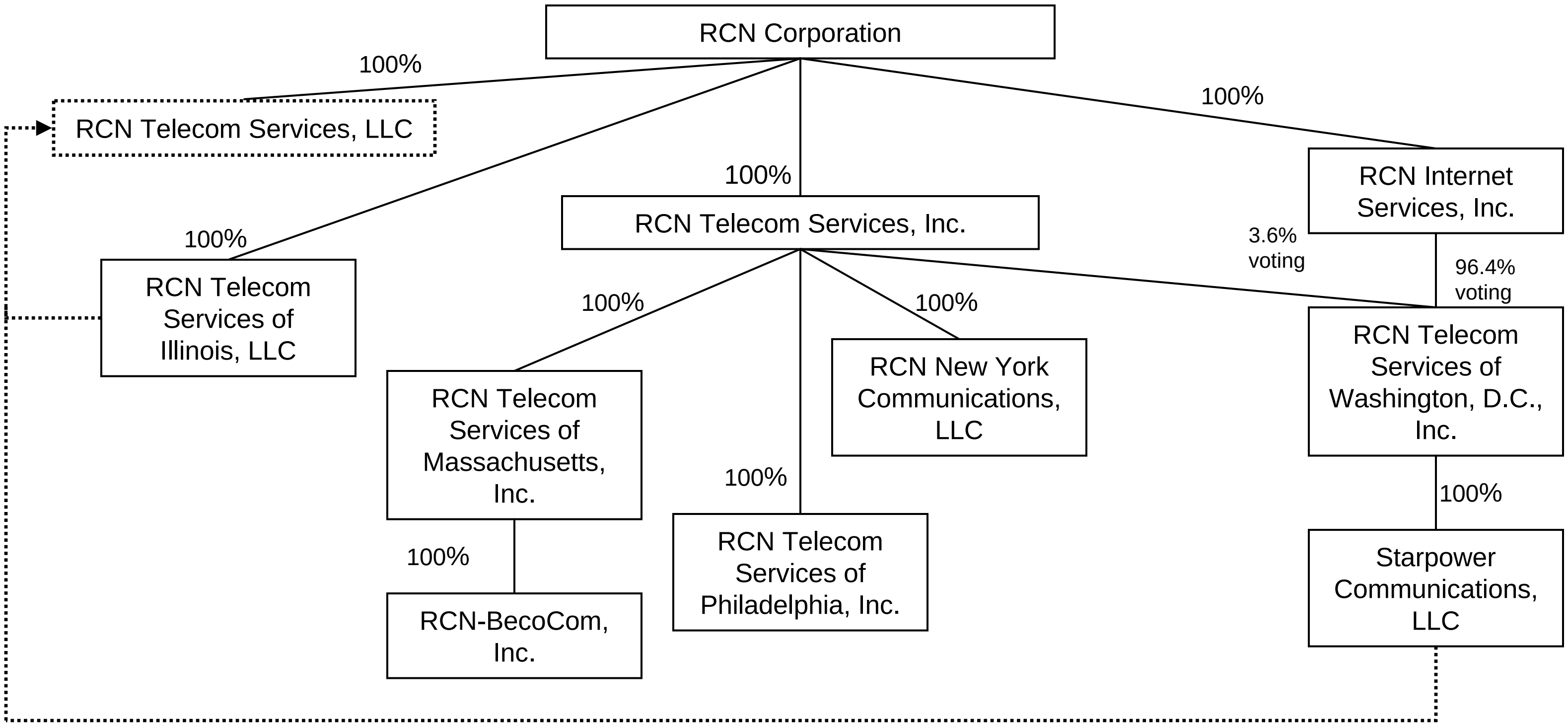
EXHIBIT 2

Reorganization Flow Charts

Pre-Transaction Corporate Structure of RCN Corporation



Interim Steps

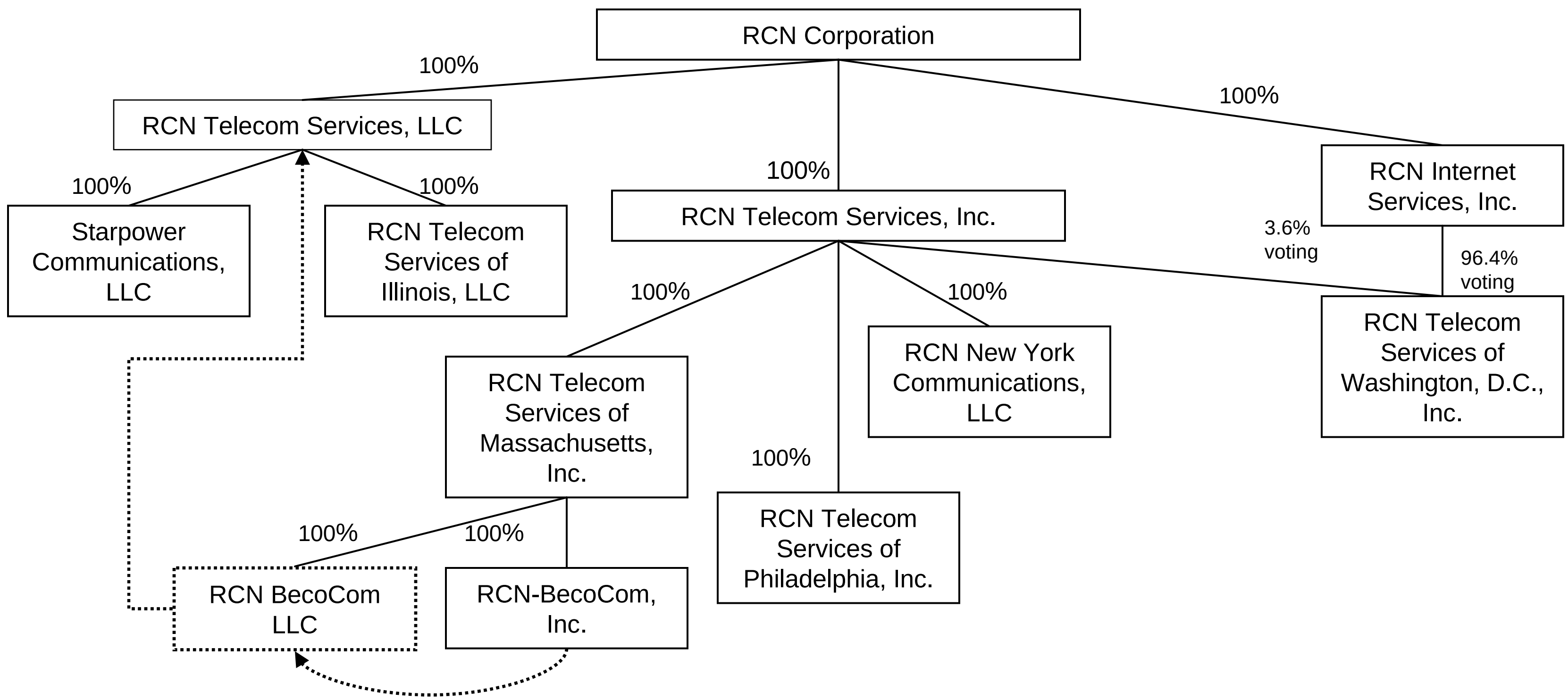


RCN Corporation forms RCN Telecom Services, LLC (aka Cable Opco).

Interest in RCN Telecom Services of Illinois, LLC is assigned to RCN Telecom Services, LLC.

RCN Telecom Services of Washington D.C., Inc.’s Interest in Starpower Communications, LLC is assigned to RCN Telecom Services, LLC.

Interim Steps

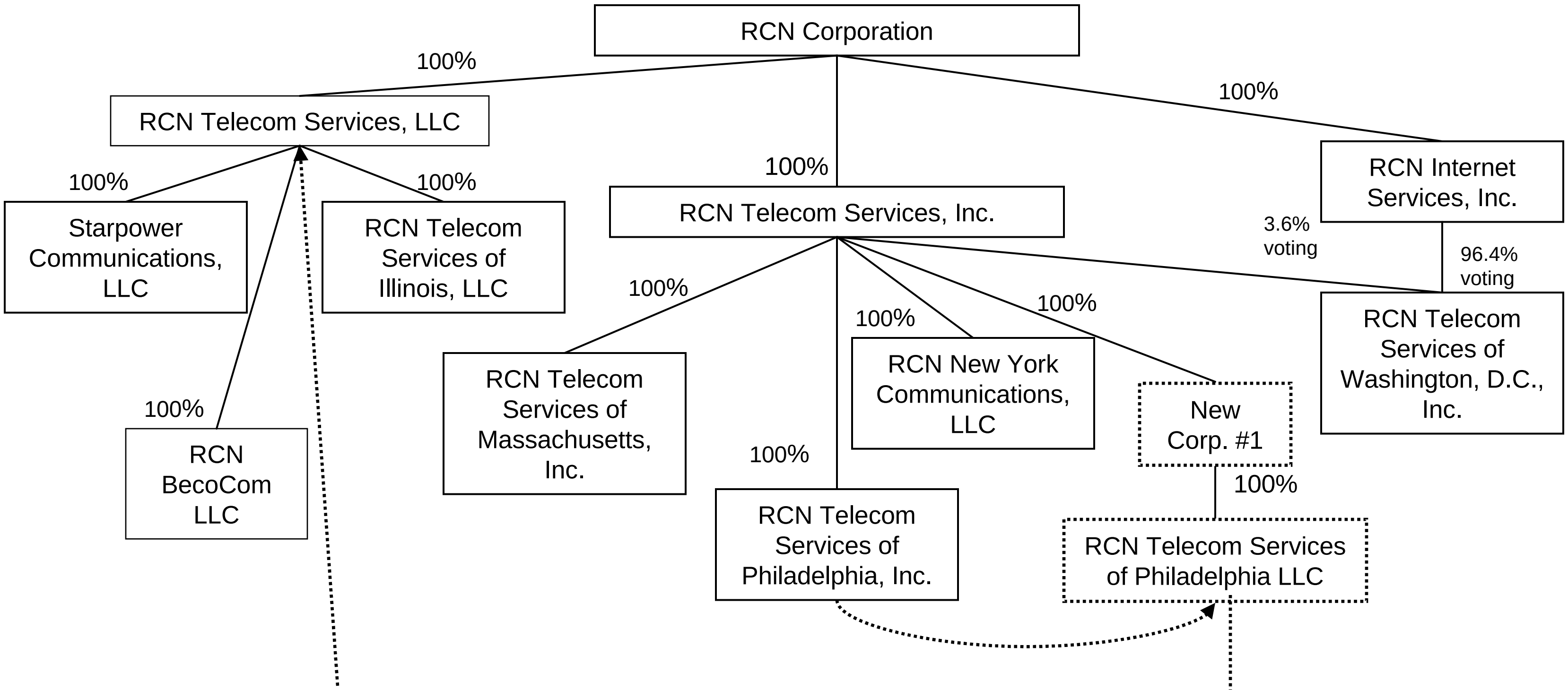


RCN Telecom Services of Massachusetts, Inc. forms RCN BecoCom LLC.

