RUSSELL M. BLAU
ATTORNEY-AT-LAW

SWIDLER & BERLIN
CHARTERED

ORIGINAL

DIRECT DIAL
(202)424-7835
RMBLAU@SWIDLAW.COM

April 22, 1998

DEPOSIT DATE
D761 · APR 23 1998

VIA OVERNIGHT DELIVERY

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

980554-TI

Re: Application of Starpower Communications, LLC to Provide Interexchange Telecommunications Service within the State of Florida

Dear Ms. Bayó:

Enclosed for filing on behalf of Starpower Communications LLC, ("Starpower") are an original and five (5) copies of Starpower's Application Form for Authority to Provide Interexchange Telecommunications Service within the State of Florida. Also enclosed is a check in the amount of $250.00 to satisfy the requisite filing fee.

Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed, postage-paid envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact Starpower's Director of Government Relations, Ms. Karen Guthrie Giet, at (202) 466-1966.

Very truly yours,

Russell Blau /JDD

Jean L. Kiddoo
Russell M. Blau

This document has been placed in confidential storage pending advice from OPR staff on further handling.

Check received with filing and forwarded to Fiscal for deposit. Fiscal to forward a copy of check to RAR with proof of deposit.

Initials of person who forwarded check: A.J.

RECEIVED
APR 23 AM 10 2?
MAIL ROOM

Enclosures

cc: Ms. Karen Guthrie Giet

DOCUMENT NO.
04559-98
4-23-98

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

Starpower Communications, LLC	)	
Request for Authority to Provide Interexchange Telecommunications Service within the State of Florida	)	Docket No. ______________

APPLICATION FORM
for
AUTHORITY TO PROVIDE INTEREXCHANGE TELECOMMUNICATIONS SERVICE WITHIN THE STATE OF FLORIDA

1. Select what type of business your company will be conducting (check all that apply):

( ) **Facilities Based Carrier** - company owns and operates or plans to own and operate telecommunications switches and transmission facilities in Florida.

( ) **Operator Service Provider** - company provides or plans to provide alternative operator services for IXCs; or toll operator services to call aggregator locations; or clearinghouse services to bill such calls.

(X) **Reseller** - company has or plans to have one or more switches, but primarily leases the transmission facilities of other carriers. Bills its own customer base for services used.

( ) **Switchless Rebiller** - company has no switch or transmission facilities, but may have a billing computer. Aggregates traffic to obtain bulk discounts from underlying carrier. Rebills end users at a rate above its discount, but generally below the rate end users would pay for unaggregated traffic.

( ) **Multi-Location Discount Aggregator** - company contracts with unaffiliated entities to obtain bulk/volume discounts under multi-location discount plans from certain underlying carriers, then offers the resold service by enrolling unaffiliated customers.

( ) **Prepaid Debit Card Provider** - any person or entity that purchases 800 access from an underlying carrier or unaffiliated entity for use with prepaid debit card service and/or encodes the cards with personal identification numbers.

2. This is an application for (check one):

   (X) **Original Authority** (New company).

   ( ) **Approval of Transfer** (To another certificated company).

   ( ) **Approval of Assignment of Existing Certificate** (To a noncertificated company).

   ( ) **Approval for Transfer of Control** (To another certificated company).

3. Name of corporation, partnership, cooperative, joint venture, or sole proprietorship:

   Starpower Communications, LLC

4. Name under which the Applicant will do business (fictitious name, etc.):

   Starpower Communications, LLC

5. National address (including street name and number, post office box, city, state, and zip code):

   Starpower Communications, LLC
   2100 Pennsylvania Avenue, N.W., Suite 225
   Washington, D.C. 20037
   Telephone: (202) 466-1966

6. Florida address (including street name and number, post office box, city, state, and zip code):

Starpower Communications, LLC ("Starpower") does not currently have a Florida address.

7. Structure of organization; check which applies.

( )	Individual	( )	Corporation
( )	Foreign Corporation	( )	Foreign Partnership
( )	General Partnership	( )	Limited Partnership
(X)	Other, Foreign Limited Liability Company		

Starpower is a joint venture equally owned by RCN Telecom Services of Washington, D.C., Inc. ("RCN-DC") and Pepco Communication, L.L.C. ("Pepco Communications"). RCN-DC is a wholly owned subsidiary of RCN Telecom Services, Inc. ("RCN Telecom Services"), which in turn is owned by RCN Telecom Services of Pennsylvania, Inc. ("RCN-PA"). RCN-PA is wholly owned by RCN Corporation. Pepco Communications, L.L.C. is a wholly-owned subsidiary of Pepco Communications, Inc. which is a wholly-owned subsidiary of Potomac Capital Investment Corporation ("PCI"). PCI is the wholly-owned non-regulated subsidiary of Potomac Electric Power Company ("PEPCO").

8. If Applicant is an individual or partnership, please give name, title, and address of sole proprietor or partners.

(a) Provide proof of compliance with the foreign limited partnership statute (Chapter 620.169, FS), if applicable.

(b) Indicate if the individual or any of the partners have previously been:

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

(2) officer, director, partner, or stockholder in any other Florida certificated telephone company. If yes, give name of company and relationship. If no longer associated with company, give reason why not.

9. If incorporated, please give:

(a) Proof from the Florida Secretary of State that the Applicant has authority to operate in Florida.

A copy of Applicant's authorization as a Limited Liability Company to transact business in Florida is attached hereto as Exhibit 1.

Corporation charter number: **Please see Document No. M98000000267, Letter 398A00015174**

(b) Name and address of the company's Florida registered agent.

CT Corporation Systems
c/o CT Corporation System
1200 South Pine Island Road
Plantation, Florida 33324

(c) Provide proof of compliance with the fictitious name statute (Chapter 865.09 FS), if applicable.

Fictitious name registration number:

(d) Indicate if any of the officers, directors, or any of the ten largest stockholders have previously been:

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

(2) officer, director, partner, or stockholder in any other Florida certificated telephone company. If yes, give name of company

and relationship. If no longer associated with company, give reason why not.

The officers of RCN Telecom Services of Washington, D.C., Inc. also hold positions in RCN Long Distance Company, which is authorized to provide long distance services within the State of Florida.

10. Who will serve as liaison with the Commission in regard to (please give name, title, address, and telephone number):

(a) The Application:

Ms. Karen Guthrie Giet
Director of Government Relations
Starpower Communications, LLC
2100 Pennsylvania Avenue, N.W., Suite 225
Washington, DC 20037
Telephone: (202) 466-1966
Fax: (202) 466-1941

(b) Official Point of Contact for the ongoing operations of the company:

***See* response to 10.a above.**

(c) Tariff:

***See* response to 10.a above.**

(d) Complaints/Inquiries from customers:

***See* response to 10.a above.**

The following toll free number is available for customer service inquiries:

1-800-STARPOWER (1-877-787-7769)

11. List the states in which the Applicant:

(a) Has operated as an interexchange carrier.

None.

(b) Has applications pending to be certificated as an interexchange carrier.

Colorado, Delaware, New Hampshire, New York, Ohio and Pennsylvania

(c) Is certificated to operate as an interexchange carrier.

Maryland and Virginia.

(d) Has been denied authority to operate as an interexchange carrier and the circumstances involved.

None.

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

None.

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

None.

12. What services will the Applicant offer to other certificated telephone companies:

( )	Facilities	( )	Operators
( )	Billing and Collection	( )	Sales
( )	Maintenance		
(X)	Other ___None___.		

13. Do you have a marketing program?

Starpower does not have a marketing program at this time.

14. Will your marketing program:

- ( ) Pay commissions?
- ( ) Offer sales franchises?
- ( ) Offer multi-level sales incentives?
- ( ) Offer other sales incentives?

Not applicable.

15. Explain any of the offers checked in question 14 (to whom, what amount, type of franchise, etc.).

Not applicable.

16. Who will receive the bills for your services (check all that apply)?

(X)	Residential Customers	(X)	Business Customers
( )	PATS Providers	( )	PATS Station End-Users
( )	Hotels and Motels	( )	Hotel and Motel Guests
( )	Universities	( )	Univ. Dormitory Residents
( )	Other, ____________________.		

17. Please provide the following (if applicable):

(a) Will the name of your company appear on the bill for your services, and, if not, who will the billed party contact to ask questions about the bill (provide name and phone number) and how is this information provided?

Yes.

(b) Name and address of the firm who will bill for your services.

Starpower will either bill customers directly for its services or will have the charges included in the customer's local telephone bill pursuant to billing and collection agreements with the underlying local exchange carrier.

18. Please provide all available documentation demonstrating that the Applicant has the following capabilities to provide interexchange telecommunications service in Florida.

A. Financial capability.

Regarding the showing of financial capability, the following applies: The application should contain the Applicant's financial statements for the most recent 3 years, including:

1. the balance sheet

2. income statement

3. statement of retained earnings.

Please see Exhibit 2.

Further, **a written explanation**, which can include supporting documentation, regarding the following should be provided to show financial capability.

1. Please provide documentation that the Applicant has sufficient financial capability to provide the requested service in the geographic area proposed to be served.

2. Please provide documentation that the Applicant has sufficient financial capability to maintain the requested service.

3. Please provide documentation that the Applicant has sufficient financial capability to meet its lease or ownership obligations.

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

If available, the financial statements should be audited financial statements.

If the Applicant does not have audited financial statements, it shall be so stated. The unaudited financial statements should then be signed by the Applicant's chief executive officer and chief financial officer. The signatures should affirm that the financial statements are true and correct.

Not applicable.

B. Managerial capability.

Please see Exhibit 3.

C. Technical capability.

Please see Exhibit 3.

19. Please submit the proposed tariff under which the company plans to begin operation. Use the format required by Commission Rule 25-24.485 (example enclosed).

Starpower Communications LLC's proposed tariff is appended hereto as Exhibit 4.

20. The Applicant will provide the following interexchange carrier services (check all that apply):

Applicant is seeking authority to provide all forms of direct dialed interexchange services on a resale basis.

( ) **MTS with distance sensitive per minute rates**
( ) Method of access is FGA
( ) Method of access is FGB
( ) Method of access is FGD
( ) Method of access is 800

( ) **MTS with route specific rates per minute**
( ) Method of access is FGA
( ) Method of access is FGB
( ) Method of access is FGD
( ) Method of access is 800

(X) MTS with statewide flat rates per minute (*i.e.*, not distance sensitive)
( ) Method of access is FGA
( ) Method of access is FGB
(X) Method of access is FGD
(X) Method of access is 800

( ) **MTS for pay telephone service providers**

( ) **Block-of-time calling plan (Reach Out Florida, Ring America, etc.)**

(X) **800 Service (Toll free)**

(X) **WATS-type Service (bulk or volume discount)**
(X) Method of access is via dedicated facilities
(X) Method of access is via switched facilities

( ) **Private Line Services (Channel Services)**
(*i.e.*, 1.544 mbs., DS-3, etc.)

( ) **Travel Service**
( ) Method of access is 950
( ) Method of access is 800

( ) **900 Service**

(X) **Operator Services**
(X) Available to presubscribed customers
( ) Available to non-presubscribed customers (*i.e.*, to patrons of hotels, students in universities, patients in hospitals)
( ) Available to inmates

Services included are:

(X) Station assistance
(X) Person-to-Person assistance
(X) Directory assistance
(X) Operator verify and interrupt
( ) Conference calling

21. What does the end-user dial for each of the interexchange carrier services that were checked in services included (above)?

The end-user will dial either "1" or an 800 number to access these services.

22. ( ) **Other: Not Applicable**

** APPLICANT ACKNOWLEDGMENT STATEMENT **

1. **REGULATORY ASSESSMENT FEE:** I understand that all telephone companies must pay a regulatory assessment fee in the amount of .15 of one percent of its gross operating revenue derived from intrastate business. Regardless of the gross operating revenue of a company, a minimum annual assessment fee of $50 is required.

2. **GROSS RECEIPTS TAX:** I understand that all telephone companies must pay a gross receipts tax of two and one-half percent on all intra and interstate business.

3. **SALES TAX:** I understand that a seven percent sales tax must be paid on intra and interstate revenues.

4. **APPLICATION FEE:** A non-refundable application fee of $250.00 must be submitted with the application.

5. **RECEIPT AND UNDERSTANDING OF RULES:** I acknowledge receipt and understanding of the Florida Public Service Commission's Rules and Orders relating to my provision of interexchange telephone service in Florida. I also understand that it is my responsibility to comply with all current and future Commission requirements regarding interexchange telephone service.

6. **ACCURACY OF APPLICATION:** By my signature below, I, the undersigned owner or officer of the named utility in the application, attest to the accuracy of the information contained in this application and associated attachments. I have read the foregoing and declare that, to the best of my knowledge and belief, the information is a true and correct statement. **Further, I am aware that, pursuant to Chapter 837.06, Florida Statutes, "Whoever knowingly makes a false statement in writing with the intent to mislead a public servant in the performance of his official duty shall be guilty of a misdemeanor of the second degree, punishable as provided in s. 775.082 and s. 775-083."**

UTILITY OFFICIAL: Michael J Mahoney 4/20/98

MICHAEL J. MAHONEY DATE

(609) 734-7500
Telephone Number

232042.1

APPENDICES

APPENDIX A	CUSTOMER DEPOSITS AND ADVANCE PAYMENTS
APPENDIX B	INTRASTATE NETWORK
APPENDIX C	FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES

EXHIBITS

EXHIBIT 1	CERTIFICATE OF AUTHORITY TO TRANSACT BUSINESS APPLICANT'S REGISTRATION AS A FOREIGN LIMITED PARTNERSHIP
EXHIBIT 2	FINANCIAL STATEMENTS
EXHIBIT 3	MANAGERIAL AND TECHNICAL QUALIFICATIONS
EXHIBIT 4	PROPOSED TARIFF

**** APPENDIX A ****

CUSTOMER DEPOSITS AND ADVANCE PAYMENTS

A statement of how the Commission can be assured of the security of the customer's deposits and advance payments may be responded to in one of the following ways (Applicant, please check one):

(X) The Applicant will not collect deposits nor will it collect payments for service more than one month in advance.

( ) The Applicant will file with the Commission and maintain a surety bond in an amount equal to the current balance of deposits and advance payments in excess of one month. (Bond must accompany application.)

