2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates -
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. EARNINGS PER SHARE

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

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

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

Years Ended December 31,	1999	1998	1997
(Loss) before extraordinary item and cumulative effect of change in accounting principle	$(354.604)	$(204.801)	$(49,181)
Preferred stock dividend and accretion requirements	(13.542)	-	-
	$(368,146)	$(204.801)	$(49.181)
Basic (loss) per average common share: Weighted average shares outstanding	71.996.301	61.187.354	54.965.716
(Loss) per average common share before extraordinary item and cumulative effect of change in accounting principle	$(5.11)	$(3.35)	$(0.89)
Diluted (loss) per average common share: Weighted average shares outstanding	71,996.301	61.187,354	54,965,716
Dilutive shares resulting from stock options	-	-	-
	71.996.301	61.187.354	54.965.716
(Loss) per average common share before extraordinary item and cumulative effect of change in accounting principle	$(5.11)	$(3.35)	$(0.89)

4. BUSINESS COMBINATIONS

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

In July 1999, the Company acquired Brainstorm Networks, Inc.("Brainstorm"), a leading independent Internet Service Provider ("ISP") that provides dedicated and DSL services. The Company purchased Brainstorm for approximately $2.897 in cash and RCN common stock with a fair value at the time of issuance of approximately $11,619.

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

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

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

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

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

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

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

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

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

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

In connection with the acquisitions of Erols and UltraNet, RCN has allocated $13.228 for Erols and $5.065 for UltraNet to in-process research and development ("IPR&D"). Specifically, four projects were identified which qualified as IPR&D by definition of not having achieved technological feasibility and representing technology which at the point of acquisition offered no alternative use than the defined project. The fair value of the IPR&D projects associated with these acquisitions is based upon a discounted cash flow analysis modified to represent only that portion of the project associated with completed research and development efforts at the date of acquisition. The IPR&D valuation charge was measured by the stage of completion method. The expected completion percentages are estimated based on the available financial information at the date of acquisition and were established on a project by project basis primarily calculated by dividing the costs incurred to date by the total expected R&D expenses specific to the project. The significant assumptions utilized by management were as follows:

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

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

- Cable Modem Internet access for subscribers, consisting of projects to develop the hardware, systems and software to permit subscribers to be offered high-speed Internet access through direct cable connection.

- Internet Telephony, representing projects to develop the potential for dial- up telephone service through the Internet.

- E-Commerce Systems, consisting of the companies' efforts to develop a suitable system that would permit subscribers to conduct commercial activities over the Internet.

- High-speed shared office Internet access, representing a blending of fiber optic and Internet networking technologies, which was under development as a package to be offered to commercial clients.

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

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

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

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

5. SHORT-TERM INVESTMENTS

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

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

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

6. PROPERTY, PLANT AND EQUIPMENT

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

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

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

7. INVESTMENTS AND JOINT VENTURES

Investments at December 31, are as follows:

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

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

a. RCN-BECOCOM

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

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

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

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

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

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

b. Starpower

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

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

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

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

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

c. Megacable

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

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

d. JuniorNet

The basis of the Company's investment in JuniorNet Corporation ("JuniorNet") exceeded its underlying equity in the net assets of JuniorNet when acquired in 1999 by approximately $50.000.

In April 1999, the Company acquired a 47.5% stake in JuniorNet. The Company purchased the ownership stake for approximately $47.000 in cash. Concurrent with that transaction, JuniorNet purchased the Company's Lancit Media subsidiary for approximately $25.000 in cash. The Company acquired Lancit in June 1998 for approximately $400 in cash and shares of its common stock with a fair value at the time of issuance of approximately $7,400. The Company recorded its proportionate share of (losses) and amortization of excess cost over net assets of ($19,997) in 1999.

8. INTANGIBLE ASSETS

Intangible assets consist of the following at December 31,

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

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

9. DEFERRED CHARGES

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

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

10. DEBT

a. Long-term debt

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

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

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

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

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

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

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

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

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

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

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

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

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

The 11% Senior Discount Notes (the "11% Indenture") are general senior obligations of the Company, limited to $256.755 aggregate principal amount at maturity and will mature on July 1. 2008. The 11% Senior Discount Notes were issued at a discount to yield gross proceeds of $150.000. The 11% Senior Discount Notes will not bear cash interest prior to January 1, 2003.

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

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

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

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

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

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

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

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

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

Contractual maturities of long-term debt are as follows:

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

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

11. INCOME TAXES

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

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

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

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

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

During 1999, the Company generated federal net operating losses in the amount of $314.708 and acquired separate return limitation year (SRLY) net operating losses from the 1999 acquisitions of $1,018 which results in a deferred tax asset totaling $110.504. In the opinion of management. realization of the Company's deferred tax assets is not assured. A valuation allowance has therefore been established for the federal and state deferred tax assets. A valuation allowance has also been provided, as in past years, against the state net operating losses which. in the opinion of management. are also uncertain as to their realization.