RCN-BecoCom, Inc. merges into RCN BecoCom LLC, with RCN BecoCom LLC surviving.

RCN Telecom Services of Massachusetts, Inc. assigns its interest in RCN Becocom LLC to RCN Telecom Services, LLC.

Interim Steps



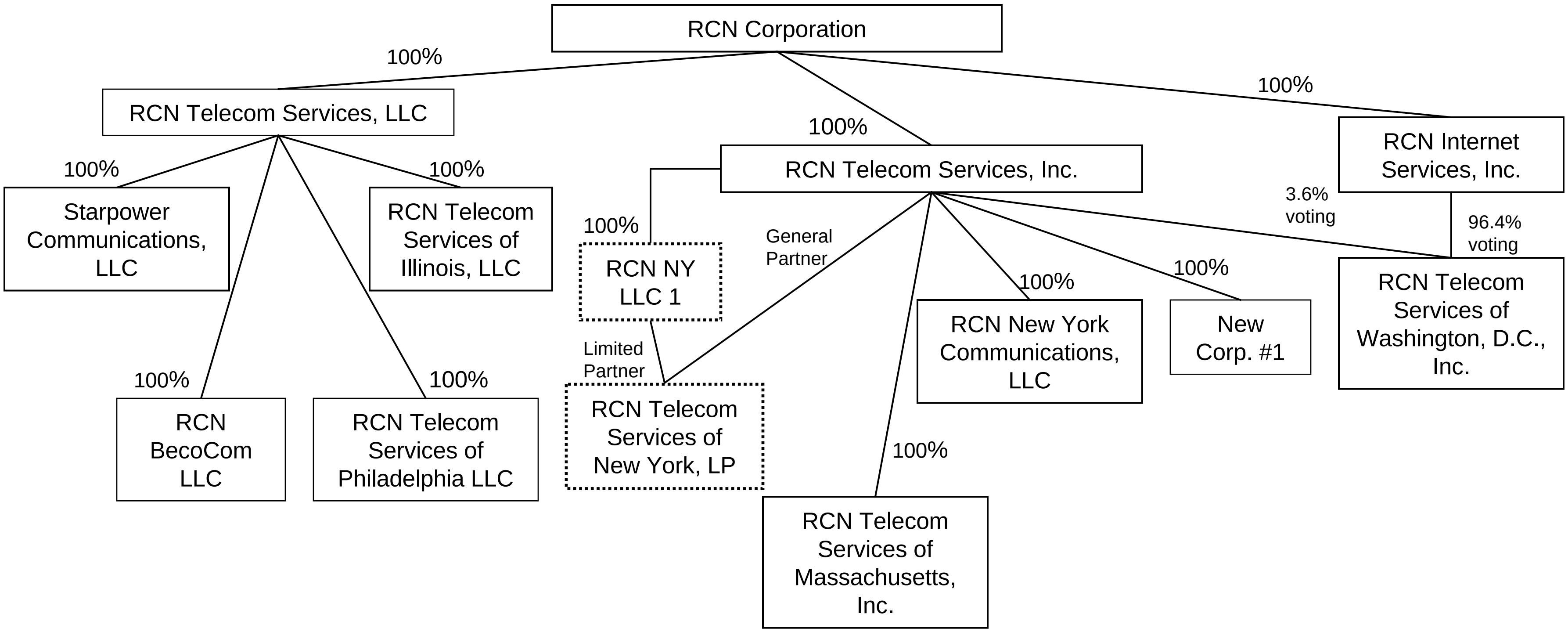
RCN Telecom Services, Inc. forms New Corp. #1 (aka RCN PA Newco).

New Corp. #1 forms RCN Telecom Services of Philadelphia LLC.

RCN Telecom Services of Philadelphia, Inc. merges into RCN Telecom Services of Philadelphia LLC, with RCN Telecom Services of Philadelphia LLC surviving.

Interest in RCN Telecom Services of Philadelphia LLC is assigned to RCN Telecom Services, LLC.

Interim Steps



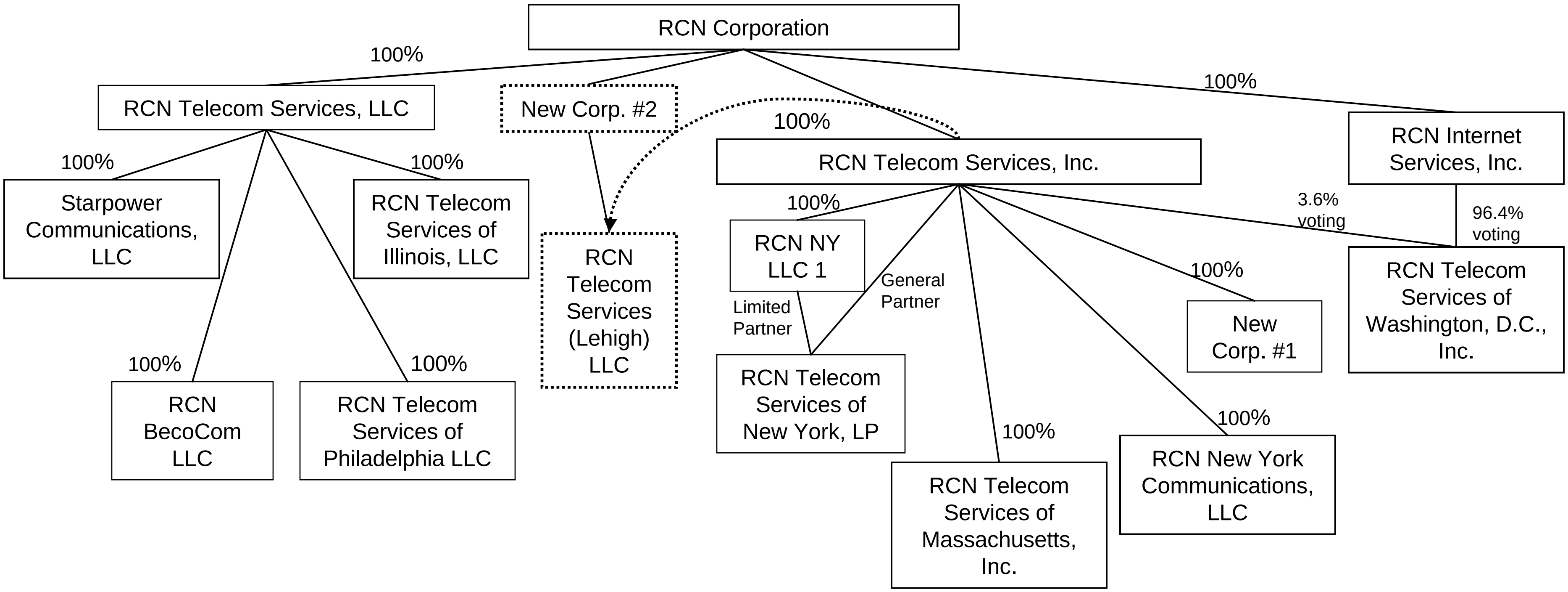
RCN Telecom Services forms and RCN NY LLC 1 and assigns New York assets to RCN NY LLC 1.

RCN Telecom Services, Inc. forms RCN Telecom Services of New York, LP (aka RCN TS NY LP).

RCN NY LLC 1 assigns New York assets to RCN Telecom Services of New York, LP for a limited partnership interest.

RCN Telecom Services, Inc. assigns assets to RCN Telecom Services of New York, LP for a general partnership interest.