UTILITY OFFICIAL:

Karen Guthrie Giet
Director of Government Relations
Starpower Communications, LLC

4/21/98
Date

(202) 466-1966
Telephone Number

FORM PSC/CMU 31 (12/96).
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

** APPENDIX B **

INTRASTATE NETWORK

Starpower plans to resell the interexchange services of other certificated interexchange carriers. Thus, Starpower does not have plans for facilities.

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

   Not applicable.

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

   Not applicable.

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

POP-to-POP	TYPE	OWNERSHIP

   Not applicable.

4. **ORIGINATING SERVICE:** Please provide the list of exchanges where you are proposing to provide originating service within thirty (30) days after the effective date of the certificate (Appendix D).

   Starpower seeks authority to originate interexchange telecommunications service throughout the State of Florida.

**** APPENDIX B ****

INTRASTATE NETWORK (continued)

5. **TRAFFIC RESTRICTIONS:** Please explain how the Applicant will comply with the EAEA requirements contained in Commission Rule 25-24.471(4)(a) (copy enclosed).

   Starpower proposes to provide interexchange service on a resale basis. The certificated carriers from which Starpower will purchase services for resale will be responsible for complying with Commission Rule 25-24.471(4)(a).

6. **CURRENT FLORIDA INTRASTATE SERVICES:** Applicant has ( ) or has not (X) previously provided intrastate telecommunications in Florida. If the answer is <u>has</u>, fully describe the following:

   a) What services have been provided and when did these services begin?

      Not applicable.

   b) If the services are not currently offered, when were they discontinued?

      Not applicable.

UTILITY OFFICIAL:

Karen Guthrie Giet
Director of Government Relations
Starpower Communications, LLC

4/20/98
Date

(202) 466-1966
Telephone Number

FORM PSC/CMU 31 (12/96),
Required by Commission Rule Nos. 25-24.471,
25-24.473, and 25-24.480(2).

** APPENDIX C **

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES

Describe the service area in which you hold yourself out to provide service by telephone company exchange. If all services listed in your tariff are not offered at all locations, so indicate.

In an effort to assist you, attached is a list of major exchanges in Florida showing the small exchanges with which each has extended area service (EAS).

** FLORIDA EAS FOR MAJOR EXCHANGES **

Extended Service Area with	These Exchanges
PENSACOLA:	Cantonment, Gulf Breeze Pace, Milton Holley-Navarre.
PANAMA CITY:	Lynn Haven, Panama City Beach, Youngstown-Fountain and Tyndall AFB.
TALLAHASSEE:	Crawfordville, Havana, Monticello, Panacea, Sopchoppy and St. Marks.
JACKSONVILLE:	Baldwin, Ft. George, Jacksonville Beach, Callahan, Maxville, Middleburg, Orange Park, Ponte Vedra and Julington.
GAINESVILLE:	Alachua, Archer, Brooker, Hawthorne, High Springs, Melrose, Micanopy, Newberry and Waldo.
OCALA:	Belleview, Citra, Dunnellon, Forest Lady Lake (B21), McIntosh, Oklawaha, Orange Springs, Salt Springs and Silver Springs Shores.
DAYTONA BEACH:	New Smyrna Beach.

**** APPENDIX C ****

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES (continued)

TAMPA:	Central	None
	East	Plant City
	North	Zephyrhills
	South	Palmetto
	West	Clearwater
CLEARWATER:	St. Petersburg, Tampa-West and Tarpon Springs.	
ST. PETERSBURG:	Clearwater.	
LAKELAND:	Bartow, Mulberry, Plant City, Polk City and Winter Haven.	
ORLANDO:	Apopka, East Orange, Lake Buena Vista, Oviedo, Windermere, Winter Garden, Winter Park, Montverde, Reedy Creek and Oviedo-Winter Springs.	
WINTER PARK:	Aopoka, East Orange, Lake Buena Vista, Orlando, Oviedo, Sanford, Windermere, Winter Garden, Oviedo-Winter Springs Reedy Creek, Geneva and Montverde.	
TITUSVILLE:	Cocoa and Cocoa Beach.	
COCOA:	Cocoa Beach, Eau Gallie, Melbourne and Titusville.	
MELBOURNE:	Cocoa, Cocoa Beach, Eau Gallie and Sebastian.	
SARASOTA:	Bradenton, Myakka and Venice.	

**** APPENDIX C ****

FLORIDA TELEPHONE EXCHANGES AND EAS ROUTES (continued)

FT. MYERS:	Cape Coral, Ft. Myers Beach, North Cape Coral, North Ft. Myers, Pine Island, Lehigh Acres and Sanibel-Captiva Islands
NAPLES:	Marco Island and North Naples.
WEST PALM BEACH:	Boyston Beach and Jupiter.
POMPANO BEACH:	Boca Raton, Coral Springs, Deerfield Beach and Ft. Lauderdale
FT. LAUDERDALE:	Coral Springs, Deerfield Beach, Hollywood and Pompano Beach.
HOLLYWOOD:	Ft. Lauderdale and North Dade.
NORTH DADE:	Hollywood, Miami and Perrine.
MIAMI:	Homestead, North Dade and Perrine.

Starpower seeks authority to originate interexchange telecommunications services throughout the State of Florida at the rates identified in its proposed tariff attached hereto as Exhibit 4.

UTILITY OFFICIAL:

4/20/98
Date

Karen Guthrie Giet
Director of Government Relations
Starpower Communications, LLC

(202) 466-1966
Telephone Number

FORM PSC/CMU 31 (12/96),
Required by Commission Rule Nos. 25-24.471, 25-24.473, and 25-24.480(2).

EXHIBIT 1

Certificate of Authority to Transact Business
Applicant's Registration as a Foreign Limited Partnership

SWIDLER & BERLIN
CHARTERED

RUSSELL M. BLAU
ATTORNEY-AT-LAW

DIRECT DIAL
(202)424-7835
RMBLAU@SWIDLAW.COM

April 22, 1998

DEPOSIT D761 DATE APR 23 1998

VIA OVERNIGHT DELIVERY

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

980554-TI

Re: Application of Starpower Communications, LLC to Provide Interexchange Telecommunications Service within the State of Florida

Dear Ms. Bayó:

Enclosed for filing on behalf of Starpower Communications LLC, ("Starpower") are an original and five (5) copies of Starpower's Application Form for Authority to Provide Interexchange Telecommunications Service within the State of Florida. Also enclosed is a check in the amount of $250.00 to satisfy the requisite filing fee.

Please date-stamp the enclosed extra copy of this filing and return it in the self-addressed, postage-paid envelope provided. Should you have any questions concerning this filing, please do not hesitate to contact Starpower's Director of Government Relations, Ms. Karen Guthrie Giet, at (202) 466-1966.

Very truly yours,

SWIDLER & BERLIN
CHARTERED
3000 K STREET, N.W., SUITE 300
WASHINGTON, D.C. 20007

FIRST UNION NATIONAL BANK
WASHINGTON, D.C

0065059

NO. 065059

EXACTLY*****250*DOLLARS AND*00*CENTS

DATE	AMOUNT
04/22/98	$$$$$250.00

PAY TO THE ORDER OF FLORIDA PUBLIC SERVICE COMMISS

GENERAL ACCOUNT
TWO SIGNATURES REQUIRED ABOVE $10,000

FLORIDA DEPARTMENT OF STATE
Sandra B. Mortham
Secretary of State

March 20, 1998

CT CORP. SYSTEM

,

Qualification documents for STARPOWER COMMUNICATIONS, L.L.C. were filed on March 20, 1998, and assigned document number M98000000267. Please refer to this number whenever corresponding with this office.

Your limited liability company is now qualified and authorized to transact business in Florida as of the file date.

A limited liability company annual report will be due this office between January 1 and May 1 of the year following the calendar yearof the file date. A Federal Employer Identification (FEI) number will be required before this report can be filed. If you do not already have an FEI number, please apply NOW with the Internal Revenue by calling 1-800-829-3676 and requesting form SS-4.

Please be aware if the limited liability company address changes, it is the responsibility of the corporation to notify this office.

Should you have any questions regarding this matter, please telephone (850) 487-6051, the Registration and Qualification Section.

Tammi Cline
Document Specialist
Division of Corporations

Letter Number: 398A00015174

APPLICATION BY FOREIGN LIMITED LIABILITY COMPANY FOR AUTHORIZATION TO TRANSACT BUSINESS IN FLORIDA

IN COMPLIANCE WITH SECTION 608.503, FLORIDA STATUTES, THE FOLLOWING IS SUBMITTED TO REGISTER A FOREIGN LIMITED LIABILITY COMPANY TO TRANSACT BUSINESS IN THE STATE OF FLORIDA:

1. Starpower Communications, L.L.C.
(Name of foreign limited liability company must end with the words "limited company" or their abbreviation "L.C." if not so contained in the name at present.)

2. Delaware
(Jurisdiction under the law of which foreign limited liability company is organized)

3. Applied for
(FEI number, if applicable)

4. October 28, 1997
(Date of Organization)

5. Perpetual
(Duration: Year limited liability company will cease to exist or "perpetual")

6. Upon Registration
(Date first transacted business in Florida. (See sections 608.501, 608.502 and 617.155, F.S.)

7. Corporation Trust Center
1209 Orange St., Wilmington, DE 19801
(Street address of principal office)

FILED
SECRETARY OF STATE
DIVISION OF CORPORATIONS
98 MAR 20 PM 1:48

8. List and indicate in title space provided the name, title, and business address of each managing member [MGRM] or manager [MGR]. It is not necessary to list members.
(attach additional page if necessary)

NAME & ADDRESS:	TITLE:	NAME & ADDRESS:	TITLE:
Michael J. Mahoney 105 Carnegie Center Princeton, NJ 08540	MGR	John D. McCallum Suite 900 1801 K Street, N.W. Washington, D.C. 20006-1301	MGR

Filing Fee: $ 52.50 for Application

(FLA.- LLC 3289 - 3/10/97)

CERTIFICATE OF DESIGNATION OF REGISTERED AGENT/REGISTERED OFFICE

PURSUANT TO THE PROVISIONS OF SECTION 608.415 or 608.507, FLORIDA STATUTES, THE UNDERSIGNED LIMITED LIABILITY COMPANY SUBMITS THE FOLLOWING STATEMENT IN DESIGNATING THE REGISTERED OFFICE/REGISTERED AGENT, IN THE STATE OF FLORIDA.

1. The name of the limited liability company is: Starpower Communications, L.L.C.

2. The name and address of the registered agent and office is:

C T CORPORATION SYSTEM
(Name)

c/o C T CORPORATION SYSTEM, 1200 South Pine Island Road
(P.O. Box not acceptable)

Plantation, FL 33324
(City/State/Zip)

Having been named as registered agent and to accept service of process for the above stated limited liability company at the place designated in this certificate, I hereby accept the appointment as registered agent and agree to act in this capacity. I further agree to comply with the provisions of all statutes relating to the proper and complete performance of my duties, and I am familiar with and accept the obligations of my position as registered agent.

C T CORPORATION SYSTEM

By: Ann J. Williams
(Signature)

3.19.98
(Date)

ANN J. WILLIAMS
Assistant Vice President

FILING FEE: $ 35 for Designation of Registered Agent

(FL. - LLC 3364 - 3/10/97)

AFFIDAVIT OF MEMBERSHIP AND CONTRIBUTIONS OF FOREIGN LIMITED LIABILITY COMPANY

The undersigned member or authorized representative of a member of Starpower Communications, L.C. deposes and says:

1) the above named limited liability company has at least two members

2) the total amount of cash contributed by the member(s) is $ 25,000,000.

3) if any, the agreed value of property other than cash contributed by member(s) is $ 0. A description of the property is attached and made a part hereto.

4) the total amount of cash or property anticipated to be contributed by member(s) is $ 25,000,000. This total includes amounts from 2 and 3 above.

John D. Filipowicz
Authorized Agent

Signature of a member or authorized representative of a member.
(In accordance with section 608.408(3), Florida Statutes, the execution of this affidavit constitutes an affirmation under the penalties of perjury that the facts stated herein are true.)

Filing Fee: $52.50 for Affidavit

(FLA. - LLC 3348 - 3/10/97)

EXHIBIT 2

Financial Qualifications

Starpower Network, Inc. has access to the financing and capital necessary to provide and maintain the telecommunications operations specified in the Application. Starpower Communications, LLC is a limited liability company formed under the laws of Delaware. It is a joint venture equally owned by RCN Telecom Services of Washington, D.C., Inc. ("RCN-DC") and Pepco Communications, L.L.C. ("Pepco Communications"). RCN-DC is a wholly-owned subsidiary of RCN Telecom Services, Inc. ("RCN Telecom Services"), which in turn is owned by RCN Telecom Services of Pennsylvania, Inc. ("RCN-PA"). RCN-PA is wholly owned by RCN Corporation. Pepco Communications, L.L.C. is a wholly-owned subsidiary of Pepco Communications, Inc. which is a wholly-owned subsidiary of Potomac Capital Investment Corporation ("PCI"). PCI is the wholly-owned non-regulated subsidiary of Potomac Electric Power Company ("PEPCO"). Copies of Starpower's Certificate of Formation and its Certificate of Registration in Florida are attached hereto as Exhibit 1.

Starpower is financially qualified to provide telecommunications services in Florida. In particular, Applicant has access to the financing and capital necessary to conduct its telecommunications operations as specified in this Application. Applicant will rely upon the financial resources of its owners, RCN-DC and its parents RCN Telecom Services and RCN Corporation, and Pepco Communications and its parents Pepco Communications, Inc. and PCI. Attached hereto as Exhibit 2 are copies of RCN Corporation's Form 10 Registration Statement filed recently with the Securities and Exchange Commission and PCI's 1997 audited financial statements. Also attached, in a separate envelope, is the most recent financial statement of Starpower which is not a matter of public record and, accordingly, is confidential. Starpower respectfully requests confidential treatment for this proprietary information.

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders of RCN Corporation:

We have audited the accompanying consolidated balance sheets of RCN Corporation and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of RCN Corporation and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

/s/ Cooper & Lybrand L.L.P.