The net change in the valuation allowance for deferred tax assets during 1999 was an increase of $153.307.

Net operating losses will expire as follows:

	Federal	State
2000-2019	$437,720	$491,019
2017-2018	21,205	203.176
Total	$458.925	$694.195

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

	For the Years Ended December 31, 1999	1998	1997
(Loss) before (benefit) for income taxes and extraordinary item	$(359.698)	$(210.440)	$(70.030)
Federal income tax benefit at statutory rate	$(125,895)	$(73,654)	$(24.511)
State income taxes net of federal income tax benefit	(1,042)	(382)	719
Federal valuation allowance	115,382	45,035	-
Write down of acquired R&D costs	-	6,403	-
Amortization of goodwill	8,610	5,580	830
Contribution to subsidiary - Goodwill	-	3,744	-
Estimated nondeductible expenses	(3,000)	10,472	1.913
Adjustment to prior year accrual	132	(25)	(197)
Other, net	719	(2.171)	397
Total (benefit) for income taxes	$(5.094)	$(4.998)	$(20.849)

12. Stockholders' Equity and Stock Plans

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

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

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

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

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

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

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

Information relating to stock options is as follows:

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

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

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

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

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

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

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

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

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

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

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

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

13. PENSIONS AND EMPLOYEE BENEFITS

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

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

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

14. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

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

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

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

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

2000	$43,619
2001	$9,005

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

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

15. RELATED PARTY TRANSACTIONS

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

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

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

16. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

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

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

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

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

17. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Cash and temporary cash investments

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

b. Short-term investments

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

c. Long-term investments

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

d. Investments restricted for debt service

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

e. Long-term debt

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

f. Letters of credit

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

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

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

18. QUARTERLY INFORMATION (Unaudited)

1999	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$67,388	$66,929	$69,622	$72,054
Operating (loss) before depreciation, amortization and nonrecurring charges	$(21,449)	$(25,406)	$(32,587)	$(52,525)
Operating (loss)	$(53,723)	$(55,947)	$(68,720)	$(99,620)
Loss before extraordinary item	$(67,754)	$(63,358)	$(91,774)	$(131,718)
Loss before extraordinary item common share	$(1.03)	$(0.97)	$(1.26)	$(1.78)
Net (loss)	$(67,754)	$(63,782)	$(91,774)	$(131,718)
Common Stock				
High	$39.75	$54.50	$51.50	$54.25
Low	$17.75	$33.75	$32.25	$37.31

1998	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$40,138	$49,808	$58,172	$62,822
Operating (loss) before depreciation, amortization and nonrecurring charges	$(8,317)	$(9,619)	$(16,578)	$(16,898)
Operating (loss)	$(44,741)	$(28,319)	$(40,724)	$(45,009)
Loss before cumulative effect of change in accounting principle	$(41,785)	$(43,795)	$(54,430)	$(64,791)
Loss before cumulative effect of change in accounting principle per average common share	$(0.74)	$(0.75)	$(0.84)	$(1.00)
Net (loss)	$(41,785)	$(43,795)	$(54,430)	$(65,432)
Common Stock				
High	$30.63	$29.38	$24.31	$25.00
Low	$15.88	$19.25	$12.38	$8.75

19. SUBSEQUENT EVENTS

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

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

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

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

Pursuant to an exchange agreement between BECO and RCN. BECO has the right from time to time. to convert portions of its ownership interest in RCN-BECOCOM into shares of our common stock, based on an appraised value of such interest. Shares issued upon such exchanges are issued to NSTAR Communications Securities Corporation ("NSTAR Securities"). In 1999, BECO and the Company entered into two exchange transactions pursuant to which BECO converted a portion of its ownership interest into RCN common stock which was issued to NSTAR Securities. Prior to such exchange transactions, BECO owned a 49% interest in the joint venture. At the close of business on December 31, 1999, BECO exchanged a further portion of its interest for 2.989.543 shares of RCN Common Stock. Such portion of the interest was valued as of May 27, 1999. Following such exchanges, BECO retains a 23.14% sharing ratio in the joint venture, and the right to invest as if it owned a 49% interest. Such investment percentage will decrease to the extent NSTAR Securities disposes of such RCN common stock.

20. CUMULATIVE EFFECT OF A CHANGE IN ACCOUNTING PRINCIPLE

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

REPORT OF MANAGEMENT

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

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

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

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

\s\ Timothy J. Stoklosa
Timothy J. Stoklosa
Executive Vice President
Chief Financial Officer

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and Board of Directors of RCN Corporation

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

\s\ PRICEWATERHOUSECOOPERS LLP
PRICEWATERHOUSECOOPERS LLP
Philadelphia, Pennsylvania
March 8, 2000