Interim Steps

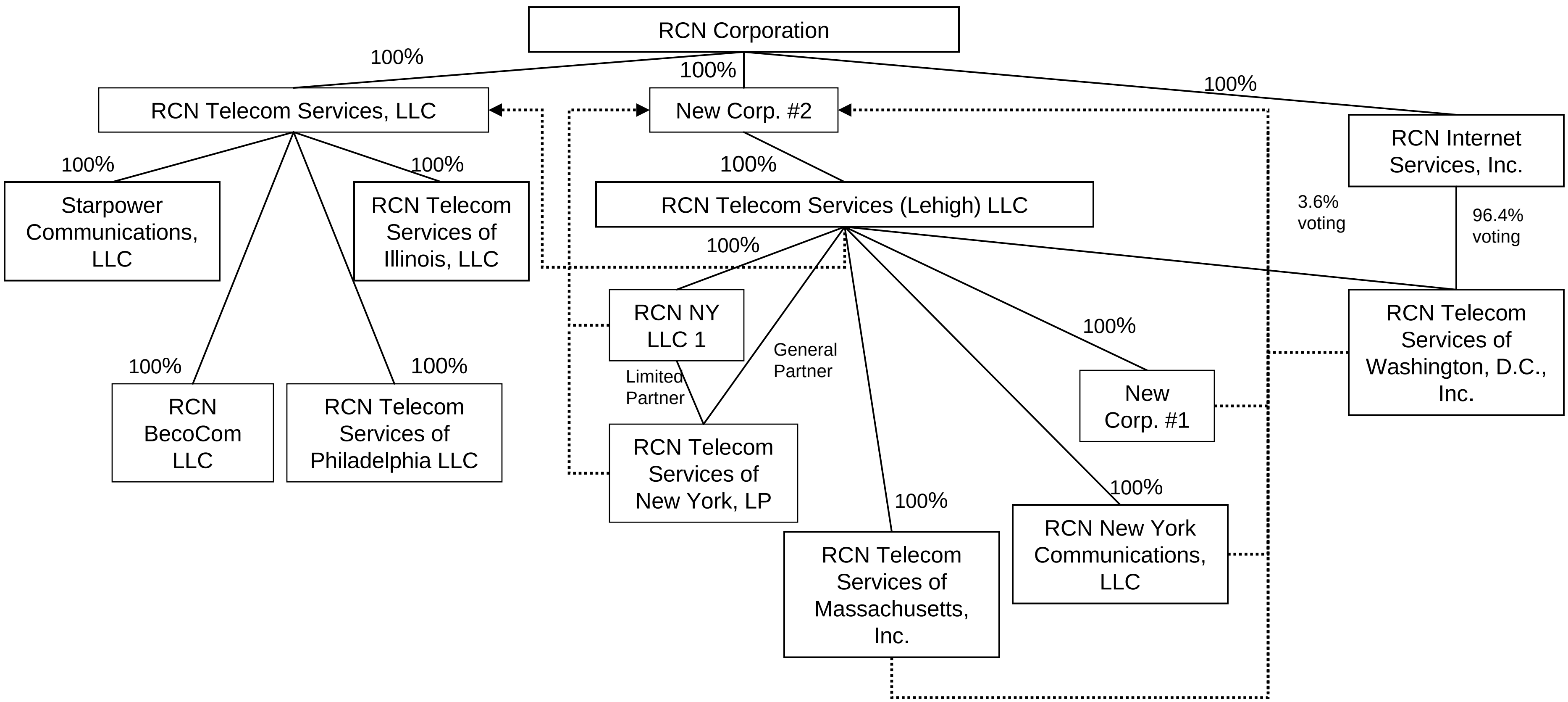


RCN Corporation forms New Corp. #2 (aka RCN NY Newco).

New Corp. #2 forms RCN Telecom Services (Lehigh) LLC

RCN Telecom Services, Inc. merges into RCN Telecom Services (Lehigh) LLC, with RCN Telecom Services (Lehigh) LLC surviving.

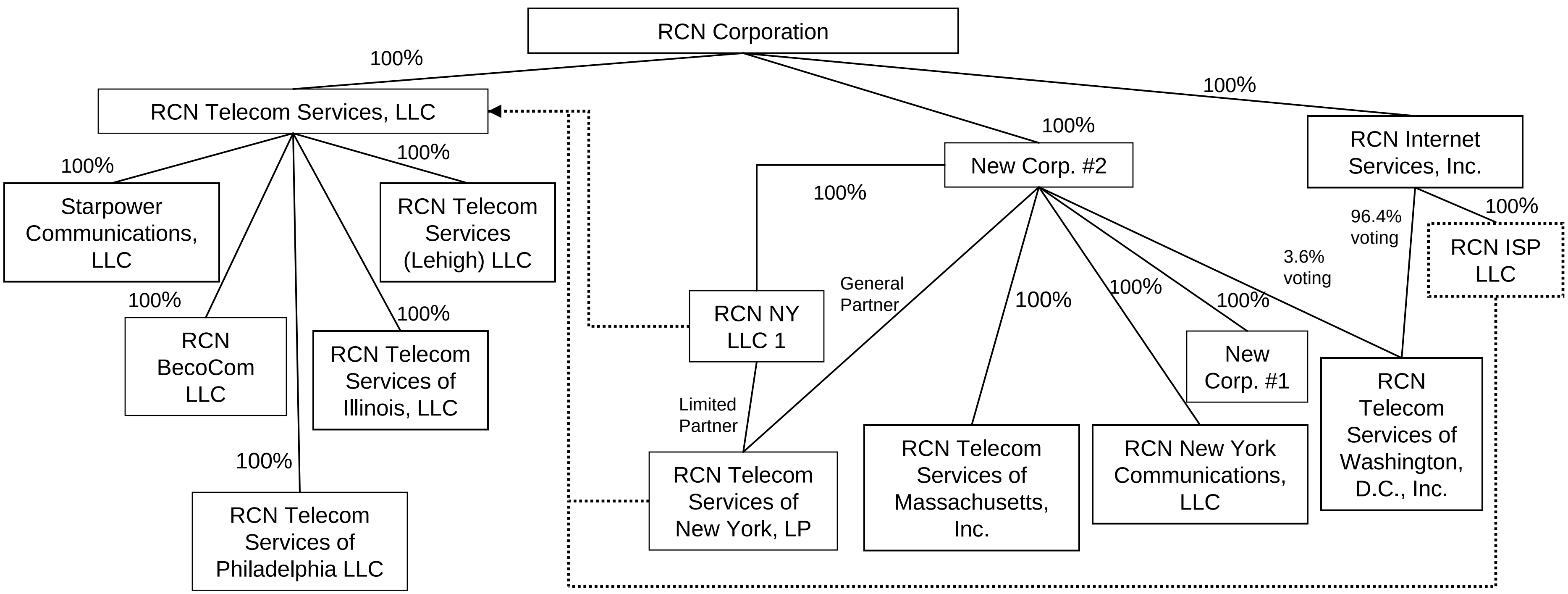
Interim Steps



Interest in RCN Telecom Services of New York, LP, RCN NY LLC 1, New Corp. #1, RCN New York Communications, LLC, RCN Telecom Services of Massachusetts, Inc., and RCN Telecom Services of Washington, D.C., Inc. is assigned to New Corp. #2.

New Corp. #2 assigns its interests in RCN Telecom Services (Lehigh) LLC to RCN Telecom Services, LLC.

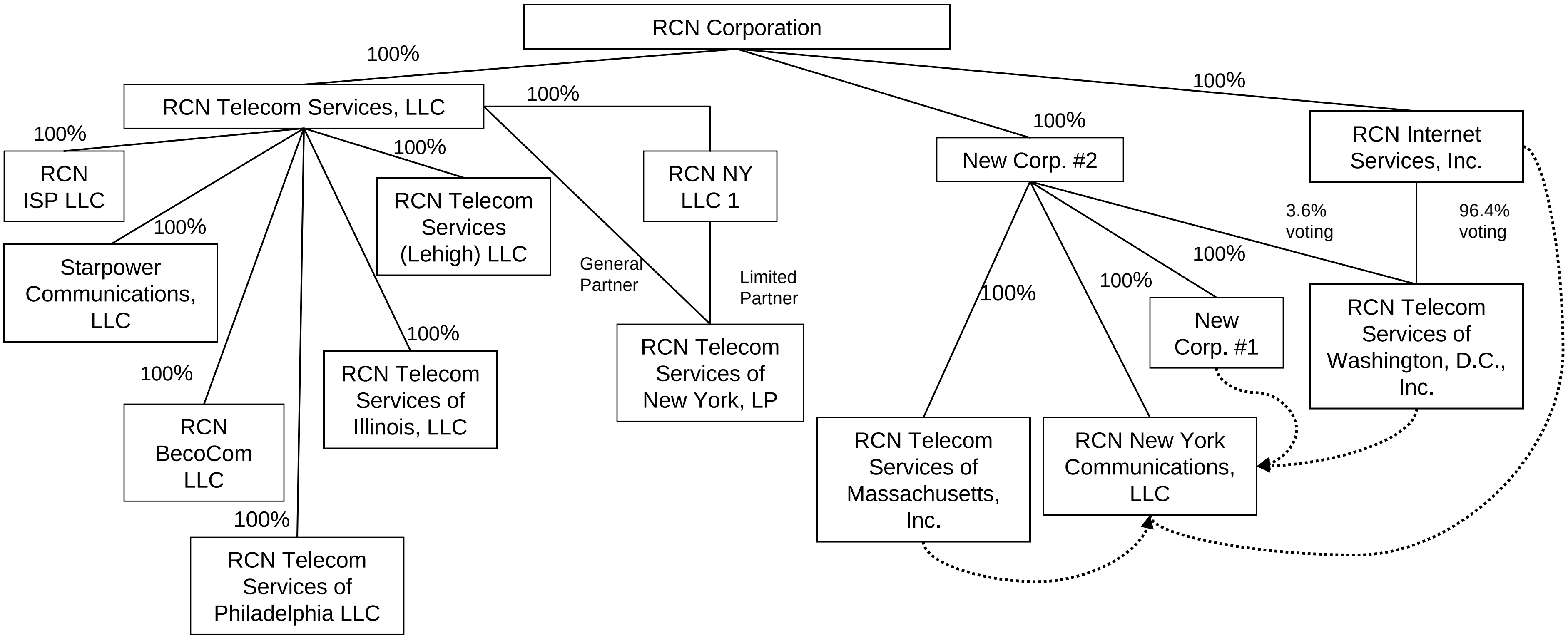
Interim Steps



New Corp. # 2 assigns interest in RCN NY LLC 1 and RCN Telecom Services of New York, LP to RCN Telecom Services, LLC.

RCN Internet Services, Inc. forms RCN ISP LLC and assigns its interest to RCN Telecom Services, LLC.