Coopers & Lybrand L.L.P.
2400 Eleven Penn Center
Philadelphia, Pennsylvania
March 13, 1998

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of Dollars Except Per Share Amounts)

	For the Years Ended December 31,		
	1997	1996	1995
Sales	$ 127,297	$ 104,910	$ 91,997
Costs and expenses, excluding depreciation and amortization	134,967	79,107	75,003
Nonrecurring charges	10,000	—	—
Depreciation and amortization	53,205	38,881	22,336
Operating (loss)	(70,875)	(13,078)	(5,342)
Interest income	22,824	25,602	29,001
Interest expense	(25,602)	(16,046)	(16,517)
Other income (expense), net	131	(546)	(304)
(Loss) income before income taxes	(73,522)	(4,068)	6,838
(Benefit) provision for income taxes	(20,849)	979	1,119
(Loss) income before minority interest and equity in unconsolidated entities	(52,673)	(5,047)	5,719
Minority interest in loss (income) of consolidated entities	7,296	1,340	(144)
Equity in (loss) of unconsolidated entities	(3,804)	(2,282)	(3,461)
(Loss) income before extraordinary item	(49,181)	(5,989)	2,114
Extraordinary charge - debt prepayment penalty, net of tax of $1,728	(3,210)	—	—
Net (loss) income	$ (52,391)	$ (5,989)	$ 2,114

	1997	1996	1995
Basic earnings per average common share:			
Income (loss) before extraordinary charge	$ (0.89)	$ (0.11)	$ (0.04)
Extraordinary charge - debt prepayment penalty	$ (0.06)	—	—
Net income (loss) to shareholders	$ (0.95)	$ (0.11)	$ (0.04)
Weighted average shares outstanding	54,965,716	54,918,394	54,890,334
Diluted earnings per average common share:			
Income (loss) before extraordinary charge	$ (0.89)	$ (0.11)	$ (0.04)
Extraordinary charge - debt prepayment penalty	$ (0.06)	—	—
Net income (loss) to shareholders	$ (0.95)	$ (0.11)	$ (0.04)
Weighted average shares and common stock equivalents outstanding	54,965,716	54,918,394	54,890,334

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of Dollars)

	December 31, 1997	December 31, 1996
ASSETS		
Current assets		
Cash and temporary cash investments	$ 222,910	$ 61,843
Short-term investments	415,603	46,831
Accounts receivable from related parties	9,829	12,614
Accounts receivables, net of reserve for doubtful accounts of $2,134 in 1997 and $861 in 1996	17,815	10,413
Unbilled revenues	1,695	844
Material and supply inventory, at average cost	2,745	1,140
Prepayments and other	5,314	4,556
Deferred income taxes	4,821	4,371
Investments restricted for debt service	22,500	—
Total current assets	703,232	142,612
Notes receivable - affiliates	—	155,481
Property, plant and equipment, net of accumulated depreciation of $107,419 in 1997 and $84,529 in 1996	200,340	135,828
Investments restricted for debt service	39,411	—
Investments	70,424	76,547
Intangible assets, net	96,547	93,471
Deferred charges and other assets	41,038	24,146
Total assets	$ 1,150,992	$ 628,085
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable to related parties	$3,748	$4,880
Accounts payable	24,835	13,642
Advance billings and customer deposits	7,318	6,859
Accrued taxes	488	1,950
Accrued interest	5,549	5,041
Accrued contract settlements	3,126	3,565
Accrued cable programming expense	3,498	3,188
Accrued expenses	21,143	18,167
Total current liabilities	69,705	57,292
Long-term debt	686,103	131,250
Notes payable - affiliates	—	11,554
Deferred income taxes	19,612	28,245
Other deferred credits	2,596	3,290
Minority interest	16,392	5,389
Commitments and contingencies		
Preferred stock	—	—
Common shareholders' equity	356,584	390,765
Total liabilities and shareholders' equity	$ 1,150,992	$ 628,085

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)

	For the Years Ended December 31,		
	1997	1996	1995
Cash Flows from operating activities			
Net income (loss)	$ (52,391)	$ (5,989)	$ 2,114
Gain on pension curtailment/settlement	—	(3,437)	—
Accretion of discounted debt	8,103	—	—
Gain on sale of partnership interest	(661)	—	—
Extraordinary item - debt prepayment penalty	3,210	—	—
Depreciation and amortization	53,205	38,881	22,336
Deferred income taxes and investment tax credits, net	(10,503)	(6,477)	6,696
Provision for losses on accounts receivable	2,732	1,788	614
Equity in loss of unconsolidated entities	3,804	2,282	3,461
Minority interest	(7,296)	(1,340)	144
Net change in certain assets and liabilities, net of business acquisitions:			
Accounts receivable and unbilled revenues	(14,979)	(3,780)	(5,550)
Material and supply inventory	(1,605)	(814)	777
Accounts payable	11,193	2,954	3,983
Accrued expenses	3,353	4,283	2,783
Accounts receivable from related parties	3,180	1,572	11,860
Accounts payable to related parties	(1,132)	(5,448)	(419)
Other, net	367	597	529
Other	1,081	(1,241)	(769)
Net cash provided by operating activities	1,661	23,831	48,559
Cash flows from investing activities:			
Additions to property, plant and equipment	(79,042)	(38,548)	(29,854)
Purchase of short-term investments	(445,137)	(75,091)	(238,257)
Sales and maturities of short-term investments	76,923	149,086	245,112
Acquisitions, net of cash acquired	(30,490)	(30,090)	(121,147)
Purchase of loan receivable	—	(13,088)	—
Proceeds from sale of partnership interest	1,990	—	—
Other	(14)	(1,646)	(2,057)
Net cash used in investing activities	475,860	9,377	(146,203)

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)

	For the Years Ended December 31,		
	1997	1996	1995
Cash flows from financing activities			
Redemption of long-term debt	(141,250)	(44,750)	(28,741)
Issuance of long-term debt	688,000	19,000	19,300
Change in affiliate notes, net	97,624	32,802	(6,130)
Extraordinary item - debt prepayment penalty	(3,210)	—	—
Payments made for debt financing costs	(19,743)	—	—
Cash contribution from joint venture partner	9,016	—	—
(Increase) related to investments restricted for debt service	(61,250)	—	—
Proceeds from issuance of stock	230	—	—
Transfers from C-TEC	89,323	78,550	132,707
Transfers (to) C-TEC	(23,474)	(76,211)	(148,339)
Net cash provided by (used in) financing activities	635,266	9,391	(31,203)
Net increase (decrease) in cash and temporary cash investments	161,067	23,845	(128,847)
Cash and temporary cash investments at beginning of year	61,843	37,998	166,845
Cash and temporary cash investments at end of year	$222,910	$61,843	$37,998
Supplemental disclosures of cash flow information			
Cash paid during the periods for:			
Income taxes	$1,090	$549	$497
Interest (net of amounts capitalized)	$16,536	$16,046	$16,404

Supplemental Schedule of Non-Cash Investing and Financing Activities

In March 1997, the Company acquired the portion of Freedom which it did not already own. The transaction was accounted for as a purchase. A summary of the transaction is as follows:

Cash paid	$ 40,000
Non-capitalizable costs	(10,000)
Reduction of minority interest	(3,812)
Fair value of assets acquired	$ 26,188

In 1996, C-TEC acquired an 80.1% interest in Freedom New York, L.L.C.. The acquisition was accounted for as a purchase. A summary of the acquisition is as follows:

Cash paid	$ 28,906
Liabilities assumed	7,621
Deferred tax asset recognized	(167)
Minority interest recognized	6,188
Fair value of assets acquired	$ 42,548

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of Dollars)

In 1995, C-TEC acquired all the outstanding Common Stock of Twin County Trans Video, Inc. and a related covenant not to compete. The consideration for the acquisition was as follows:

Cash paid (including $1,000 deposit in 1994)	$ 37,313
Issuance of 5% Promissory Note	4,000
Capital contribution by stockholder	39,493
Liabilities assumed	16,364
Deferred tax liability incurred	33,797
Fair value of assets acquired	$ 130,967

In 1996, the $4,000 promissory note was canceled and the Company paid cash of $500 in settlement of certain purchase price adjustments.

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

BECO's contribution of the IRU to the RCN-BECOCOM joint venture (Note 7(a)) is reflected as "Advanced Fiber Plant" as its fair value.

See accompanying notes to Consolidated Financial Statements.

RCN CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 1997, 1996 and 1995
(Thousands of Dollars)

	Common Shares Issued and Outstanding	Common Stock	Additional Paid in Capital	Deficit	Shareholder's Net Investment	Cumulative Translation Adjustment	Total Shareholder's Equity
Balance December 31, 1994	1,400	$ 1	$	$ —	$ 372,846	$ —	$ 372,847
Net Income					2,114		2,114
Transfers from C-TEC					21,714		21,714
Cumulative translation adjustment						(2,606)	(2,606)
Balance, December 31, 1995	1,400	1	—	—	396,674	(2,606)	394,069
Net loss					(5,989)		(5,989)
Transfers from C-TEC					3,134		3,134
Cumulative translation adjustment						(449)	(449)
Balance, December 31, 1996	1,400	1	—	—	393,819	(3,055)	390,765
Net loss from 1/1/97 through 9/30/97					(35,275)		35,275
Net loss from 10/1/97 through 12/31/97				(17,116)			(17,116)
Transfers from C-TEC					17,980		17,980
Common stock issued in connection with the distribution	54,967,952	54,968	321,556		(376,524)		—
Issuance of common stock	20,518	20	210				230
Balance, December 31, 1997	$54,989,870	$ 54,989	$ 321,766	$ (17,116)	$ —	$ (3,055)	$ 356,584

See accompanying notes to Consolidated Financial Statements.

1. BACKGROUND AND BASIS OF PRESENTATION

Prior to September 30, 1997, RCN Corporation (the "Company" or "RCN") was operated as part of C-TEC Corporation ("C-TEC"). On September 30, 1997, C-TEC distributed 100 percent of the outstanding shares of common stock of its wholly owned subsidiaries, RCN Corporation ("RCN") and Cable Michigan, Inc. ("Cable Michigan") to holders of record of C-TEC's Common Stock and C-TEC's Class B Common Stock as of the close of business on September 19, 1997 (the "Distribution") in accordance with the terms of a Distribution Agreement dated September 5, 1997 among C-TEC, RCN and Cable Michigan. RCN consists primarily of C-TEC's bundled residential voice, video and Internet access operations in the Boston to Washington, D.C. corridor, its existing New York, New Jersey and Pennsylvania cable television operations, a portion of its long distance operations and its international investment in Megacable, S.A. de C.V.("Megacable") Cable Michigan, Inc. consists of C-TEC's Michigan cable operations, including its 62% ownership in Mercom, Inc.. In connection with the Distribution, C-TEC changed its name to Commonwealth Telephone Enterprises, Inc. ("CTE").

The consolidated financial statements have been prepared using the historical basis of assets and liabilities and historical results of operations of all wholly and majority owned subsidiaries. However, the historical financial information presented herein reflects periods during which the Company did not operate as an independent company and accordingly, certain assumptions were made in preparing such financial information. Such information, therefore, may not necessarily reflect the results of operations, financial condition or cash flows of the Company in the future or what they would have been had the Company been an independent, public company during the reporting periods. All material intercompany transactions and balances have been eliminated. Investments accounted for by the equity method include a 40% interest in Megacable, a Mexican cable television system operator. Joint ventures which the Company controls and in which the minority investors do not possess significant veto rights are consolidated. Other joint ventures are accounted for by the equity method.

C-TEC's corporate services group has historically provided substantial support services such as finance, cash management, legal, human resources, insurance and risk management and its financial statements are included in the consolidated financial statements of the Company. Prior to the Distribution, the corporate office allocated the cost for these services pro rata among the business units supported primarily based on assets; contribution to consolidated earnings before interest, depreciation, amortization, and income taxes; and number of employees. In the opinion of management, the method of allocating these costs is reasonable; however, the costs of these services remaining with the Company after allocation to C-TEC's other business units are not necessarily indicative of the costs that would have been incurred by the Company on a stand-alone basis. Also included in the Company's consolidated financial statements are the financial statements of the corporate financial services company which invests excess cash of, and advances funds to the Company and prior to the Distribution, C-TEC. The financial services company charges interest expense on outstanding advances and pays interest income on excess cash invested for affiliates.

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

2. SEGMENT INFORMATION

The Company is developing advanced fiber optic networks to provide a wide range of telecommunications services including local and long distance telephone, video programming and data services (including high speed Internet access), primarily to residential customers in selected high density markets in the Boston to Washington, D.C. corridor. The Company also seeks to serve certain commercial accounts on or near its networks. RCN's initial advanced fiber optic networks have been established in New York City and, through a joint venture with the Boston Edison Company ("BECO"), in Boston and surrounding communities. RCN has also entered into a joint venture named Starpower Communications, LLC ("Starpower") with Pepco Communications, LLC ("Pepco Communications"), an indirect wholly owned subsidiary of Potomac Electric Power Company ("PEPCO"), to develop an advanced fiber network in the Washington, D.C. area. In February 1998, RCN acquired Boston's and Washington, D.C.'s largest Internet service providers ("ISP"), Ultranet Communications, Inc. ("Ultranet") and Erols Internet, Inc. ("Erols"), respectively. The Company also has hybrid fiber/coaxial operations in New York (outside New York City), New Jersey and Pennsylvania, wireless video operations in New York City and certain other operations, including long distance telephone.

	For the Year Ended December 31,		
	1997	1996	1995
Hybrid Fiber/Coaxial			
Sales	$ 92,100	$ 84,096	$ 66,404
Operating income before depreciation and amortization	39,767	40,094	28,458
Depreciation and amortization	33,713	33,131	20,723
Operating Income	6,054	6,963	7,735
Additions of property, plant and equipment	19,258	14,010	19,226
Identifiable assets	159,763	335,285	359,401
Advanced Fiber, Wireless Video and Other Operating			
Sales	$ 35,111	$ 20,768	$ 25,528
Operating loss before depreciation and amortization	(39,882)	(11,711)	(8,416)
Depreciation and amortization	18,480	4,970	904
Operating loss	(58,362)	(16,681)	(9,320)
Additions of property, plant and equipment	56,454	23,714	6,453
Identifiable assets	166,478	87,419	14,491
Corporate			
Sales	$ 86	$ 46	$ 65
Operating loss before depreciation and amortization and nonrecurring charge	(7,555)	(2,580)	(3,048)
Nonrecurring charge	10,000	—	—
Depreciation and amortization	1,012	780	709
Operating loss	(18,567)	(3,360)	(3,757)
Additions of property, plant and equipment	3,330	824	4,175
Identifiable assets	824,751	205,381	275,718
Consolidated			
Sales	$ 127,297	$ 104,910	$ 91,997
Operating loss before depreciation and amortization and nonrecurring charge	(7,670)	25,803	16,994
Nonrecurring charge	10,000	—	—
Depreciation and amortization	53,205	38,881	22,336
Operating loss	(70,875)	(13,078)	(5,342)
Additions of property, plant and equipment	79,042	38,548	29,854
Identifiable assets	1,150,992	628,085	649,610

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Short Term Investments and Investments Restricted for Debt Service - Management determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determination at each balance sheet date in accordance with Statement of Financial Accounting Standards No. 115 — "Accounting for Certain Investments in Debt and Equity Securities." At December 31, 1997 and 1996, marketable debt and equity securities have been categorized as available for sale. The Company states its short term investments at cost, which approximates market. Investments restricted for debt service have been categorized as held to maturity.