Interim Steps



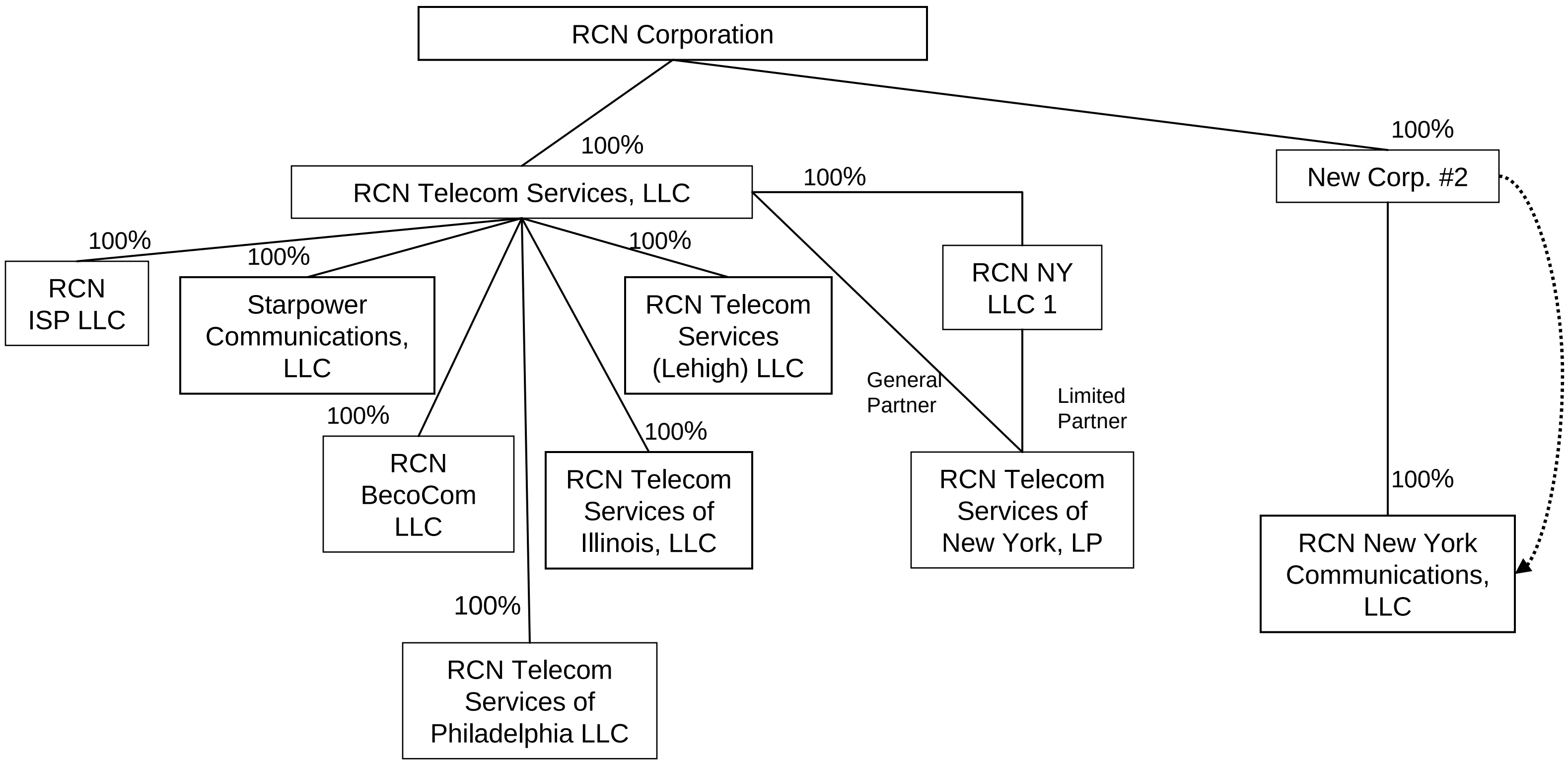
RCN Telecom Services of Massachusetts, Inc. adopts plan of liquidation, distributes its remaining assets (cash) to RCN Corporation, and merges into RCN New York Communications, LLC with RCN New York Communications, LLC surviving.

New Corp. #1 adopts plan of liquidation, distributes its remaining assets to RCN Corporation, and merges into RCN New York Communications, LLC with RCN New York Communications, LLC surviving.

RCN Internet Services, Inc. adopts plan of liquidation, distributes its remaining assets to RCN Corporation, and merges into RCN New York Communications, LLC with RCN New York Communications, LLC surviving.

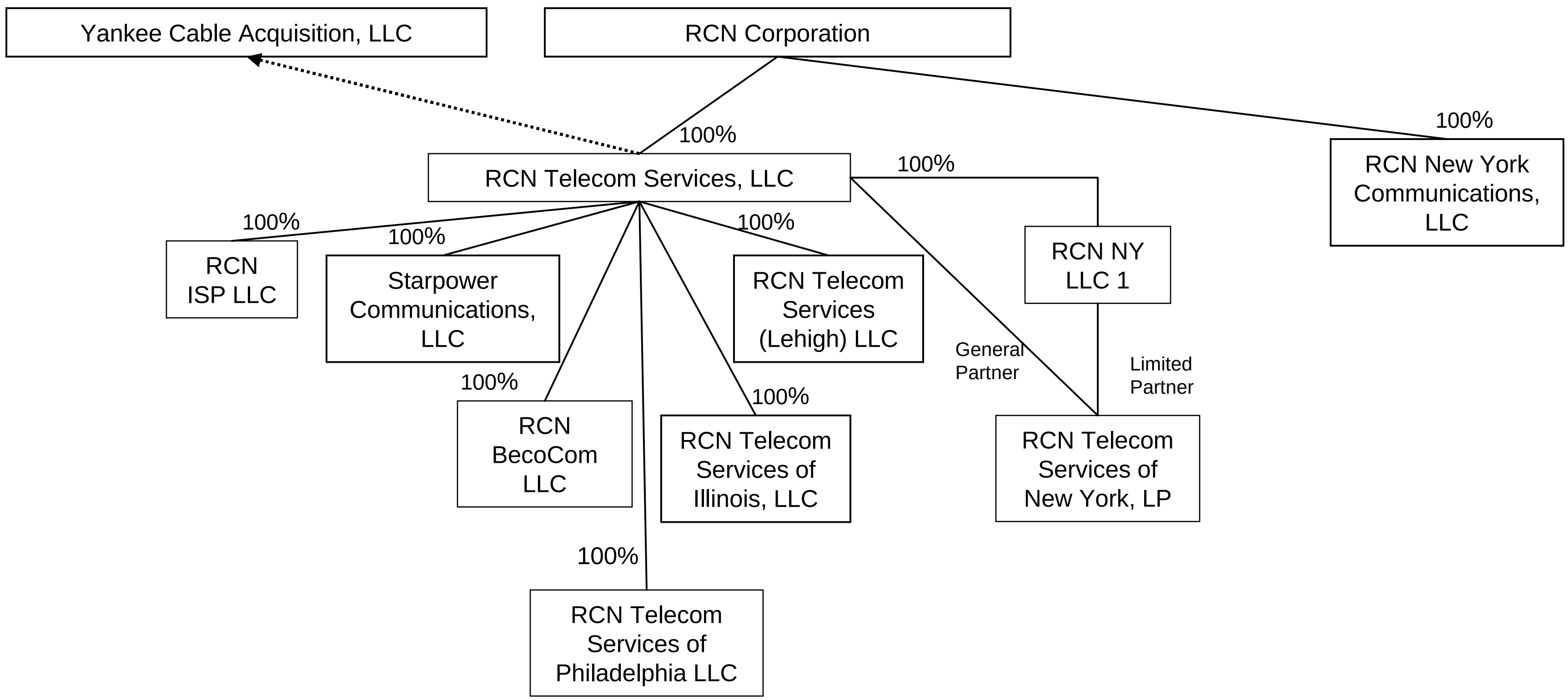
RCN Telecom Services of Washington, D.C., Inc. adopts plan of liquidation, distributes its remaining assets to RCN Corporation, and merges into RCN New York Communications, LLC with RCN New York Communications, LLC surviving.

Interim Steps



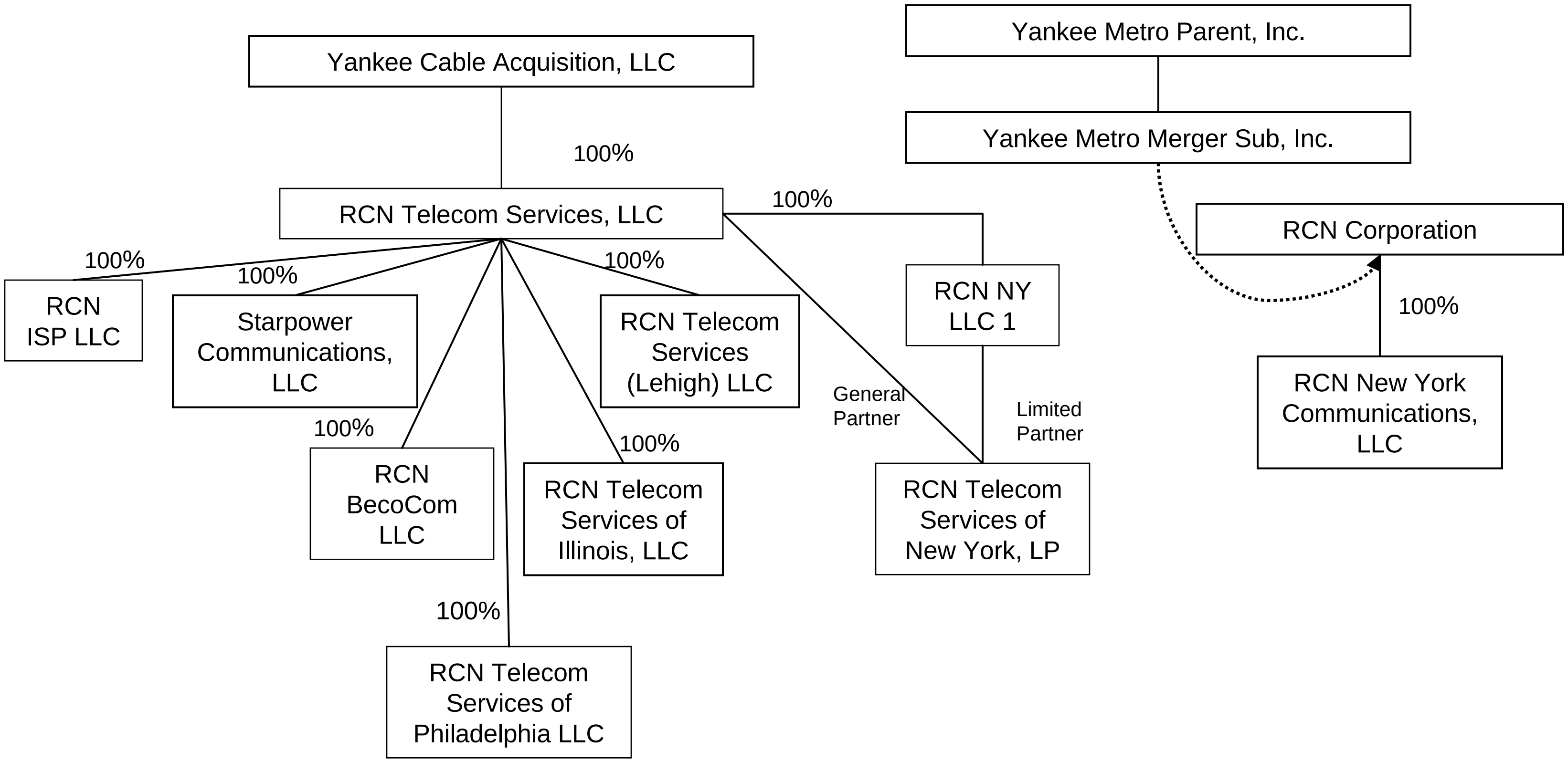
New Corp. 2 adopts plan of liquidation, distributes its remaining assets to RCN Corporation, and merges into RCN New York Communications, LLC with RCN New York Communications, LLC surviving.

Transfer of Control



Yankee Cable Acquisition, LLC purchases all of the interest in RCN Telecom Services, LLC.

Transfer of Control



Yankee Metro Merger Sub, Inc. merges into RCN Corporation with RCN Corporation surviving.

Post-Transaction Corporate Structure

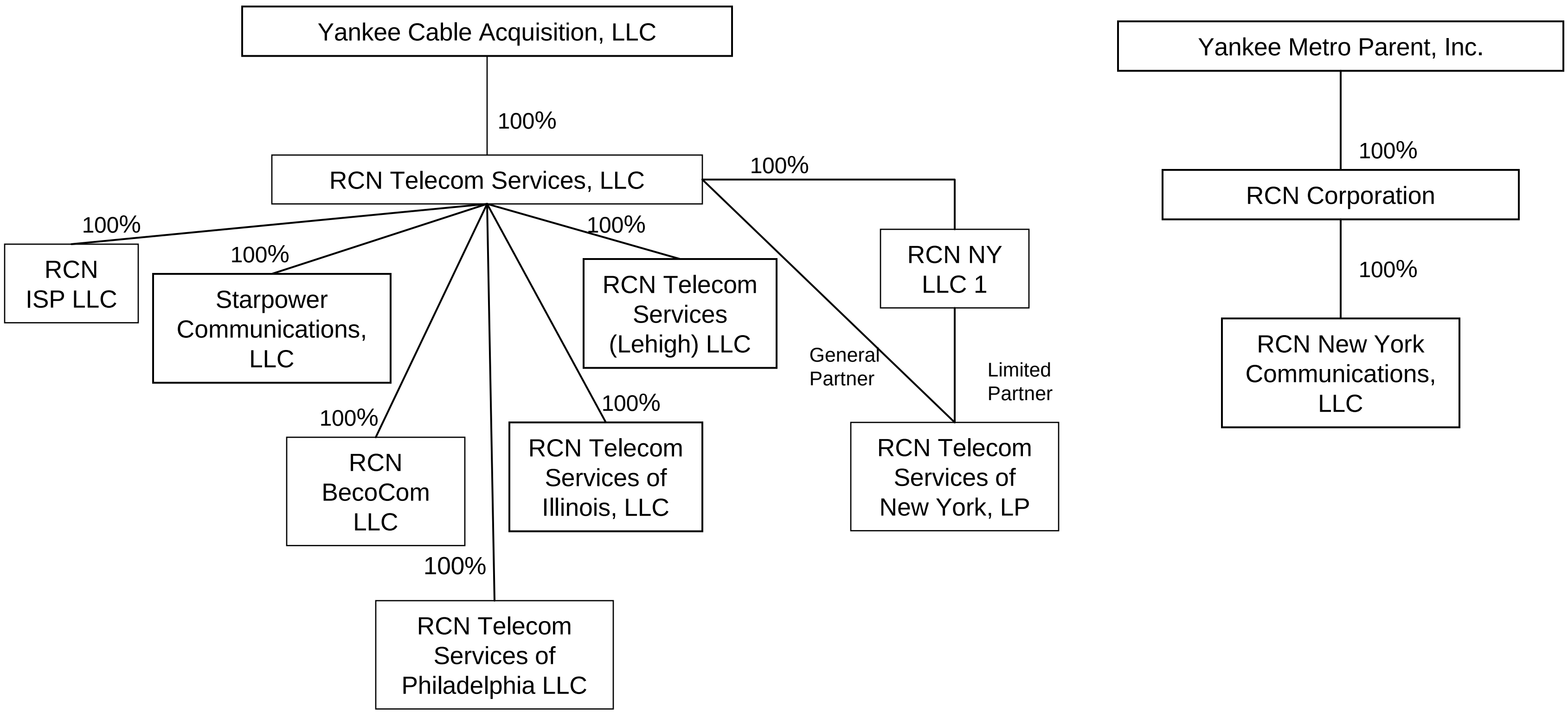


EXHIBIT 3

Debt & Equity Analysis

CONFIDENTIAL

Excerpts from RCN Corporation's Form 10-K for the Fiscal Year Ended December31, 2009

RCN is a competitive broadband services provider, delivering all-digital and high-definition video, high-speed internet and premium voice services to Residential and Small and Medium Business ("SMB") customers under the brand names of RCN and RCN Business Services, respectively. In addition, through our RCN Metro Optical Networks business unit ("RCN Metro"), we deliver fiber-based high-capacity data transport services to large commercial customers, primarily large enterprises and carriers, targeting the metropolitan central business districts in our geographic markets. We construct and operate our own networks, and our primary service areas include: Washington, D.C., Philadelphia, Lehigh Valley (PA), New York City, Boston and Chicago.

Subsequent to the Company's acquisition of NEON Communications Group, Inc. ("NEON") in November 2007, management reorganized RCN's business into two key segments: (i) Residential/SMB and (ii) RCN Metro. There is substantial managerial, network, operational support and product overlap between the Residential and SMB businesses and, as a result, we had historically reported these two businesses as one segment. RCN Metro, however, is managed separately from the other two business units, with separate network operations, engineering, and sales personnel, as well as separate systems, processes, products, customers and financial measures. Management of the Company's two key businesses is unified only at the most senior executive levels of the Company. Therefore, beginning with the results of operations for 2008, the financial results of the RCN Metro business unit are reported as a separate segment in accordance with the requirements of FASB ASC Topic 280 and applicable SEC regulations.

All prior period amounts in this Report have been restated to present the results as two separate reportable segments. For financial and other information about our segments, refer to Item 8, Note 15 to our Consolidated Financial Statements included in this Annual Report. All of the Company's operations are in the United States. Our Residential/SMB segment, which serves approximately 429,000 Residential and SMB customers generated approximately 75% of our consolidated revenues and the RCN Metro segment generated approximately 25% for 2009.

Residential / SMB Segment

In 2009, our Residential/SMB segment generated approximately 75% of our consolidated revenues (see Note 15 "Financial Data by Business Segment" to our Consolidated Financial Statements). Through our RCN and RCN Business Services business units, we offer video, telephone, and high-speed Internet products to residential and SMB customers. Customers can purchase our products on an a la carte basis, or they may choose to bundle multiple services into a single subscription with single billing and a single point of installation and support. Customers who bundle services typically receive those services at a discount to the sum of the a la carte prices of the individual products. Our bundle approach reduces operating costs due to efficiencies in customer care, billing, and support, and we believe offers our customers a greater value. Approximately 67% of our current customer base purchases bundled products.

Video Services

Our video service delivers multiple channels of television programming to subscribers who pay a monthly recurring fee. Subscription rates and other related charges vary depending on the type of service selected and equipment used by the subscriber. We offer varied channel line-ups in each system serving a particular geographic market. Channel offerings are in accordance with applicable local and federal regulatory requirements and are also based on programming preferences and demographics in each of our markets. We receive television signals delivered from television networks over-the-air, by fiber-optic transport, or via satellite delivery to our antennas, microwave relay stations and satellite earth stations. We aggregate and organize these signals in our technical facilities and deliver a specified lineup of programming services to our subscribers in an all-digital format.

Our video services include:

• *Basic and Signature Services* : Our video customers receive a package of basic programming that generally consists of local broadcast television stations, local community programming (including governmental and public access), and limited satellite-delivered or non-broadcast channels. The basic channel line-up generally includes up to 50 channels. Our "Signature" or expanded basic programming package includes approximately 150 additional channels, including many popular regional and national cable networks. Both of these service levels are delivered in a 100% digital viewing format for all customers.

• *Enhanced Digital Services* : We offer additional programming content to customers who desire broader programming choices through our "Premiere" service package, which includes nearly a hundred additional channels, such as special interest networks, movie and entertainment networks.

• *Premium Channels* : Our customers can also purchase premium movie and entertainment channels, such as Showtime, HBO, Starz, and Encore on an a la carte basis for a monthly fee. All such services include related video on demand content as part of the monthly subscription. We also provide foreign language programming for an additional monthly fee.

• *High-Definition Television ("HDTV* "): Our HDTV service provides customers who utilize advanced digital set-top boxes with improved, high-resolution picture quality, improved audio quality and a wide screen format. We currently offer our HDTV customers 100+ high-definition channels in most areas, including most broadcast networks, leading national cable networks, regional sports networks, and premium channels. In addition, our HDTV customers have access to selected VOD content in high-definition format.

• *Video on Demand ("VOD") and Subscription Video on Demand ("SVOD")* : Our VOD service provides customers with access to an extensive library of movies and other television content with control over the timing and playback of that content. A substantial portion of this content is free to our customers, and we continue to expand our library as more content becomes available. RCN also offers SVOD services which provide our customers with on demand access to additional content that is either associated with premium content to which they subscribe, or made available for an additional fee.

• *Digital Video Recorder ("DVR")* : RCN offers a dual-tuner High-Definition DVR set-top box that allows our customers to record one program while viewing another whether it is recorded in standard definition or highdefinition. DVR technology affords the ability to our customers to digitally record, store and play television programs without the inconvenience of tapes or DVDs. In 2009, RCN entered into an agreement with TiVo Inc. whereby RCN will offer co-branded, uniquely configured TiVo High Definition DVRs to its Residential and SMB customers. Expected to launch in the second quarter of 2010, the RCN TiVo DVR is a truly innovative convergence of video and broadband programming controlled through a single user interface that is simple, intuitive, and dramatically different from that of other DVRs. The RCN TiVo DVR will give customers a first of its kind video experience by fully integrating RCN’s digital programming and VOD library with a wide variety of broadband delivered video programming, providing access to a vast library of programming not available through traditional cable or satellite services.