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

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

	Lives
Hybrid fiber/coaxial plant	5-22 years
Advanced fiber plant	10-15 years
Wireless & other plant	5 years
Buildings and leasehold improvements	5-45 years
Furniture, fixtures and vehicles	3-10 years
Other	3 years

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

Intangible Assets - Intangible assets are amortized on a straight-line basis over the expected period of benefit ranging from 2 to 15 years.

Accounting for Impairments - The Company follows the provisions of Statement of Financial Accounting Standards No. 121 — "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of" ("SFAS 121"). SFAS 121 requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In performing the review for recoverability, the Company estimates the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected net future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Measurement of an impairment loss for long-lived assets and identifiable intangibles expected to be held and used is based on the fair value of the asset.

No impairment losses have been recognized by the Company pursuant to SFAS 121.

Revenue Recognition - Local telephone service revenue is recorded as earned based on tariffed rates. Long distance telephone service revenue is recorded based on minutes of traffic processed and tariffed rates or contracted fees. Revenues from cable programming services are recorded in the month the service is provided. Internet access service revenues are recorded based on contracted fees.

Advertising Expense - Advertising costs are expensed as incurred. Advertising expense charged to operations was $12,203, $1,441 and $862 in 1997, 1996 and 1995, respectively.

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

Earnings (loss) per share - The Company has adopted statement of Financial Accounting Standards No. 128 — "Earnings Per Share" ("SFAS 128"). Basic earnings (loss) per share is computed based on net income (loss) divided by the weighted average number of shares of common stock outstanding during the period.

Diluted earnings (loss) per share is computed based on net income (loss) divided by the weighted average number of shares of common stock outstanding during the period after giving effect to convertible securities considered to be dilutive common stock equivalents. The conversion of stock options during periods in which the Company incurs a loss from continuing operations is not assumed since the effect is anti-dilutive. The number of stock options which would have been converted in 1997 and have a dilutive effect if the Company had income from continuing operations is 517,506.

For periods prior to October 1, 1997, during which the Company was a wholly owned subsidiary of C-TEC, earnings (loss) per share was calculated by dividing net income (loss) by the number of average common shares of C-TEC outstanding, based upon a distribution ratio of one share of Company common equity for each share of C-TEC common equity owned.

	Years Ended December 31,		
	1997	1996	1995
Income (loss) before extraordinary charge	$ 49,181	$ (5,989)	$ 2,114
Basic earnings per average common share:			
Average shares outstanding	54,965,716	54,918,394	54,890,334
(Loss) income per average common share	$ (0.89)	$ (0.11)	$ (0.04)
Diluted earnings per average common share:			
Average shares outstanding	54,965,716	54,918,394	54,890,334
Dilutive shares resulting from stock options	—	—	—
	54,965,716	54,918,394	54,890,334
(Loss) income per average common share	$ (0.89)	$ (0.11)	$ (0.04)

Income Taxes - The Company and its subsidiaries report income for federal tax purposes on a consolidated basis.. Prior to the Distribution, the Company and its subsidiaries were included in the consolidated federal income tax return of C-TEC. Income tax expense is allocated to subsidiaries on a separate return basis except that the Company's subsidiaries receive benefit for the utilization of net operating losses and investment tax credits included in the consolidated return even if such losses and credits could not have been used on a separate return basis. The Company accounts for income taxes using Statement of Financial Accounting Standards No. 109 — "Accounting for Income Taxes." The statement requires the use of an asset and liability approach for financial reporting purposes. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between financial reporting basis and tax basis of assets and liabilities. If it is more likely than not that some portion or all of a deferred tax asset will not be realized, a valuation allowance is recognized.

Investment tax credits ("ITC") for the Company have been deferred in prior years and are being amortized over the average lives of the applicable property.

Foreign Currency Translation - The Company has a 40% interest in Megacable. For purposes of determining its equity in the earnings of Megacable, the Company translates the revenues and expenses of Megacable into U.S. dollars at the average exchange rates that prevailed during the period. Assets and liabilities are translated into U.S. dollars at the rates in effect at the end of the fiscal period. Prior to 1997, the Company's share of the gains or losses that result from this process are shown in the cumulative translation adjustment account in the common shareholders' equity section of the balance sheet. Effective January 1, 1997, since the three-year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is treated for accounting purposes as having a highly inflationary economy. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. The Company's proportionate share of gains and losses resulting from transactions of Megacable, which are made in currencies different from its own, are included in income as they occur.

4. BUSINESS COMBINATIONS

The following business combinations were transacted by wholly owned subsidiaries of C-TEC. The acquired businesses were transferred to the Company in connection with the Distribution.

On August 30, 1996, FNY Holding Company, Inc., formerly a wholly owned subsidiary of C-TEC ("FNY") acquired from Kiewit Telecom Holdings, C-TEC's controlling shareholder at the time, an 80.1% interest in Freedom New York, LLC and all related rights and liabilities ("Freedom") for cash consideration of approximately $29,000. In addition, FNY assumed liabilities of approximately $7,600. (In March 1996, Freedom had acquired the wireless cable television business of Liberty Cable Television). The acquisition was accounted for as a purchase, and accordingly, Freedom is included in the Company's consolidated financial statements since September 1996. The full fair value of assets acquired and liabilities assumed has been reflected in the Company's financial statements with minority interest reflecting the separate 19.9% ownership.

FNY allocated the purchase price paid on the basis of the fair value of property, plant and equipment and identifiable intangible assets acquired and liabilities assumed. There was no excess cost over fair value of net assets acquired.

Contingent consideration of $15,000 was payable in cash and was to be based upon the number of net eligible subscribers, as defined in the Acquisition Agreement, in excess of 16,563 delivered to the Company. The contingent consideration is not included in the acquisition cost total above but was to have been recorded when and if the future delivery of subscribers occurred. In addition, FNY paid $922 to Kiewit Telecom Holdings which represents compensation for foregone interest on the amount invested by Kiewit Telecom Holdings in Freedom. This amount has been charged to operations.

On March 21, 1997, the Company paid $15,000 in full satisfaction of contingent consideration payable for the original acquisition of Freedom. Additionally, pursuant to the terms of the Freedom Operating Agreement, the assets of RCN Telecom Services of New York, Inc., a wholly-owned subsidiary of RCN, were contributed to Freedom, in which the Company had an 80.1% ownership interest prior to such contribution. Subsequent to this contribution, the Company paid $15,000 to acquire the minority ownership of Freedom. These amounts were primarily allocated to excess cost over fair value of net assets acquired and are being amortized over a period of approximately six years. The Company also paid $10,000 to terminate a marketing services agreement between Freedom and an entity controlled by Freedom's former minority owners. The Company charged this amount to operations for the quarter ended March 31, 1997.

On May 15, 1995, C-TEC Cable Systems, Inc. ("RCN Cable") formerly a wholly owned subsidiary of C-TEC, acquired 40% of the outstanding common stock of Twin County Trans Video, Inc. ("Twin County") in exchange for cash of approximately $26,300, including a $1,000 deposit made in 1994, and a $4,000, 5% promissory note of RCN

Cable. In addition, RCN Cable paid $11,000 in consideration of a noncompete agreement and assumed liabilities of approximately $16,400. The remaining shares were subject to an escrow agreement, pending completion of the merger, and were required to be voted under the direction of RCN Cable. As of May 15, 1995, RCN Cable also assumed management of Twin County. As a result, RCN Cable had control of Twin County and accordingly Twin County is consolidated in the Company's financial statements since May 1995, the date of the original acquisition. The remaining outstanding common stock of Twin County was acquired in September 1995 in exchange for $52,000 stated value redeemable convertible preferred stock of C-TEC. The preferred stock has a stated dividend rate of 5%, beginning January 1, 1996. The fair value of the preferred stock, as determined by an independent appraiser was $39,500 which was recorded as additional paid-in capital to the Company. In 1996, the $4,000 promissory note was canceled and RCN Cable paid cash of $500 in settlement of certain purchase price adjustments.

RCN Cable has allocated the purchase price paid for Twin County on the basis of the fair value of property, plant and equipment and identifiable intangible assets acquired and liabilities assumed. The excess of the consideration for the acquisition over the fair value of the net assets acquired of approximately $16,700 has been allocated to goodwill and is being amortized over a period of approximately 10 years.

In January 1995, RCN International Holdings, Inc. (formerly C-TEC International, Inc.), formerly a wholly owned subsidiary of C-TEC, purchased a 40% equity position in Megacable. The aggregate consideration for the purchase was cash of $84,115. The Company accounts for its investment by the equity method of accounting. The original excess cost over the underlying equity in the net assets acquired is approximately $94,000, which is being amortized on a straight-line basis over 15 years.

In January 1995, RCN Cable purchased the assets of Higgins Lake Cable, Inc. for cash of approximately $4,750.

In June 1995, C-TEC invested approximately $2,220 for a one-third interest in a partnership which intends to provide alternative access telephone service to commercial subscribers. C-TEC transferred this investment to RCN Cable in 1996 at net book value of $1,977. The Company disposed of its investment in 1997 and realized a gain of $661.

In November 1995, the Company purchased the assets used in the provision of residential telephone services in New York by RealCom Office Communications, Inc. for cash of approximately $1,050.

The following unaudited pro forma summary presents information as if the acquisitions of Freedom and Twin County had occurred at the beginning of 1996. The pro forma information is provided for information purposes only. It is based on historical information and does not necessarily reflect the actual results that would have occurred nor is it necessarily indicative of future results of operations of the consolidated entities.

	Years Ended December 31,	
	1997	1996
	(Unaudited)	
Sales	$ 127,297	$ 110,116
(Loss) from continuing operations before extraordinary items	$ (72,245)	$ (20,189)
Net (loss)	$ (53,831)	$ (16,807)
Pro Forma Earnings Per Share:		
(Loss) from continuing operations before extraordinary items	$ (1.31)	$ (0.37)
Net (loss)	$ (0.98)	$ (0.31)

5. SHORT-TERM INVESTMENTS

Short-term investments, stated at cost, include the following at December 31, 1997 and 1996:

	1997	1996
Federal Agency notes	$ 110,966	$ —
Commercial Paper	43,859	8,823
Corporate debt securities	222,785	38,008
Certificates of deposit	37,993	—
Total	$ 415,603	$ 46,831

At December 31, 1997, short term investments with an amortized cost of $329,714 have contractual maturities of one to three years. All remaining short term investments have contractual maturities under one year.

6. PROPERTY, PLANT AND EQUIPMENT

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

	1997	1996
Hybrid fiber/coaxial plant	$ 157,652	$ 148,172
Advanced fiber plant	76,572	29,226
Wireless & other plant	4,771	4,245
Buildings, leasehold improvements and land	16,607	10,989
Furniture, fixtures and vehicles	23,399	18,119
Construction in process	28,195	9,013
Other	563	593
Total property, plant and equipment	307,759	220,357
Less accumulated depreciation	(107,419)	(84,529)
Property, plant and equipment, net	$ 200,340	$ 135,828

Depreciation expense was $24,257, $19,372 and $13,236 for the years ended December 31, 1997, 1996 and 1995, respectively.

7. INVESTMENTS AND JOINT VENTURES

Investments at December 31, are as follows:

	1997	1996
Megacable	$ 70,363	$ 74,232
Partnership	—	—
Other	61	—
Total Investments	$ 70,424	$ 76,547

Investments carried on the equity method consist of the following at December 31:

	Percentage Owned	
	1997	1996
Megacable	40.00%	40.00%
Partnership Interest	—	33.33%
Starpower Communications, LLC	50.00%	—

a. In September 1996, RCN and Boston Edison Company ("BECO"), through wholly owned subsidiaries, entered into a letter of intent to form a joint venture to utilize 126 fiber miles of BECO's fiber optic network to deliver RCN's comprehensive communications package in Greater Boston. The venture, in the form of an unregulated entity with a term expiring in the year 2060, was formed pursuant to a joint venture agreement dated December 23, 1996 (the "Boston Joint Venture Agreement") providing for the organization and operation of RCN-BECOCOM, LLC ("RCN-BECOCOM"). RCN-BECOCOM was organized to own and operate an advanced fiber optic telecommunications network and to provide, in the market in and around Boston, Massachusetts , voice, video and data services, as well as the communications support component of energy related customer services offered by BECO. RCN owns 51% of the equity interest in RCN-BECOCOM and BECO, owns the remaining 49% interest. Future capital contributions are required to be made on a 51% and 49% basis for RCN and BECO, respectively.

The closing of the transactions contemplated by the Boston Joint Venture Agreement occurred on June 17, 1997. RCN will manage the business of RCN-BECOCOM pursuant to the terms of the Management Agreement and, in consideration therefor, will receive reimbursement for its reasonable costs, and a performance-based fee (based on factors including the number of subscribers and operating cash flow) to be determined by agreement of RCN and RCN-BECOCOM. The initial term of the agreement expires on December 31, 2001. The agreement provides for automatic successive three-year renewal periods, unless notice is given ninety days before the end of the period. As a result of its ownership, management and control, this joint venture with BECO is consolidated in RCN's financial statements.

Pursuant to an Indefeasible Right of Use Agreement ("IRU Agreement") , BECO will, for certain agreed upon fees, (i) provide construction services to build out the Network, (ii) make available to RCN-BECOCOM (a) all of the available capacity of BECO's existing fiber backbone, and (b) the ability to use BECO's real estate, poles, easements and other interests for the construction and operation of the Network and (iii) maintain the Network. BECO's construction obligations expire on June 17, 2007 and the term of the IRU Agreement expires on December 31, 2060. One year before each respective expiration date, BECO agrees to commence good-faith negotiations to extend construction obligations beyond June 17, 2007 and to allow continued use of BECO's facilities beyond December 31, 2060. The fair value of the IRU transferred by BECO to the joint venture is reflected as "Advanced Fiber Plant" in property, plant and equipment.