• *Pay-Per-View (“PPV”)* : Our PPV service provides customers with the ability to order, for a separate fee, movies as well as “Big Event” programming such as sporting events or music concerts on an unedited, commercial-free basis.

• *Lehigh Valley Studio:* We operate a video production studio located in Lehigh Valley, Pennsylvania, where we produce sports, news, and entertainment programs focused on community and local interest in our markets. Much of this RCN-produced content is made available on an on-demand basis through our VOD platform.

• *Bulk Video Services:* We provide video services to hotels, hospitals, universities, and other organizations seeking to deliver multiple video connections by means of a single relationship with a video provider.

High-Speed Data Services

We offer high-speed Internet services to residential and SMB customers at download speeds ranging from 1.5 megabits per second (“Mbps”) to 20 Mbps in all of our markets, and up to 60 Mbps in selected markets. Our data services include Internet access, email and webmail, Internet security, and other web-based services.

Voice Services

We provide local, long distance, and international voice telephone services. We offer a full range of calling plans that generally include unlimited local, regional, and long distance calling with a variety of calling features. Our voice service features include voicemail, caller identification, call waiting, call forwarding, 3-way calling, 911 access, operator services, and directory assistance. We provide voice services through a traditional, switched platform to our legacy phone customers, and for our newer phone customers, including all new installations, we use a “digital phone” architecture that transmits data signals over our broadband network between the customer premises and an RCN switch, which then interfaces with the public switched telephone network.

RCN and RCN Business Services Network

Our RCN and RCN Business Services network architecture consists of a hybrid-fiber-coax network predominantly designed and built to support a bandwidth of 860 Megahertz. This architecture enables us to offer video, high-speed data, and local and long distance voice services to customers over a common network infrastructure. Our network also supports two-way interactive services such as VOD and linear pay-per-view services, as well as higher bandwidth high-definition video services. The conversion to an all-digital video platform has allowed us to reallocate bandwidth on our network and to launch expanded and enhanced programming services.

Our distribution network relies on service nodes, which receive video, data and voice signals from our fiber optic network and transmit those signals along our coaxial “last mile” distribution cables to customers’ premises. Our fiber cable entering any particular service node typically reaches to within 1,000 feet of the customers’ premises, and the node service area typically consists of approximately 150 homes or small business locations. This small node service area combined with the deep fiber architecture provides for better operational performance of our network and also provides higher bandwidth per home than the traditional network design of other cable and telecommunication service providers.

Our data network consists of the networking and computer equipment required to provide complete internet service provider (“ISP”) services to both our residential and SMB customers. We maintain an Internet backbone network that is used to interconnect to both settlement-free and settlement-based carriers. During the fourth quarter of 2009, we launched DOCSIS 3.0 in our New York market, offering download speeds of up to 60Mbps and upload speeds of up to 10Mbps. We expect to deploy DOCSIS 3.0 in our remaining markets over the next 18 months, which will include upgrades enabling us to offer even higher upload and download speeds.

We also maintain a carrier grade voice network that is capable of delivering high-quality voice services to residential and SMB customers. We provide voice services to our legacy phone customers through a traditional, circuit-switched platform, which uses our fiber-optic backbone facilities with synchronous optical network (“SONET”) transport electronics to provide interconnection from the RCN local telephony switch to the telephony distribution electronics. Our circuit-switched voice network provides primary line service with full interconnection to the local emergency 911 centers and includes reserve batteries in the network or at the customers premise to provide backup power in the event of a commercial power outage. For our newer phone customers, including all new installations, we use a “digital phone” architecture that transmits data signals over our broadband network between the customer premises and the RCN local telephony switch, which then interfaces with the public switched telephone network. During 2009, we purchased a MetaSwitch SoftSwitch, to begin our migration to an all-IP telephony platform. Residential customers will see the benefits of an enhanced calling feature set, including advanced voicemail and messaging services, while SMB customers will have access to a full suite of business grade features, as well as Hosted IP PBX and SIP Trunking. We expect to begin deployment of the SoftSwitch platform during the second quarter of 2010 in our New York Market, with additional deployments expected in our remaining markets over the next two years.

Competition

We compete with a wide range of service providers in each market, including incumbent local exchange carriers (“ILECs”), incumbent multiple system cable operators (“MSOs”), Direct Broadcast Satellite (“DBS”) providers, wireless providers and competitive telecommunications and Internet service providers. In recent years, competition has increased significantly for video, voice and data services in our markets, and we believe it will continue to intensify in the future. Our primary competitors, particularly Comcast, Time Warner, Verizon and AT&T possess significantly greater financial resources than we do, which they are using to fund substantial network expansions and upgrades, as well as product and service enhancements, and because we are presently unable to match this level of overall investment, we rely on our ability to provide more personalized and effective services to our customers and to operate more efficiently to compete against these companies.

Our primary competition for video services consists of incumbent MSOs and ILECs named above in our metro markets, Service Electric in Lehigh Valley, PA, and the DBS providers, DirecTV and Dish Network. We also, to a lesser degree, compete with interactive broadband services, wireless and other emerging technologies that provide for the distribution and viewing of video programming, as well as home video products.

Our primary competition for voice and high-speed Internet services consists of incumbent MSOs and ILECs named above in our metro markets, Service Electric in Lehigh Valley, PA, Competitive Local Exchange Carriers ("CLECs"), VoIP service providers, and wireless providers.

RCN Metro Segment

In 2009, our RCN Metro segment generated approximately 25% of our consolidated revenues (see Note 15 "Financial Data by Business Segment" to our Consolidated Financial Statements). Through our RCN Metro segment, we offer commercial transport products and services to large enterprise and carrier customers. We distinguish RCN Metro in our markets by offering high-bandwidth, high-availability, diverse and redundant solutions for our customers, as well as superior customer service and technical responsiveness. Our RCN Metro network includes numerous unique fiber routes, making us an attractive provider of telecommunications services to critical customer locations that require redundant and diverse communications solutions.

Our enterprise customers are generally large corporations, financial, healthcare and educational institutions, and government agencies seeking high-bandwidth data transport services. We target Fortune 1000 companies and work closely with enterprise clients to develop custom telecommunications solutions that leverage our network and operational expertise. We have developed significant expertise in meeting the telecommunications needs of financial services firms, with several stock exchanges and major banks among our customers. Enterprise customers represent approximately 40% of RCN Metro's revenue.

Our carrier customers are telecommunications services companies, including ILEC's, CLEC's, and other service providers, who utilize our services to provide redundancy for their own networks and to develop customer-specific applications. Wireless communications providers are among our largest carrier customers, to whom we provide backhaul transport services to aggregate traffic from their geographically-dispersed cell sites and switch sites. Carrier customers represent approximately 60% of RCN Metro's revenue.

RCN Metro Products

Our commercial product offerings include metro and intercity SONET, dense wavelength division multiplexing ("DWDM"), and Ethernet based transport services, co-location services, and IP services. Following the initiation of RCN Metro service to a customer in any building, we target other potential customers in that building to deliver higher margin, incremental products and services to multiple customers located in that building.

• *Transport Services:* We provide SONET and Ethernet-based data transport services both within our metro markets and between cities over our intercity fiber network. Specific service offerings include: SONET Private Line services at bandwidth levels including DS-1, DS-3, OC-3, OC-12, OC-48, and OC-192; Wavelength (DWDM) services enabling flexible and scalable high-capacity transport at 1.25, 2.5 and 10 Gbps; and Ethernet services via dedicated, point-to-point as well as point-to-multipoint connectivity. We offer these services utilizing a variety of equipment platforms, enabling us to deliver services to customers in their preferred telecommunications architecture, including Cisco, Nortel, Lucent, and Ciena equipment.

• *Co-Location Services:* We offer co-location services to our customers by maintaining secured and monitored technical space in the same facilities as several of our larger network operations locations. We offer full disaster recovery and data back-up capabilities in facilities that help assure maximum server and data availability, as well as customized monitoring, maintenance and hosting services, and provide cost-effective pricing for customers who desire to combine co-location and hosting services with our data transport services.

• *Internet Access:* Our Internet access offerings include dedicated access services targeted at businesses that desire single or multipoint high-speed, dedicated connections to the Internet. Our dedicated Internet access service provides internet speeds of up to a Gigabit per second. We maintain numerous public and private peering arrangements with other Internet backbone networks in our geographic footprint.

RCN Metro Network

RCN Metro's network is a fiber-based, highly redundant, survivable network optimized to deliver carrier grade telecommunications services to enterprise and carrier customers. The RCN Metro fiber-optic network is comprised of fiber owned by RCN and fiber leased from third party providers, typically under long-term leases. The majority of RCN Metro's fiber route miles are leased, while the majority of RCN Metro's fiber strand miles are owned. In several of our markets, the majority of our commercial fiber cable deployed is placed in entirely separate conduit facilities from those of the incumbent service providers, providing a major competitive differentiator and selling point for our enterprise and carrier customers. In other cases, we utilize the rights-of-way provided by incumbent telecommunications and utility providers, or our own facilities in public rights-of-way. The acquisition of NEON substantially extended the reach of our RCN Metro network, adding intercity transport routes that extend from Maine to Virginia. Several of these newly added routes follow geographic paths that are diverse from the I-95 corridor along which many of the industry's existing north-south telecommunications facilities traditionally follow.

A substantial majority of our RCN Metro revenue is earned using network routes and equipment that are distinct from our RCN and RCN Business Services network assets. We are able, however, to leverage the deeply penetrated fiber footprints of our RCN and RCN Business Services networks to deliver high-bandwidth enterprise and carrier products to additional locations. In addition, we maintain two separate RCN Metro network operations centers, staffed by telecommunications engineers and operations professionals trained specifically to support RCN Metro customers. Finally, the design, installation, support, and disconnection of RCN Metro services are performed by technicians trained specifically to work in our RCN Metro network environment. We utilize common back-office support services with our RCN and RCN Business Services units to obtain cost efficiencies while maintaining our focus on enterprise and carrier customers.

Our RCN Metro network was designed to provide highly redundant fiber facilities between key customer locations within the central business districts of the major cities and regions in which we operate. Our fiber network is comprised of approximately 10,000 miles of fiber cable routes, offering approximately 335,000 fiber miles of network capacity. Our services are delivered over fiber optic cable installed, monitored, and maintained entirely by RCN. We currently deliver fiber-based communications services to approximately 1,500 on-net locations, including connections to more than 144 ILEC central offices and 24 co-location facilities.

Competition

Our RCN Metro business unit competes against the largest ILECs, CLECs, and other data transport providers, including Verizon Business, AT&T, Qwest, Level 3 Communications, and AboveNet. The ILECs, in particular, have significant advantages over RCN Metro, including greater capital resources, local networks in many markets where we do not have facilities, and longstanding customer relationships, particularly in buildings that we have not previously serviced. We also face competition from smaller competitive access providers, CLECs and other new entrants. We seek to distinguish our products by offering diverse network paths, redundancy, superior care and technical responsiveness, and value-added product offerings, such as co-location, tailored to the needs of our customers.

Risk Factors

We have a history of net losses and we emerged from Chapter 11 reorganization in 2004.

In each period since we emerged from bankruptcy in 2004, we have incurred net losses. For 2009, 2008 and 2007, we have reported net losses of $28.6 million, $70.7 million and $152.0 million, respectively. Our net losses are principally attributable to insufficient revenue to cover our operating expenses, which we expect will remain significant.

Our markets are highly competitive, and many of our competitors have significant advantages. We may not be able to respond quickly or effectively to changes in the competitive environment, which could have a material adverse impact on our results of operations and financial position.

In particular, we face increasing competition from incumbent telephone companies. For example, Verizon and other competitors now offer video services in several of our service areas and are expected to continue deploying video services in most of our remaining service areas in the next several years. Incumbent telephone companies’ competitive position has been improved by recent operational, regulatory and legislative advances. The attractive demographics of our major urban markets make many of our service areas desirable locations for investment in video distribution technologies by both incumbents and new entrants. By the nature of our relatively mature markets, the introduction of a viable new entrant will increase competitive intensity, leading to downward pricing pressure on, and customer losses for, the prior market competitors. For example, during 2008 and 2009, while we grew revenue on a consolidated basis, we lost video connections, customers and revenue in the geographic areas where Verizon offered video service. While these declines did not have a material impact on our consolidated results of operations, we cannot predict the extent to which increased competition, particularly from large incumbents, will impact our results of operations in the future.

We may be unable to successfully anticipate and respond to various competitive factors affecting our industry, including regulatory changes that may affect our competitors differently from us, new technologies and services that may be introduced, changes in consumer preferences, demographic trends and discount pricing strategies by competitors, which could have a material adverse impact on our results of operations and financial position.

Programming costs have risen in past years and are expected to continue to rise, and we may not be able to pass such programming costs through to our customers, which could adversely affect our cash flow and operating margins.

The cost of obtaining programming is the largest operating cost associated with providing our video service. These costs have increased each year, and we expect them to continue to increase, especially the costs associated with sports programming.

Programming costs may also be impacted by certain consolidations as cable systems acquire certain programming channels. The terms of many of our programming contracts are for multiple years and provide for future increases in the fees we must pay. In addition, local over-the-air television stations are increasingly seeking substantial fees for retransmission of their stations over our cable networks. Historically, we have absorbed increased programming costs in large part through increased prices to our customers. We cannot assure you that competitive and other marketplace factors will permit us to continue to pass through these costs, particularly as an increasing amount of programming content is available via the Internet at little or no cost. Despite our efforts to manage programming expenses, we cannot assure you that the rising cost of programming will not adversely affect our cash flow and operating margins. In addition, programming costs are generally related directly to the number of subscribers to which the programming is provided. Larger cable and DBS systems generally pay lower per subscriber programming costs than we do. This cost difference can cause us to suffer reduced operating margins as prices decrease, while our competitors will not suffer similar margin compression due to their generally lower costs. In addition, as programming agreements come up for renewal, we cannot assure you that we will be able to renew these agreements on comparable or favorable terms. To the extent that we are unable to reach acceptable agreements with programmers, we may be forced to remove programming from our lineup, which could result in a loss of customers and materially adversely affect our results of operations and financial condition.

The covenants in our credit agreement restrict our financial and operational flexibility.

Our credit agreement imposes operating and financial restrictions that affect our ability to, among other things:

- incur additional debt;
- create liens on our assets;
- make particular types of investments or other restricted payments;
- engage in transactions with affiliates;
- acquire assets or make certain capital expenditures;
- utilize proceeds from asset sales for purposes other than debt reduction, except for limited exceptions for reinvestment in our business;

- merge or consolidate or sell substantially all of our assets; and
- pay dividends or repurchase shares of our common stock.

These requirements may affect our ability to finance future operations or to engage in other beneficial business activities.

These restrictions may also limit our flexibility in planning for, or reacting to, changes in market conditions and cause us to be more vulnerable in the event of a downturn in our business. If we violate any of these restrictions, we could be in default under our credit agreement and our creditors could seek to accelerate our repayment obligations and/or foreclose on our assets, either of which would materially and adversely affect our financial position.

The financial information presented in the table below comprises the audited consolidated financial information for 2009, 2008 and 2007.

	Year Ended December 31,		
	2009	2008	2007
	(dollars in thousands)		
Revenues	$ 763,770	$ 739,243	$ 636,097
Costs and expenses:			
Direct expenses	275,240	264,219	224,770
Selling, general and administrative (including stock-based compensation of $10,228, $13,335 and $33,206)	279,916	294,100	288,426
Exit costs and restructuring charges	575	2,314	8,194
Depreciation and amortization	193,273	198,915	196,066
Operating income (loss)	14,766	(20,305)	(81,359)
Investment income	395	2,880	9,424
Interest expense	(42,344)	(53,301)	(34,510)
Loss on the early extinguishment of debt	—	—	(63,795)
Other expense, net	(363)	—	(451)
Loss before income taxes	(27,546)	(70,726)	(170,691)
Income tax expense (benefit)	1,072	—	(1,049)
Net loss from continuing operations	(28,618)	(70,726)	(169,642)
Income from discontinued operations, net of tax	—	—	1,684
Gain on sale of discontinued operations, net of tax	—	—	15,921
Net loss	$ (28,618)	$ (70,726)	$ (152,037)

Consolidated Operating Results

Consolidated Revenues

Consolidated revenue increased $24.5 million, or 3.3%, in 2009 compared to 2008, primarily due to higher transport revenues in the RCN Metro segment and a slight increase in the average number of customers from 2008 to 2009 in the Residential/SMB segment.

Consolidated revenue increased $103.1 million, or 16.2%, in 2008 compared to 2007, largely due to the acquisition of NEON. In 2007, the Company recorded a $4.4 million benefit related to a reciprocal compensation agreement. On a pro forma basis, and excluding the $4.4 million benefit, consolidated revenue increased $43.2 million, or 6.2%, in 2008 as compared to the same period in 2007, primarily due to an increase in the number of customers in the Residential/SMB segment and higher transport revenues in the RCN Metro segment.

Consolidated Direct Expenses

Consolidated direct expenses increased $11.0 million, or 4.2%, in 2009 compared to 2008. Direct expenses include net benefits from favorable settlements with voice and data network providers related to ordinary course network cost disputes totaling $4.0 million during 2009 and $1.9 million during 2008. Excluding these benefits, consolidated direct expenses increased $13.1 million, or 4.9%, in 2009 compared to 2008, primarily due to an increase in the average programming cost per subscriber in the Residential/SMB segment as well as added costs associated with the increase in revenue in the RCN Metro segment.

Consolidated direct expenses increased $39.4 million, or 17.6%, in 2008 compared to 2007, primarily due to the acquisition of NEON. On a pro forma basis, consolidated direct expenses increased $14.2 million, or 5.7%, in 2008 compared to 2007 as a result of an increase in the average programming cost per subscriber in the Residential/SMB segment and an increase in customers and revenue in the RCN Metro segment as well. Direct expenses also include net benefits from favorable settlements with voice and data network providers related to ordinary course network cost disputes totaling $1.9 million and $2.2 million in 2008 and 2007, respectively.

Consolidated Selling, General and Administrative Expenses

Consolidated selling, general and administrative expenses ("SG&A") decreased $14.2 million, or 4.8%, in 2009 compared to 2008. Excluding stock-based compensation, SG&A expense decreased $11.1 million, or 4.0%, in 2009 compared to 2008, primarily reflecting (i) the results of the investments made in 2008 and 2009 to improve the long-term productivity and effectiveness of field operations, and the marketing and sales functions in the Residential/SMB segment, which were partially offset by increases in property tax and collections expense and (ii) synergies associated with the integration of the NEON business acquired in November 2007 in the RCN Metro segment. In addition, SG&A expenses decreased by $2.2 million in 2009, as compared to 2008, due to the suspension of the Company's matching contribution to the 401(k) plan in the beginning of the second quarter of 2009.

Consolidated SG&A increased $5.7 million, or 2.0%, in 2008 compared to 2007, primarily due to the acquisition of NEON partially offset by a decrease in stock-based compensation expense of $19.9 million. On a pro forma basis, and excluding stockbased compensation, SG&A increased by $1.2 million, or 0.4%, in 2008 compared to 2007, reflecting increases in bad debt expense, property taxes and legal costs, partially offset by a decline in certain general and administrative expenses, primarily due to the integration and synergies achieved through the NEON acquisition.

Excerpts from RCN Corporation's Form 10-K for the Fiscal Year Ended December31, 2009

Residential/SMB Metrics

	2009	2008	2007
Video RGUs (1)	364,000	366,000	358,000
Data RGUs (1)	312,000	302,000	285,000
Voice RGUs (1)	223,000	244,000	250,000
Total RGUs (1)	899,000	911,000	893,000
Customers (2)	429,000	428,000	416,000
ARPC (3)	$ 110	$ 110	$ 109

(1) Revenue Generating Units ("RGUs") are all video, high-speed data, and voice connections provided to residential households and SMB customers. Dial-up Internet and long distance voice services are not included. Additional telephone lines are each counted as an RGU, but additional room outlets for video service are not counted. For bulk arrangements in 27 residential multiple dwelling units ("MDUs"), including dormitories, the number of RGUs is based on the number of video, high-speed data and voice connections provided and paid for in that MDU. Commercial structures such as hotels and offices are counted as one RGU regardless of how many units are in the structure. Delinquent accounts are generally disconnected and no longer counted as RGUs after a set period of time in accordance with our credit and disconnection policies. RGUs may include customers receiving some services for free or at a reduced rate in connection with promotional offers or bulk arrangements. RGUs provided free of charge under courtesy account arrangements are not counted, but additional services paid for are counted.