BECO will have the right at the time of the Distribution and every two years thereafter to convert its ownership interest in RCN-BECOCOM into the Common Stock of RCN pursuant to specific terms and conditions. If BECO exercises its conversion rights, BECO will remain obligated to make 49% of all cash contributions by the parties and any cash contributions made after conversion will result in it owning a portion of RCN-BECOCOM based on the value of RCN-BECOCOM at the time of the contribution. BECO may exercise its conversion rights in whole or in part from time to time. In January 1998, BECO notified RCN that it has elected to exercise its option to the full extent permitted by the Exchange Agreement with respect to 1997. RCN and BECO are presently in discussions with respect to the calculation of the agreed upon value for the exercise of such option.

b. On August 1, 1997, RCN and Potomac Capital Investment Corporation ("PCI"), a wholly owned subsidiary of PEPCO, entered into a letter of intent (the "Letter of Intent") to form a joint venture which will own and operate a communications network to provide voice, video, data and other communications services to residential and commercial customers in the greater Washington, D.C., Virginia and Maryland area (the "Washington, D.C. Market"). Starpower, an unregulated limited liability company with a perpetual term, was formed on October 28, 1997 to construct, own, lease, operate and market a network for the selling of voice, video, data and other telecommunications services to all potential commercial and residential customers in the Washington, D.C. Market. RCN, owns 50% of the equity interest in Starpower and PCI, owns the remaining 50% interest.

The closing of the Starpower joint venture (the "Starpower Closing") occurred on December 19, 1997.

Pursuant to the Amended and Restated Operating Agreement, RCN and Pepco Communications are each required to make additional capital contributions in accordance with a schedule set forth in such agreement on a 50%/50% basis. Failure of either RCN or Pepco Communications to make a scheduled capital contribution or to vote in favor of certain additional capital contributions may result in the recalculation of equity interests. The business and affairs of Starpower is to be managed by RCN and Pepco Communications. So long as RCN and Pepco Communications maintain a 50%/50% equity interest in the joint venture, each of RCN and Pepco Communications will appoint three members to the operating committee, the approval of which is required for any business action. Certain fundamental business actions, such as mergers, acquisitions, sales of substantially all of the assets, liquidation and amendments to the certificate of organization or any agreement signed at the Starpower Closing, require the unanimous approval of the operating committee regardless of whether the parties continue to maintain a 50%/50% ownership interest. As a result of the joint control, Starpower is accounted for under the equity method of accounting.

A subsidiary of RCN will provide support services including customer service, billing, marketing and certain administrative, accounting and technical support services, each of which shall be provided at cost.

c. The basis of the Company's investment in Megacable exceeded its underlying equity in the net assets of Megacable when acquired by approximately $94,000 which excess is being amortized on a straight-line basis over 15 years. At December 31, 1997, the unamortized excess over the underlying equity in the net assets was $75,886. The Company recorded its proportionate share of (losses) and amortization of excess cost over net assets of ($3,869), ($2,190) and ($3,061) in 1997, 1996 and 1995, respectively.

Effective January 1, 1997, since the three-year cumulative rate of inflation at December 31, 1996 exceeded 100%, Mexico is being treated for accounting purposes under Statement of Financial Accounting Standards No. 52 — "Foreign Currency Translation", as having a highly inflationary economy. As a result, the financial statements of Megacable are remeasured as if the functional currency were the U.S. dollar. The remeasurement of the Mexican peso into U.S. dollars creates translation adjustments which are included in net income. Exchange gains (losses) of $(12), $247, and $(932) in 1997, 1996, and 1995, respectively, including translation losses in 1997, are included in the respective statements of operations through the Company's proportionate share of losses of Megacable.

The following table reflects the summarized financial position and results of operations of Megacable as of and for the years ended December 31, 1997 and 1996:

	1997	1996
Assets	76,323	67,672
Liabilities	8,347	6,455
Stockholders' equity	67,976	61,217
Sales	30,441	23,225
Costs and expenses	23,389	15,689
Foreign currency transaction gains (losses)	(31)	618
Net income	6,653	10,226

8. INTANGIBLE ASSETS

Intangible assets consist of the following at December 31,

	Amortization Period	1997	1996
Franchises and subscriber lists	2-10.5 years	$ 79,273	$ 78,720
Noncompete agreements	5-8 years	11,209	11,209
Goodwill	5-10 years	42,787	16,830
Building access rights	3-4 years	15,197	14,920
Other intangible assets	5-15 years	1,469	520
Total intangible assets		149,935	122,199
Less accumulated amortization		(53,388)	(28,728)
Intangible assets, net		$ 96,547	$ 93,471

Amortization expense charged to operations in 1997, 1996 and 1995 was $28,948, $19,509 and $9,100, respectively.

9. DEFERRED CHARGES AND OTHER ASSETS

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

	1997	1996
Note and interest receivable - Mazon Corporativo, S.A. de C.V.	$ 17,682	$ 15,310
Debt issuance costs	19,743	309
Prepaid pension costs	—	2,967
Prepaid professional services	938	3,439
Other	2,675	2,121
Total	$ 41,038	$ 24,146

10. DEBT

a. Long-term debt

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

	1997	1996
Senior Secured Notes 9.65% due 1999	$ —	$ 131,250
Revolving Credit Agreement	3,000	—
Term Credit Agreement	100,000	—
Senior Notes 10% due 2007	225,000	—
Senior Discount Notes 11¼% due 2007	358,103	—
Total	686,103	131,250
Due within one year	—	—
Total Long -Term Debt	$ 686,103	$ 131,250

In October 1997, pursuant to Rule 144A of the Securities Exchange Act of 1933, the Company completed an offering of 10% Senior Notes with an aggregate principal amount of $225,000 and 11 1/8% Senior Discount Notes with an aggregate principal amount at maturity of $601,045, both due 2007, to qualified institutional buyers as defined in Rule 144A. The Senior Discount Notes were issued at a discount and generated gross proceeds to the Company of $350,000. In December 1997, the Company commenced an SEC registered Exchange Offer of its 10% Senior Notes due 2007, Series B for any and all outstanding 10% Senior Notes due 2007, Series A and its 11 1/8% Senior Discount Notes due 2007, Series B for any and all outstanding 11 1/8% Senior Discount Notes due 2007 Series A. The Exchange Offer closed in January of 1998. All outstanding notes were exchanged.

The 10% Senior Notes were issued under an indenture dated October 17, 1997 (the "10% Indenture") between the Company and The Chase Manhattan Bank, as Trustee. The 10% Senior Notes are general senior obligations of the Company which mature on October 15, 2007 and are collateralized by a pledge of the Escrow Account which contains approximately $61,000 of the net proceeds from the sale of the 10% Senior Notes plus approximately $1,000 of aggregate interest, representing funds that, together with the future proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments. Interest on the 10% Senior Notes is payable in cash semi-annually in arrears on each April 15 and October 15, commencing April 15, 1998.

The 10% Indenture contains certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

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

The 11⅛% Senior Discount Notes were issued under an indenture dated October 17, 1997 (the "11⅛% Indenture")between the Company and The Chase Manhattan Bank, as Trustee. The 11⅛% 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 11⅛% Senior Discount Notes were issued at a discount to yield gross proceeds of $350,000. The 11⅛% Senior Discount Notes will not bear cash interest prior to October 15, 2002.

The 11⅛% Indenture contains certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinated indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

The 11⅛% 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 11⅛% Senior Discount Notes have redemption prices starting at 105.562% of the principal amount at maturity and declining to 100% of the principal amount at maturity, plus any accrued interest.

Certain subsidiaries of the Company, including RCN Cable, have in place a $125,000 credit agreement comprised of two credit facilities. The first is a five year revolving credit facility in the amount of $25,000 which provides credit availability through June 30, 2002. Revolving loans may be repaid and reborrowed from time to time. The second is a term credit facility in the amount of $100,000 which is to be repaid over six years in quarterly installments from September 30, 1999 through June 30, 2005. Interest only is due through June 30, 1999. The interest rate is based on either a LIBOR or Base Rate option, at the election of the Company (6.82% at December 31, 1997). The credit agreement is collateralized by a pledge by the Company of its stock in RCN Cable and may, in the future, be secured by pledges of stock of subsidiaries of the Company. At December 31, 1997, the entire $100,000 term credit facility is outstanding and $3,000 of the revolving credit facility is outstanding. RCN Cable used a portion of its initial Borrowings under the credit facilities to prepay higher priced Senior Secured Notes. The early extinguishment of the Senior Secured Notes resulted in an extraordinary charge of $3,210, net of taxes of $1,728. The credit agreement contains restrictive covenants which, among other things, require the Company to maintain certain debt to cash flow and interest coverage ratios and place certain limitations on additional debt and investments. The Company does not believe that these covenants will materially restrict its activities.

In 1989, in order to complete the August 29, 1989 Michigan Cable Television acquisition, RCN Cable entered into a private placement of Senior Secured Notes for $150,000 and a $70,000 Revolving Secured Credit Agreement, which was voluntarily reduced to $60,000 in 1990 and which, in accordance with its terms, reduced on a quarterly basis, through original scheduled maturity in September 1996. In August 1996, RCN Cable obtained an amendment and waiver related to this Revolving Secured Credit Agreement which extended final maturity to December 1996 and increased the amount of available Borrowings. Additionally, the restrictive covenant relating to limitations on the amount of capital expenditures was waived for the year ending December 31, 1996. The Senior Secured Notes were collateralized by the stock of certain cable subsidiaries of the Company. On September 1, 1996 and on each September 1 thereafter, a mandatory principal repayment was required on the Senior Secured Notes. The Senior Secured Notes contained restrictive covenants which, among other things, required maintenance of a specified debt to cash flow ratio. These notes were prepaid in 1997 as discussed above. The Senior Secured Notes were classified as long-term at December 31, 1996 since the Company had the intent and the ability to refinance this obligation on a long-term basis through the above credit facilities.

In connection with the acquisition of Twin County Trans Video, Inc., RCN Cable issued a $4,000 promissory note at 5% due in May 2003. The note was unsecured. In September 1996, the note was canceled in settlement of certain purchase price adjustments.

Contractual maturities of long-term debt are as follows:

Year Ending December 31,		Aggregate Amounts
1998	$	—
1999	$	3,750
2000	$	11,250
2001	$	16,250
2002	$	20,500

b. Short-term debt

At December 31, 1997, the Company had unused lines of credit for $5,500 at prime (8.50% at December 31, 1997). Short-term unsecured Borrowings may be made under these lines of credit. The amounts available under these lines of credit are reduced by outstanding letters of credit ($3,060 at December 31,1997). All unused lines of credit are cancelable at the option of the banks. There are no commitment or facility fees associated with maintaining availability of the above-mentioned lines of credit.

11. INCOME TAXES

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

	1997	1996	1995
Current:			
Federal	$ (11,795)	$ 5,730	$ (5,713)
State	1,449	1,102	375
Total Current	(10,346)	6,832	(5,338)
Deferred:			
Federal	(10,161)	(4,751)	7,016
State	(342)	(1,000)	(377)
Total Deferred	(10,503)	(5,751)	6,639
Amortization of ITC	—	(102)	(182)
Provision (benefit) for income taxes:			
Before extraordinary item	(20,849)	979	1,119
Extraordinary item	(1,728)	—	—
Total (benefit) provision for income taxes	$ (22,577)	$ 979	$ 1,119

At December 31, 1997 and 1995, the Company had tax related balances due from affiliates of $3,186 and $501, respectively. At December 31, 1996, the Company had tax related balances due to affiliates of $817.

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

	1997	1996
Net operating loss carryforwards	$ 10,078	$ 2,130
Alternative minimum tax credits	167	219
Employee benefit plans	1,031	882
Reserve for bad debt	844	693
Start-up costs	586	959
Investment in unconsolidated entity	3,985	4,771
Accruals for nonrecurring charges and contract settlements	2,368	2,299
Other, net	1,823	1,888
Total deferred tax assets	20,882	13,841
Property, plant and equipment	(14,759)	(15,019)
Intangible assets	(11,253)	(17,776)
All other	(1,257)	(1,229)
Total deferred liabilities	(27,269)	(34,024)
Subtotal	(6,387)	(20,183)
Valuation allowance	(8,404)	(3,691)
Total deferred taxes	$ (14,791)	$ (23,874)

In the opinion of management, based on the future turnaround of existing temporary differences for the consolidated taxpaying group, primarily depreciation, the Company will more likely than not be able to realize substantially all of its deferred tax assets.

A valuation allowance has been provided for the portion of deferred tax assets which, in the opinion of management is uncertain as to their realization. The valuation allowance relates primarily to state net operating loss carryforwards generated by certain subsidiaries.

The net change in the valuation allowance for deferred tax assets during 1997 was an increase of $4,713.

Net operating losses will expire as follows:

	Federal	State
1999		$ 2,793
2000		3,087
2001		14,532
2002		3,141
2003		10,244
2004		3,767
2011		38,116
2012		8,028
2017	$ 8,218	—
Total	$ 8,218	$ 83,708

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

	For the Years Ended December 31,		
	1997	1996	1995
(Loss) income before (benefit) provision for the income taxes and extraordinary item	$ (70,030)	$ (5,010)	$ 3,233
Federal income tax benefit at statutory rate	$ (24,511)	$ (1,753)	$ 1,131
State income taxes net of federal income tax benefit	719	66	(33)
Investment tax credits amortized	—	(102)	(50)
Amortization of goodwill	830	779	388
Estimated nondeductible expenses	1,913	1,564	(93)
Adjustment to prior year accrual	(197)	421	(161)
Other, net	397	4	(63)
Total (benefit) provision for income taxes	$ (20,849)	$ 979	$ 1,119

In 1995, C-TEC received official notification of final settlement from the Internal Revenue Service relating to the examination of C-TEC's consolidated federal income tax returns for 1989, 1990 and 1991. The most significant adjustment relates to the disallowance of the claimed amortization of certain intangible assets. As a result of the disallowance, the Company's taxes payable for prior years increased approximately $580. The amount accrued in previous years was sufficient to satisfy the above adjustment. No additional accrual during 1995 was required.

In 1997 and 1996, estimated non-deductible expenses relate primarily to charges in connection with the restructuring of the Company.