(2) A "Customer" is a residential household or SMB that has at least one paid video, high-speed data or local voice connection. Customers with only dial-up Internet or long distance voice service are not included. For bulk arrangements in residential MDUs, including dormitories, each unit for which service is provided and separately paid for is counted as a Customer. Commercial structures such as hotels and offices are counted as one Customer regardless of how many units are in the structure. Delinquent accounts are generally disconnected and no longer counted as Customers after a set period of time in accordance with our credit and disconnection policies.

(3) Average revenue per customer ("ARPC") is total revenue for a given monthly period (excluding dial-up Internet, reciprocal compensation and commercial revenue) divided by the average number of Customers for the period. This definition of ARPC may not be similar to ARPC measures of other companies.

Residential/SMB Revenues

Residential/SMB revenue increased $6.1 million, or 1.1% in 2009 compared to 2008. The increase is primarily due to a slight increase in the average number of customers from 2008 to 2009. Total RGUs decreased by approximately 12,000, or 1.3%, from December 31, 2008 to December 31, 2009, driven primarily by voice penetration losses, consistent with trends for highly penetrated landline voice providers, partially offset by growth in data RGUs. Video RGUs decreased slightly from December 31, 2008 to December 31, 2009. ARPC was flat at $110 in both 2009 and 2008, as growth in average revenue per video RGU and increased high-speed data penetration was offset by declines in voice penetration and average revenue per data RGU. The increase in average revenue per video RGU was driven mainly by our annual video rate increase, which partially mitigates the impact of annual increases in programming costs, as well as increased penetration of our digital set-top, HD and DVR boxes.

Our digital video penetration rate rose to 100% of video customers in the fourth quarter of 2009 from 87% in the fourth quarter of 2008, as we completed Project Analog Crush. The decrease in average revenue per data RGU was primarily due to a shift towards lower-speed data plans, a trend which has increased over the past year.

Residential/SMB revenue increased $21.7 million, or 4.0%, in 2008 compared to 2007. Excluding a $4.4 million benefit related to a reciprocal compensation agreement recognized in 2007, Residential/SMB revenue increased $26.1 million, or 4.8%, during 2008 as compared to 2007. The increase is primarily due to an increase in the average number of customers and ARPC.

Customers increased by approximately 12,000, or 2.9%, from December 31, 2007 to December 31, 2008, primarily due to increased sales opportunities generated through investments in new and rebuilt homes, and increased focus on sales and marketing to SMB customers. Total RGUs grew by approximately 18,000, or 2.0%, from December 31, 2007 to December 31, 2008, driven primarily by overall customer increases, with data RGU growth outpacing video RGU growth. Voice RGUs declined consistent with industry trends. ARPC increased from $109 for 2007 to $110 for 2008 due primarily to growth in average revenue per video RGU and increased high-speed data penetration, partially offset by declines in average revenue per voice and data RGU. The increase in average revenue per video RGU was driven mainly by our annual video rate increase, as well as increased customer purchases of value added products and services such as our digital set-top, HD and DVR boxes, digital programming tier and premium channels. Our digital video penetration rate rose to 87% of video customers in the fourth quarter of 2008 from 69% in the fourth quarter of 2007. The decrease in average revenue per voice RGU was due to overall market pricing trends, where voice prices have consistently decreased over the past several years. The decrease in average revenue per data RGU was primarily due to an increase in the percentage of data RGUs representing lower-speed data plans, a trend which has increased since RCN introduced these plans in 2007.

Residential/SMB Direct Expenses

Direct expenses increased $6.9 million, or 3.5%, in 2009 compared to 2008. Direct expenses include a net benefit from favorable settlements with voice and data network providers on ordinary course network cost disputes totaling $4.0 million during 2009 and $1.9 million during 2008. Excluding these settlements, Residential/SMB direct expenses increased $9.0 million, or 4.5%, in 2009 compared to 2008. Increases in the average programming cost per subscriber resulted in an increase in video direct costs for 2009 totaling $12.5 million as compared to 2008. Voice and data network costs in 2009, excluding the impact of settlements with providers of our voice and data network services, decreased by $3.5 million, or 10.9%, primarily due to a reduction in voice RGUs and benefits achieved as a result of an ongoing network optimization initiative.

Direct expenses increased $9.3 million, or 4.9%, in 2008 compared to 2007 primarily due an increase in the average

programming cost per subscriber and higher average video RGUs. Direct expenses for 2008 and 2007 include a net benefit of $1.9 million and $2.2 million, respectively, as a result of favorable settlements with our voice and data network providers. Direct expenses for 2007 also include a charge of approximately $1.5 million for franchise fees identified during an audit.

RCN Metro Revenues

Revenue increased $18.4 million, or 10.7%, in 2009 as compared to 2008, primarily due to growth in transport services to our carrier and enterprise customers. RCN Metro had approximately 800 customers as of December 31, 2009. The top 20% of these customers had monthly revenue in excess of $10,000 per customer, generating approximately 90% of RCN Metro’s total revenue, and the top 3% of these customers had monthly revenue in excess of $100,000 per customer, representing multiple locations and services purchased per customer, and generated approximately 60% of RCN Metro’s total revenue. From a customer segment perspective, RCN Metro generates approximately 30% of its revenue each from telecommunications carriers, national wireless providers and financial services enterprise customers, and the remainder from other enterprise customers.

RCN Metro revenue increased $81.5 million, or 90.7%, in 2008 as compared to 2007, primarily due to the acquisition of NEON. On a pro forma basis, revenue increased $17.2 million, or 11.1%, in 2008 as compared to 2007, due primarily to growth in transport services to our carrier and enterprise customers.

While RCN Metro’s revenue is somewhat concentrated within certain industries and customers, we attempt to mitigate any potential risk by performing detailed credit analyses on new customers and by aggressively managing outstanding accounts receivable balances and customer payments. In addition, our core product set often supports mission critical customer applications (e.g., trading operations, voice/data traffic aggregation, core network connectivity, etc.), which positions us well relative to other suppliers.

RCN Metro Direct Expenses

Direct expenses increased $4.1 million, or 6.3%, in 2009 as compared to 2008, largely due to added costs associated with the increase in revenue, including co-location costs and leased circuits, partially offset by a reduction in building access fees.

Direct expenses increased $30.2 million, or 87.0%, in 2008 as compared to 2007, primarily due to the acquisition of NEON.

On a pro forma basis, direct expenses increased $4.9 million, or 8.2%, for 2008, largely due to added costs associated with the increase in revenue, including leased circuits, building access, rights-of-way and co-location costs.

Excerpts from RCN Corporation's Form 10-K for the Fiscal Year Ended December31, 2009

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Year Ended December 31,		
	2009	**2008**	**2007**
Cash flows from operating activities:			
Net loss	$ (28,618)	$ (70,726)	$ (152,037)
Income from discontinued operations, net of tax	—	—	(1,684)
Gain on sale of discontinued operations	—	—	(15,921)
Net loss from continuing operations	(28,618)	(70,726)	(169,642)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Non-cash stock-based compensation expense	10,228	13,335	33,206
Loss on early extinguishment of debt	—	—	63,795
Amortization of debt issuance costs	1,687	1,685	740
Deferred income taxes, net	764	—	(1,049)
Depreciation and amortization	193,273	198,915	196,066
Provision for doubtful accounts	16,387	16,384	10,880
Exit costs and restructuring charges	84	(2,699)	2,460
Net change in certain assets and liabilities, net of business acquisitions:			
Accounts receivable and unpaid revenues	(18,933)	(13,305)	(12,560)
Accounts payable and accrued expenses	(17,142)	(117)	(13,744)
Advanced billing and customer deposits	(1,868)	(7,670)	338
Other assets and liabilities	(2,945)	4,169	(1,802)
Net cash provided by continuing operations	152,917	139,971	108,688
Cash provided by discontinued operations	—	—	476
Net cash provided by operating activities	**152,917**	**139,971**	**109,164**
Cash flows from investing activities:			
Additions to property, plant and equipment	(118,255)	(143,252)	(115,510)
Investment in acquisitions and intangibles, net of cash acquired	—	—	(261,843)
Decrease (increase) in short-term investments	37,841	(7,144)	12,268
Proceeds from sales of property, plant and equipment	974	1,850	1,955
Proceeds from sale of discontinued operations and other assets	—	2,500	46,877
Decrease in restricted investments	3,705	7,396	754
Net cash used in continuing operations	(75,735)	(138,650)	(315,499)
Cash used in discontinued operations	—	—	(243)
Net cash used in investing activities	**(75,735)**	**(138,650)**	**(315,742)**
Cash flows from financing activities:			
Payments of long-term debt, including debt premium and capital lease obligations	(7,352)	(7,338)	(219,480)
Payment of debt issuance cost	(16)	(67)	(13,944)
Proceeds from bank debt	—	5,000	745,000
Dividend payments	(819)	(1,613)	(348,380)
Proceeds from the exercise of stock options	—	397	5,793
Cost of common shares repurchased	(7,301)	(7,722)	(3,639)
Purchase of treasury stock	(664)	(993)	(3,321)
Net cash (used in) provided by financing activities	**(16,152)**	**(12,336)**	**162,029**
Net increase (decrease) in cash and cash equivalents	61,030	(11,015)	(44,549)
Cash and cash equivalents at beginning of period	10,778	21,793	66,342
Cash and cash equivalents at end of period	$ 71,808	$ 10,778	$ 21,793

Exhibit 5

Financial Projections

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Exhibit 6

Cable Cash Flow Projections

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Exhibit 7

Section 5.1(a) Capital Expenditure Budget

Year Ended December 31, 2010

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Exhibit 8

EBIT and Cash Flow Analysis of Consultants

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