12. STOCKHOLDERS' EQUITY AND STOCK PLANS

The Company has authorized 100,000,000 shares of $1 par value common stock and 200,000,000 shares of $1 par value Class B nonvoting common stock. The Company also has authorized 25,000,000 shares of $1 par value preferred stock. At December 31, 1997, 54,989,870 shares of common stock are issued and outstanding.

In March 1998, the Company's Board of Directors approved a two-for-one stock split, payable in the form of a 100% stock dividend. The record date for the stock split is March 20, 1998. Stockholders of record at the market close on that date will receive an additional share of RCN common stock for each share held. The distribution date for the stock dividend will be April 3, 1998. All share and per share data, stock option data, and market prices of the Company's common stock have been restated to reflect this stock split.

In connection with the Distribution, the Company Board adopted the 1997 RCN Corporation Stock Option Plan ("the 1997 Plan"), designed to provide equity based compensation opportunities to key employees when shareholders of the Company have received a corresponding benefit through appreciation in the value of RCN Common Stock.

The 1997 Plan contemplates the issuance of incentive stock options, as well as stock options that are not designated as incentive stock options, performance-based stock options, stock appreciation rights, performance share units, restricted stock, phantom stock units and other stock-based awards (collectively, "Awards"). Up to 5,000,000 shares of Common Stock, plus 3,040,100 shares of Common Stock issuable in connection with the Distribution related option adjustments, may be issued pursuant to Awards granted under the 1997 Plan.

Unless earlier terminated by the Company Board, the 1997 Plan will expire on the tenth anniversary of the Distribution. The Company Board or the Compensation Committee may, at any time, or from time to time, amend or suspend and, if suspended, reinstate, the 1997 Plan in whole or in part.

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

Information relating to stock options is as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding December 31, 1994	1,431,000	
Granted	1,257,000	
Exercised	—	
Canceled	280,000	
Outstanding December 31, 1995	2,408,000	
Granted	190,000	
Exercised	58,000	
Canceled	272,000	
Outstanding December 31, 1996	2,268,000	$ 7.10
Granted	4,862,100	$ 14.31
Exercised	20,000	$ 8.07
Canceled	3,000	$ 8.36
Outstanding December 31, 1997	7,107,100	$ 14.31
Shares exercisable December 31, 1997	1,221,000	$ 7.05

The following table summarizes stock options outstanding and exercisable at December 31, 1997:

	Stock Options Outstanding			Stock Options Exercisable	
Range of Exercise Prices	Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
$6.24 to $8.40	3,017,100	7.5 years	$ 7.36	1,221,000	$ 7.05
$15.32 to $16.82	4,090,000	9.8 years	15.33	—	—
Total	7,107,100			1,221,000	

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

Pro forma information regarding net income and earnings per share is required by SFAS 123, and has been determined as if the Company had accounted for its stock options under the fair value method of SFAS 123. The fair value for these options was estimated at the date of grant using a Black Scholes option pricing model with weighted average assumptions for dividend yield of 0% for 1997, 1996 and 1995; expected volatility of 38.6% prior to the Distribution and 49.8% subsequent to the Distribution for 1997, 39.5% for 1996, and 35.9% for 1995; risk-free interest rate of 6.52%, 5.95% and 6.32% for 1997, 1996 and 1995, respectively; and expected lives of 5 years for 1997, 1996 and 1995.

The weighted-average fair value of options granted during 1997 was $7.46.

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

	1997	1996	1995
Net earnings - as reported	$ (52,391)	$ (5,989)	$ 2,114
Net earnings - pro forma	$ (54,419)	$ (6,612)	$ 1,695
Basic earnings pr share - as reported	$ (0.95)	$ (0.11)	$ 0.04
Basic earnings per share - pro forma	$ (0.99)	$ (0.12)	$ 0.03
Diluted earnings per share - as reported	$ (0.95)	$ (0.11)	$ 0.04
Diluted earnings per share - pro forma	$ (0.99)	$ (0.12)	$ 0.03

In November 1996, the C-TEC shareholders approved a stock purchase plan for certain key executives (the C-TEC "Executive Stock Purchase Plan" or "C-TEC ESPP"). Under the C-TEC ESPP, participants may purchase shares of C-TEC Common Stock in an amount of between 1% and 20% of their annual base compensation and between 1% and 100% of their annual bonus compensation provided, however, that in no event shall the participant's total contribution exceed 20% of the sum of their annual compensation, as defined by the C-TEC ESPP. Participant's accounts are credited with the number of share units derived by dividing the amount of the participant's contribution by the average price of a share of C-TEC Common Stock at approximately the time such contribution is made. The share units credited to a participant's account do not give such participant any rights as a shareholder with respect to, or any rights as a holder or record owner of, any shares of C-TEC Common Stock. Amounts representing share units that have been credited to a participant's account will be distributed, either in a lump sum or in installments, as elected by the participant, following the earlier of the participant's termination of employment or three calendar years following the date on which the share units were initially credited to the participant's account. It is anticipated that, at the time of distribution, a participant will receive one share of C-TEC Common Stock for each share unit being distributed.

Following the crediting of each share unit to a participant's account, a matching share of Common Stock is issued in the participant's name. Each matching share is subject to forfeiture as provided in the C-TEC ESPP. The issuance of matching shares will be subject to the participant's execution of an escrow agreement. A participant will be deemed to be the holder of, and may exercise all the rights of a record owner of, the matching shares issued to such participant while such matching shares are held in escrow.

Shares of restricted C-TEC Common Stock awarded under the C-TEC Executive Stock Purchase Plan and share units awarded under the C-TEC ESPP that relate to C-TEC Common Stock were adjusted so that following the Distribution, each such participant was credited with an aggregate equivalent value of restricted shares of common stock of Commonwealth Telephone Enterprises, the Company and Cable Michigan. In 1997, the Company's Board of Directors approved the RCN Corporation Executive Stock Purchase Plan (the "RCN ESPP"), with terms substantially the same as the C-TEC ESPP. The number of shares which may be distributed under the RCN ESPP as matching shares or in payment of share units is 250,000. At December 31, 1997, 61,412 matching shares have been issued under the RCN ESPP, none of which are vested. The Company recognizes the cost of the matching shares over the vesting period. Expense recognized in 1997 and 1996 was $80 and $145, respectively.

13. PENSIONS AND EMPLOYEE BENEFITS

Prior to the Distribution, the Company's financial statements reflect the costs experienced for its employees and retirees while included in the C-TEC plans.

Through December 31, 1996, substantially all employees of the Company were included in a trusteed noncontributory defined benefit pension plan, maintained by C-TEC. Upon retirement, employees are provided a monthly pension based on length of service and compensation. C-TEC funds pension costs to the extent necessary to meet the minimum funding requirements of ERISA. Substantially, all employees of C-TEC's Pennsylvania cable television operations (formerly Twin County Trans Video, Inc.) were covered by an underfunded plan which was merged into C-TEC's overfunded plan on February 28, 1996.

The information that follows relates to the entire C-TEC noncontributory defined benefit plan. The components of C-TEC's pension cost are as follows:

	1996	1995
Benefits earned during the year (service cost)	$ 2,365	$ 1,656
Interest cost on projected benefit obligation	3,412	3,083
Actual return on plan assets	(3,880)	(12,897)
Other components - net	(1,456)	8,482
Net periodic pension cost	$ 441	$ 324

The following assumptions were used in the determination of the consolidated projected benefit obligation and net periodic pension cost:

	December 31,	
	1996	1995
Discount rate	7.5%	7.0%
Expected long-term rate of return on plan assets	8.0%	8.0%
Weighted average long-term rate of compensation increases	6.0%	6.0%

The Company's allocable share of the consolidated net periodic pension costs, based on the Company's proportionate share of consolidated annualized salaries as of the valuation date, was approximately $158 and $251 for 1996 and 1995, respectively. These amounts are reflected in operating expenses. As discussed below, no pension cost (credit) was recognized in 1997.

In connection with the restructuring, C-TEC completed a comprehensive study of its employee benefit plans in 1996. As a result of this study, effective December 31, 1996, in general, employees of the Company no longer accrue benefits under the defined benefit pension plans and became fully vested in their benefit accrued through that date. C-TEC notified affected participants in December 1996. In December 1996, C-TEC allocated pension plan assets of $6,984 and the related liabilities to a separate plan for employees who no longer accrue benefits after lump sum distributions. The allocation of assets and liabilities resulted in a curtailment/settlement gain of $4,292. The Company's allocable share of this gain was $3,437. This gain results primarily from the reduction of the related projected benefit obligation. The curtailed plan has assets in excess of the projected benefit obligation. Such excess amounts to $3,917 which, along with unrecognized items of $1,148 results in prepaid pension cost of $2,769, which is included in "Prepayments and other" in the accompanying 1997 and 1996 consolidated balance sheets.

The following table sets forth the plans' funded status and amounts recognized in C-TEC's balance sheet at December 31, 1996:

Plan assets at fair value	$ 55,325
Actuarial present value of benefit obligations:	
Accumulated benefit obligations:	
Vested	32,372
Nonvested	1,704
Total	34,076
Effect of increases in compensation	6,042
Plan assets in excess of (less than) projected benefit obligation	15,207
Unrecognized transition asset	(3,463)
Unrecognized prior service cost	2,438
Unrecognized net gain	(11,215)
Prepaid pension cost	$ 2,967

C-TEC's pension plan has assets in excess of the accumulated benefit obligation. Plan assets include cash, equity, fixed income securities and pooled funds under management by an insurance company. Plan assets include common stock of C-TEC with a fair value of approximately $5,835 at December 31, 1996.

Prepaid pension cost is included in "Deferred Charges and Other Assets" in the accompanying 1996 consolidated balance sheet. The prepaid pension asset was transferred to CTE in connection with the Distribution in 1997.

C-TEC sponsors a 401(k) savings plan covering substantially all employees of the Company who are not covered by collective bargaining agreements. Contributions made by the Company to the 401(k) plan are based on a specific percentage of employees contributions. Contributions charged to expense were $354 and $268 in 1996 and 1995, respectively. Contributions charged to expense in 1997 prior to the Distribution were $515.

In connection with the Distribution, RCN established a qualified savings plan under Section 401(k) of the Code that will also qualify as an ESOP under Sections 401(a) and 4975(e)(7) of the Code (the "ESOP"). Eligible active employees under the ESOP, employees of the Company Businesses who make Section 401(k) contributions and certain other employees will be allocated shares of Company Common Stock. Contributions charged to expense in 1997 were $306.

The Company provides certain postemployment benefits to former or inactive employees of the Company who are not retirees. These benefits are primarily short-term disability salary continuance. The Company accrues the cost of postemployment benefits over employees' service lives. The Company uses the services of an enrolled actuary to calculate the expense. Prior to the Distribution, C-TEC allocated the cost of these benefits to the Company based on the Company's proportionate share of consolidated annualized salaries. The Company reimbursed C-TEC for its allocable share of the consolidated postemployment benefit cost. The net periodic postemployment benefit cost (credit) was approximately $458, $539 and ($106) in 1997, 1996 and 1995, respectively.

14. COMMITMENTS AND CONTINGENCIES

a. The Company had various purchase commitments at December 31, 1997 related to its 1998 construction budget.

b. Total rental expense, primarily for office space and pole rentals, was $3,505, $3,632 and $2,846 for 1997, 1996 and 1995, respectively. At December 31, 1997, rental commitments under noncancelable leases, excluding annual pole rental commitments of approximately $794 that are expected to continue indefinitely, are as follows:

Year	Aggregate Amounts
1998	$ 3,725
1999	$ 3,314
2000	$ 2,939
2001	$ 2,826
2002	$ 2,848
Thereafter	$ 8,501

c. The Company has outstanding letters of credit aggregating $3,060 at December 31, 1997.

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

Year	Network Services
1998	$ 3,026
1999	$ 3,064
2000	$ 3,012
2001	$ 2,762
2002	$ 12
Thereafter	$ 14

e. The Company is subject to the provisions of the Cable Television Consumer Protection and Competition Act of 1992, as amended, and the Telecommunications Act of 1996. The Company has either settled challenges or accrued for anticipated exposures related to rate regulation. However, there is no assurance that there will not be additional challenges to its rates.

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

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

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

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

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

1998	$ 56,250
1999	$ 68,750
2000	$ 25,000

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

15. AFFILIATE AND RELATED PARTY TRANSACTIONS

The Company had the following transactions with affiliates during the years ended December 31, 1997, 1996 and 1995:

	1997	1996	1995
Corporate office costs allocated to affiliates	$ 12,091	$ 12,362	$ 10,009
Cable staff and customer service costs allocated to Cable Michigan	3,489	3,577	2,952
Interest income on affiliate notes	8,688	15,119	17,340
Interest expense on affiliate notes	537	354	279
Long-distance terminating access charge expense from CTE	1,312	728	862
Royalty fees charged by CTE	669	859	533
Revenue from engineering services	—	296	2,169
Other affiliate revenues	1,576	—	6
Other affiliate expenses	2,199	1,980	2,090

At December 31, 1997 and 1996, the Company has accounts receivable from related parties of $9,829 and $12,614, respectively, for these transactions. At December 31, 1997 and 1996, the Company has accounts payable to related parties of $3,748 and $4,880, respectively, for these transactions.

The Company had notes receivable of $7,914 in 1996 from advances by the Company's corporate financial services company to CTE. The Company also had notes receivable of $147,567 at December 31, 1996, from Cable Michigan, Inc. primarily related to the acquisition of the Michigan cable operations and subsequent operations. All intercompany notes receivable were settled in connection with the Distribution.

The Company had notes payable of $11,854 in 1996 from excess cash advanced by CTE to the Company's corporate financial services company for investment. All intercompany notes payable were settled in connection with the Distribution.

16. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

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

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

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

17. DISCLOSURE ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Cash and temporary cash investments

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

b. Short-term investments

Short-term investments consist of commercial paper, corporate debt securities, certificates of deposit and federal agency notes. Short-term investments are carried at amortized cost which approximates fair value due to the short period of time to maturity.

c. Long-term investments

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

d. Investments restricted for debt service

Investments restricted for debt service consists of an amount placed in escrow from the proceeds of the 10% Senior Notes which, together with the proceeds from the investment thereof, will be sufficient to pay interest on the 10% Senior Notes for six scheduled interest payments. Investments restricted for debt service are carried at amortized cost.

e. Long-term debt

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

f. Letter of credit

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

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

	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and temporary cash investments	$ 222,910	$ 222,910	$ 61,843	$ 61,843
Short-term investments	$ 415,603	$ 415,603	$ 46,831	$ 46,831
Note and interest receivable	$ 17,682	$ 17,682	$ 15,310	$ 15,310
Investments restricted for debt service	$ 61,911	$ 61,911	—	—
Financial Liabilities				
Fixed rate long-term debt:				
Senior Secured Notes	—	—	$ 131,250	$ 137,459
Senior Notes 10%	$ 225,000	$ 233,438	—	—
Senior Discount Notes 11.125%	$ 358,103	$ 377,156	—	—
Floating rate long-term debt:				
Revolving Credit Agreement	$ 3,000	$ 3,000	—	—
Term Credit Agreement	$ 100,000	$ 100,000	—	—
Unrecognized financial instruments:				
Letters of credit	$ 3,060	$ 3,060	$ 3,060	$ 3,060

18. QUARTERLY INFORMATION (Unaudited)

1997	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$ 29,677	$ 31,029	$ 31,148	$ 35,443
Operating income (loss) before depreciation, amortization and nonrecurring charges	$ 4,153	$ 850	$ (4,332)	($8,341)
Operating (loss)	$ (18,037)	$ (12,416)	$ (18,011)	$ (22,411)
Loss before extraordinary charge	N/A	N/A	N/A	$ (17,116)
Loss before extraordinary charge per average common share	N/A	N/A	N/A	$ (0.31)
Common Stock closing price				
High	N/A	N/A	$ 16.63	$ 21.63
Low	N/A	N/A	$ 12.44	$ 12.50

1996	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Sales	$ 24,165	$ 24,852	$ 26,746	$ 29,147
Operating income before depreciation and amortization	$ 4,199	$ 7,777	$ 9,188	$ 4,639
Operating (loss)	$ (4,621)	$ (1,233)	$ (19)	$ (7,205)

19. SUBSEQUENT EVENTS

a. In February 1998, the Company completed an offering of 9.8% Senior Discount Notes with an aggregate principal amount at maturity of $567,000, due February 2008. The 9.8% Senior Discount Notes were issued at a discount and generated gross proceeds to the Company of $350,587.

The 9.8% Senior Discount Notes are general senior obligations of the Company, limited to $567,000 aggregate principal amount at maturity and will mature on February 15, 2008. The 9.8% Senior Discount Notes were issued at a discount to yield gross proceeds of $350,587. The 9.8% Senior Discount Notes will not pay cash interest prior to February 15, 2003. The yield to maturity of the 9.8% Senior Discount Notes, determined on a semi-annual bond equivalent basis, will be 9.8% per annum.

The 9.8% Indenture contains certain covenants that, among other things, limit the ability of the Company and its subsidiaries to incur indebtedness, pay dividends, prepay subordinate indebtedness, repurchase capital stock, engage in transactions with stockholders and affiliates, create liens, sell assets and engage in mergers and consolidations.

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

b. On January 21, 1998, RCN entered into the Agreement and Plan of Merger (the "Erols Merger Agreement") among RCN, Erols Internet, Inc. ("Erols"), Erol Onaran, Gold & Appel Transfer, S.A., a British Virgin Islands corporation ("Gold & Appel"), and ENET Holdings, Inc., a Delaware corporation and a wholly owned subsidiary of RCN ("ENET"), to acquire all of the outstanding shares of common stock of Erols. The merger was consummated on February 20, 1998. Erols merged with and into ENET (the "Erols Merger"), with ENET as the surviving corporation. The approximate total Erols Merger consideration was $29,200 in cash, 1,730,648 shares of RCN common stock plus the assumption and repayment of $5,800 of debt. Additionally, the Company is converting approximately 999,000 Erols stock options to 699,104 RCN stock options at an average exercise price of $3.424 per share. The transaction was accounted for under the purchase method of accounting.

RCN expects to contribute to Starpower approximately 60% of the subscribers acquired in the acquisition of Erols.

c. On January 21, 1998, RCN, UNET Holdings, Inc., a wholly owned subsidiary of RCN, and Ultranet Communications, Inc. ("Ultranet") entered into an Agreement and Plan of Merger (the "Ultranet Merger Agreement"). The total consideration for the acquisition was 7,368 in cash, 890,384 shares of RCN common stock, and $3,000 in deferred compensation. Additionally, the Company is converting 63,500 UltraNet stock options to 117,052 RCN stock options at an average exercise price of $1.825 per share and making cash payments aggregating approximately $503 to certain other holders of UltraNet stock options. The transaction was consummated on February 27, 1998. The transaction was accounted for under the purchase method of accounting.

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

d. RCN paid $12,500 in cash in January 1998 as its initial capital contribution to Starpower.

e. In January 1998, BECO notified RCN that it has elected to exercise its option to the full extent permitted by the Exchange Agreement (Note 7) with respect to 1997. RCN and BECO are presently in discussions with respect to the calculation of the agreed upon value for the exercise of such option.

f. On February 27, 1998, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Lancit Media Entertainment, Ltd. ("Lancit") and LME Acquisition Corporation ("MergerSub"), a wholly owned subsidiary of RCN. Pursuant to the terms of the Merger Agreement, MergerSub will be merged with and into Lancit (the "Merger") such that immediately following the Merger, Lancit will be a wholly-owned subsidiary of RCN. The consummation of the Merger is subject to customary conditions, including the adoption and approval of the Merger and the Merger Agreement by the stockholders of Lancit in accordance with the provisions of applicable law and the filing and effectiveness of a registration statement of RCN. There is no assurance that this transaction will be consummated.

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National Capital Region by installing new, leading-edge technology and facilities to serve customers: and achieving significant economies of scale through multi-product marketing, and use of common facilities and support services. PCI customers will enjoy a high quality and value of service from a company they can trust.

The major new telecommunications business initiative for PCI during 1997 was the formation of Starpower Communications, L.L.C. This joint venture between our Pepco Communications affiliate, and an affiliate of RCN Corporation—a world leader in providing bundled telecommunications services over advanced fiber optic networks—will be the first company to provide a competitively-priced package of high-quality, local and long distance telephone, cable TV and Internet services in our greater metropolitan marketplace. Starpower Communications' business plan provides for the future installation of more than 6,000 miles of advanced fiber optic network to serve homes and businesses in the region.

During 1997, our Pepco Enterprises, Inc. affiliate continued to build on its initial successes in the development of energy-related businesses and services. The Cove Point liquefied natural gas (LNG) storage and peaking services facility, which is jointly owned by affiliates of Pepco Enterprises and Columbia Gas Systems, completed its second consecutive year of highly successful commercial operation. The 1,000-acre Cove Point LNG facility—which is one of the largest of its kind in the United States—has a total on-site storage equivalent of 5 Bcf of natural gas, liquefaction capacity of 15,000 Mcf of natural gas per day, and a total send-out capability of 1 Bcf of natural gas per day. W. A. Chester, L.L.C., our wholly owned pipe-type cable underground contractor, which was acquired in 1995, services the utility industry and ended 1997 with a substantially expanded customer and revenue base as well as increased profitability.

Our Pepco Services, Inc. affiliate substantially increased its business during the year by entering into energy-saving contracts with governmental, business and institutional customers. Recently, Pepco Services signed a national, performance-based master agreement with Ryder Truck Rental, Inc. to provide new, energy-efficient lighting for Ryder's service and maintenance facilities throughout the United States.

OUTLOOK

Now in its fifteenth year of operations, PCI looks forward to building new operating businesses, which can contribute to ongoing shareholder earnings while substantially increasing shareholder value over the long term.

We strongly believe that the birth of retail competition for the telecommunications, natural gas and electric industries presents substantial new growth opportunities for PCI in the Washington, D.C./Northern Virginia/Baltimore marketplace and beyond.

DRWraase

DENNIS R. WRAASE
Chairman of the Board and Chief Executive Officer

John D. McCallum

JOHN D. McCALLUM
President and Chief Operating Officer

March 9, 1998

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LETTER FROM THE CHAIRMAN AND PRESIDENT

DENNIS R. WRAASE
Chairman of the Board
Chief Executive Officer

JOHN D. McCALLUM
President
Chief Operating Officer

PCI continued to supplement PEPCO's earnings during 1997 while expanding its core strategy to include new businesses that provide energy and telecommunication services to the Washington, D.C. metropolitan region.

The year 1997 was one of major transition for PCI in redefining its overall corporate strategy to emphasize the development of energy and telecommunication businesses, which will help place PCI's parent, Potomac Electric Power Company (PEPCO), and PCI in a strong competitive position in the future. These new operating businesses provide an excellent opportunity to add a substantial new customer base and to increase shareholder value.

During the year, we completed the process of consolidating PEPCO's unregulated business activities within the PCI family of companies. We expect this consolidation to promote operational efficiency and flexibility; allow PCI to take maximum advantage of the new business opportunities that are being created by rapid changes in technology and government regulation; and enable us to substantially grow our customer base in the Washington, D.C./Northern Virginia/Baltimore metropolitan region. This region, which has over 7 million residents, is the fourth largest metropolitan market in the United States with a population that is affluent and well-educated. It is a center of government and high technology, and one of the nation's most sophisticated and fastest growing telecommunications markets.

PCI intends to become a leading provider of energy and telecommunications services in the

LETTER FROM THE CHAIRMAN AND PRESIDENT

National Capital Region by installing new, leading-edge technology and facilities to serve customers; and achieving significant economies of scale through multi-product marketing, and use of common facilities and support services. PCI customers will enjoy a high quality and value of service from a company they can trust.

The major new telecommunications business initiative for PCI during 1997 was the formation of Starpower Communications, L.L.C. This joint venture between our Pepco Communications affiliate, and an affiliate of RCN Corporation—a world leader in providing bundled telecommunications services over advanced fiber optic networks—will be the first company to provide a competitively-priced package of high-quality, local and long distance telephone, cable TV and Internet services in our greater metropolitan marketplace. Starpower Communications' business plan provides for the future installation of more than 6,000 miles of advanced fiber optic network to serve homes and businesses in the region.

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DENNIS R. WRAASE
Chairman of the Board and
Chief Executive Officer

JOHN D. McCALLUM
President and
Chief Operating Officer

March 9, 1998

PCI conducts PEPCO's ongoing non-regulated business and investment programs, and is a critical component in the PEPCO strategy for success in today's competitive energy, telecommunications and investment markets.

Potomac Capital Investment Corporation (PCI), is the wholly owned subsidiary of PEPCO responsible for PEPCO's non-regulated business and investment programs. PCI's earnings in 1997 were $17.1 million, compared with earnings of $16.9 million in 1996 and a net loss of $124.4 million in 1995. PCI's losses in 1995 reflect one-time noncash charges associated with the implementation of the plan adopted in 1995 regarding the company's aircraft leasing business. During 1997, PCI sold its remaining aircraft held for disposal. In addition to ongoing earnings related to marketable securities, leased assets and other investments during 1997, PCI recorded $7.4 million in after-tax earnings (after provision for transaction costs) as a result of joint venture operations, which reduced PCI's obligation for previously accrued deferred income taxes. PCI's earnings in 1997 also included capital gains totaling $4.5 million, net of tax, related primarily to the acceptance by PCI of tender offers on preferred stock.

In recent years, PCI has focused on the development of new long-term operating businesses compatible with PEPCO's core utility operations. Today, in addition to its financial investments, PCI has a family of companies which provide energy and telecommunication services — Pepco Communications, Pepco Enterprises and Pepco Services. PCI continues to manage a portfolio of financial investments including securities, aircraft and electric power plant leases, real estate, and structured partnership transactions generating fee income and minimizing tax expense.

FINANCING AND DIVIDENDS

PCI has the capital resources necessary to carry out its business plans. PCI's commercial paper outstanding totaled $7.7 million at December 31, 1997, compared to $51.7 million at year-end 1996. During 1997, PCI issued $40 million in long-term debt, and debt repayments including nonrecourse debt totaled $205.8 million. At December 31, 1997, PCI had $196 million available under its Medium-Term Note program and $400 million of unused bank credit lines.

Since its inception in 1983, PCI has paid $100 million in dividends to PEPCO. No dividend payments have been made since January 1995. Decisions regarding dividend payments are made based on considerations including future business plans, debt-to-equity ratios, and anticipated capital requirements.

MARKETABLE SECURITIES

The Company's portfolio of marketable securities consists primarily of fixed-rate investment grade utility preferred stock with mandatory redemption features and is sensitive to changes in interest rates. The securities portfolio provides PCI with liquidity and investment flexibility. At December 31, 1997, the cost and market values of the securities portfolio were $292.6 million and $302.5 million, respectively, compared to $375.6 million and $377.2 million at year-end 1996. The reduction in the securities portfolio during 1997 was primarily the result of calls and acceptance of tender offers (approximately $118.1 million) offset by purchases of $35.1 million. Proceeds were used to pay down debt, which resulted in a decrease in interest expense compared to 1996. Securities contributed $28.6 million of pretax income in 1997 compared to $33.7 million in 1996 and $36.1 million in 1995. The decreases in income were primarily due to decreases in dividend income as a result of reductions in the size of the securities portfolio since 1995. Income from securities included net realized pretax gains from sales of securities of $6.9 million in 1997, compared with $3.6 million in 1996 and $0.4 million in 1995. The Company's net unrealized gains as of December 31, 1997, were $9.9 million compared to $1.6 million at December 31, 1996, and $10.5 million at December 31, 1995.

OTHER INVESTMENTS

PCI's net investment in real estate projects, all of which are in the Washington, D.C. metropolitan area, totaled $45.3 million at December 31, 1997. Investments in real estate include build-to-suit commercial buildings, an apartment project, residential land under development, and commercial, industrial and residential land held for long-term development. PCI continually evaluates its real estate holdings and, in late 1997, the Company altered its plans with respect to the development of a parcel of land in the District of Columbia, which resulted in significant uncertainty regarding the full recovery of its investment. As a result, the Company wrote down its investment in the property to its estimated fair market value and incurred an after-tax charge to earnings of $6.5 million. Based on current development plans, management believes that PCI will at a minimum recover its remaining investment in its real estate properties.

PCI has minority limited partnership interests in five 30-megawatt solar electric generating system (SEGS) projects in the Mojave Desert in California. The SEGS projects sell electricity to Southern California Edison Company (Edison) under 30-year Interim Standard Offer No. 4 power purchase agreements. PCI's current projections of future distributions from the SEGS projects indicate a recovery of its remaining December 31, 1997 investment balance of $25.3 million.

PCI's financial investments also include ownership interests in various energy, telecommunications and other equity investments.

Pepco Communications, through strategic alliances with leading telecommunication providers, has launched an array of telecommunication products and services.

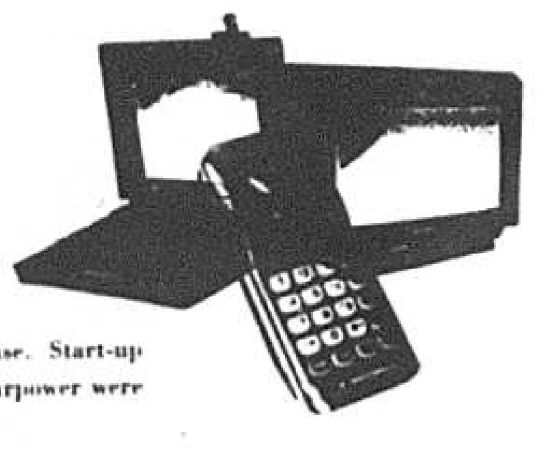
These products and services are being offered to residential, commercial and governmental customers in the Washington, D.C., Northern Virginia and Baltimore metropolitan region. This region, with over 7 million people, is one of the largest telecommunications markets in the nation.

STARPOWER COMMUNICATIONS, L.L.C.

In December 1997, Pepco Communications, L.L.C. entered into a 50/50 joint venture with an affiliate of RCN Corporation, a competitive leader in the telecommunications industry, to create Starpower Communications. With planned initial investments of $150 million from each partner, Starpower will build a state-of-the-art fiber optic network to provide a package of high-quality, competitively priced, local and long distance telephone, cable television and Internet services to residential, commercial and governmental customers. PCI will fund Pepco Communications' investment in the Starpower joint venture through cash from operations and borrowings under its Medium-Term Note facility. It is anticipated that the joint venture will incur operating losses initially, as it develops and expands its network and region-wide customer base. Start-up costs incurred in 1997 relating to Starpower were expensed as they were incurred.

METRICOM D.C., L.L.C.

Our wholly owned affiliate, Pepdata, Inc. formed a joint venture partnership with Metricom, Inc., which has deployed a wireless digital network that offers wireless Internet services to consumers in the metropolitan Washington, D.C. area. Through a Ricochet modem—which is a wireless digital connection that replaces a phone line—subscribers to the Ricochet service (including corporate local area networks) send and receive electronic mail, exchange high volumes of data and gain access to the Internet without depending on telephone lines or other hard-wire connections.

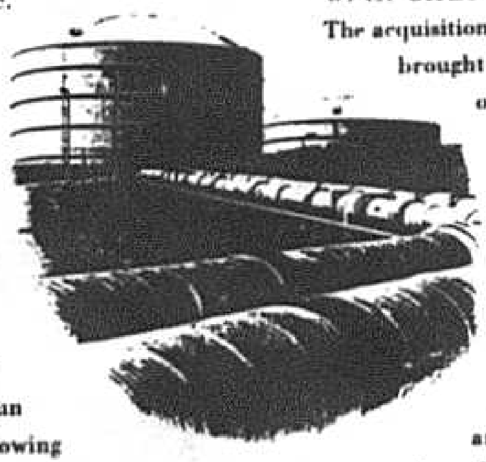


Pepco Enterprises has successfully developed new operating businesses that provide products and services for the utility industry.

During the past five years, Pepco Enterprises has acquired ownership and operating interests in a natural gas pipeline, liquefied natural gas (LNG) storage facilities and an underground cable services company—all of which are profitably providing cost-effective, reliable products and services to utilities and other customers. Pepco Enterprises contributed $1.7 million in after-tax earnings to PCI in 1997.

COVE POINT LNG, L.P.

In 1993, affiliates of Pepco Enterprises and Columbia Gas Systems, Inc. formed a 50/50 partnership to own and operate LNG storage and terminal facilities at Cove Point, Maryland (pictured at right), and an 87-mile natural gas pipeline that extends from Cove Point to a major interstate natural gas intersection in Loudoun County, Virginia. Following Federal Energy Regulatory Commission (FERC) approvals and facility recommissioning, commercial operations began at Cove Point in the fourth quarter of 1995 ahead of schedule and under budget. The partnership provides peak shaving, liquefaction, and storage services as well as firm and interruptible transportation services of natural gas to its customers. In both 1996 and 1997—the first two full years of joint venture operations—100 percent of Cove Point's liquefaction storage capacity was subscribed and sold to peaking customers. Additionally, the Cove Point pipeline is the sole source of natural gas supply for PEPCO's Chalk Point Generating Station and has proven to be a reliable, cost-effective source of transportation for natural gas.

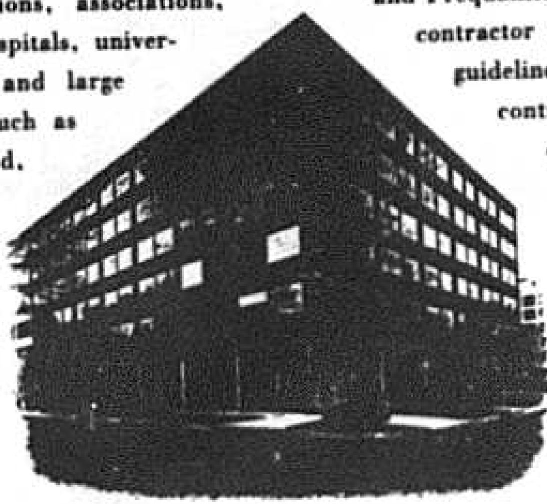


W. A. CHESTER, L.L.C.

The acquisition of W.A. Chester, L.L.C. in 1995 has brought within the PCI family of companies one of the leading organizations specializing in the construction, installation and maintenance of underground cable systems for electric utilities and telecommunications companies. W. A. Chester provides a broad array of high-quality, cost-saving services used by electric utilities and other customers throughout the nation. PEPCO has one of the largest utility-owned underground high voltage systems in the United States.

Pepco Services provides comprehensive, single-source energy solutions for businesses, government and institutional customers.

Pepco Services provides turnkey energy solutions to high-volume energy users both inside and outside the PEPCO retail service territory. These users include corporations, associations, government agencies, hospitals, universities, and residential and large commercial properties such as the Rockville, Maryland, office building pictured at right where Pepco Services has a chiller replacement project. Pepco Services evaluates energy-savings opportunities, designs and builds energy-saving projects, and operates and maintains energy-using equipment for its customers. For most projects, Pepco Services provides project financing and is repaid from the energy and maintenance savings generated by the project.



Pepco Services' current projects range from simple energy-efficient lighting retrofits in small private elementary schools to design and construction of large-scale central heating and cooling plants on college campuses. Pepco Services is a Certified and Prequalified energy-savings performance contractor under Department of Defense guidelines and a qualified performance contractor under U.S. Department of Energy rules. In 1997, Pepco Services' clients included the United States Navy and the United States Department of Interior in Washington, D.C., Catawba College in Salisbury, North Carolina, and White Flint Mall in Bethesda, Maryland.

Recently, Pepco Services entered into a nationwide energy services contract with Florida-based Ryder Truck Rental, Inc. to provide new energy-efficient lighting for Ryder's service and maintenance facilities throughout the United States.

Management's Report on the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis.

The consolidated financial statements are the responsibility of management. The Company has established a system of internal accounting controls to provide reasonable, but not absolute, assurance as to the integrity of the consolidated financial statements. The system of internal controls is examined by management on a continuing basis for effectiveness and cost efficiency. The system is also reviewed on a regular basis by Potomac Electric Power Company's (PEPCO) internal audit staff that reports directly to PEPCO's Chairman of the Board. The Company's independent accountants, Price Waterhouse LLP, regularly evaluate the system of internal accounting controls and perform such tests and other procedures as they deem necessary to express an opinion on the fairness of the consolidated financial statements.

The report of Price Waterhouse LLP on its audits of the accompanying consolidated financial statements appears on this page. The report includes the accountants' opinion that the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries at December 31, 1997 and 1996, and the results of operations and cash flows for each of the three years in the period ended December 31, 1997.

The consolidated financial statements have been reviewed by the Board of Directors of the Company. In addition, the Audit Committee of the Board of Directors, consisting of five outside directors, discusses accounting, auditing and financial reporting matters with management and Price Waterhouse LLP on a regular basis and reviews the program of audit work performed by the PEPCO internal audit staff. To ensure the accountants' independence, both Price Waterhouse LLP and the PEPCO internal audit staff have direct access to the Audit Committee.

Betty F. Davis

Betty F. Davis
Vice President and Controller
January 16, 1998

Report of Independent Accountants

Price Waterhouse LLP

To the Board of Directors of
Potomac Capital Investment Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings and retained earnings and of cash flows present fairly, in all material respects, the financial position of Potomac Capital Investment Corporation (a wholly owned subsidiary of Potomac Electric Power Company) and its subsidiaries at December 31, 1997 and 1996, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Price Waterhouse LLP

Washington, D.C.
January 16, 1998

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

POTOMAC CAPITAL INVESTMENT CORPORATION AND SUBSIDIARIES

For the year ended December 31,	1997	1996	1995
(Thousands of Dollars)			
INCOME:			
Leasing activities (Note 3)	**$ 75,584**	$ 91,661	$ 100,640
Marketable securities (Note 2)	**28,641**	33,690	36,121
Other (Note 5)	**20,915**	(10,385)	(2,268)
Total income	**125,140**	114,966	134,493
EXPENSES:			
Interest (Notes 7 and 8)	**68,959**	83,442	91,637
Administrative and general (Note 9)	**13,489**	15,529	10,479
Depreciation and operating	**55,439**	40,982	72,404
Loss on assets held for disposal (Note 3)	**2,022**	12,744	170,078
Total expenses	**139,909**	152,697	344,598
Loss from operations	**(14,769)**	(37,731)	(210,105)
Intercompany income tax credit (Note 10)	**(31,850)**	(54,625)	(85,708)
NET EARNINGS (LOSS)	**17,081**	16,894	(124,397)
RETAINED EARNINGS:			
Beginning of the year	**32,827**	15,933	149,330
Dividend paid to parent company	**–**	–	(9,000)
End of the year	**$ 49,908**	$ 32,827	$ 15,933

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

POTOMAC CAPITAL INVESTMENT CORPORATION AND SUBSIDIARIES

December 31, *(Thousands of Dollars)*	1997	1996
ASSETS		
Cash and cash equivalents	$ 422	$ 804
Marketable securities (Note 2)	302,522	377,237
Investment in finance leases (Note 3)	463,592	484,972
Operating lease equipment, net of accumulated depreciation of $153,541 and $117,705 (Note 3)	163,289	199,124
Assets held for disposal (Note 3)	–	10,300
Receivables, less allowance for uncollectible accounts of $6,000 (Note 4)	64,243	85,866
Other investments (Note 5)	162,865	193,002
Other assets (Note 6)	10,392	12,436
Total assets	$1,167,325	$1,363,741
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES:		
Short-term debt (Note 7)	$ 7,685	$ 51,650
Long-term debt (Note 8)	778,250	932,250
Total recourse debt	785,935	983,900
Nonrecourse debt (Note 8)	52,208	63,982
Accrued interest	22,705	26,289
Accounts payable and other liabilities	68,661	19,106
Minority interest	10,645	13,058
Deferred intercompany income tax (Note 10)	215	61,068
Total liabilities	940,369	1,167,403
STOCKHOLDER'S EQUITY (NOTE 9):		
Common stock, $1 par value—1,000 shares authorized, issued and outstanding	1	1
Paid in capital	170,585	162,445
Unrealized gain on marketable securities (Note 2)	6,462	1,065
Retained earnings	49,908	32,827
Total stockholder's equity	226,956	196,338
Total liabilities and stockholder's equity	$1,167,325	$1,363,741

The accompanying notes are an integral part of these Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

POTOMAC CAPITAL INVESTMENT CORPORATION AND SUBSIDIARIES

For the year ended December 31, *(Thousands of Dollars)*	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net earnings (loss)	$ 17,081	$ 16,894	$ (124,397)
Adjustments to reconcile net earnings to cash:			
Loss on assets held for disposal	2,022	12,744	170,078
Writedown of assets	10,010	29,053	7,859
Depreciation and depletion	36,453	41,341	35,601
Net gain on marketable securities	(6,884)	(3,615)	(396)
(Gain) loss on sale of assets	(30)	(8,777)	69
Rents received from finance equipment leases over (under) income earned	469	(5,550)	(1,179)
Undistributed loss from affiliates	1,272	2,315	3,853
Deferred income taxes	(63,759)	(36,398)	(49,697)
Changes in certain assets and liabilities:			
Receivables	(27,504)	3,803	(3,079)
Other assets	6,184	(231)	(1,155)
Accrued interest	(3,586)	(948)	(1,940)
Accounts payable and other liabilities	49,555	(15,799)	12,963
Minority interests	(502)	90	10,850
Net cash flow from operating activities	20,781	34,922	73,022
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of marketable securities	(35,103)	(19,680)	(35,221)
Proceeds from sale or redemption of marketable securities	125,000	167,528	27,846
Investment in leased equipment	(7,480)	(3,056)	(154,766)
Proceeds from sale or disposition of leased equipment	28,484	3,658	-
Proceeds from sale of assets	-	-	5,966
Proceeds from sale of assets held for disposal	7,300	34,154	-
Purchase of other investments	(20,603)	(38,808)	(3,818)
Proceeds from sale or distribution of other investments	18,730	33,867	15,614
Investment in promissory notes	-	(4,245)	(7,955)
Proceeds from promissory notes	64,108	16,675	7,977
Net cash flow from (used in) investing activities	180,436	190,093	(144,357)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayments) borrowings of short-term debt	(43,965)	(171,703)	174,950
Proceeds from issuance of long-term debt	40,000	183,000	182,000
Repayment of long-term debt	(205,774)	(237,102)	(275,021)
Dividend paid to parent company	-	-	(9,000)
Capital contribution from parent	8,140	-	-
Net cash flow (used in) from financing activities	(201,599)	(225,805)	72,929
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(382)	(790)	1,594
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	804	1,594	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 422	$ 804	$ 1,594
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid or received during the year for:			
Interest paid (net of capitalized interest of $492, $648 and $528)	$ 71,492	$ 83,389	$ 93,672
Income taxes (paid) received	(6,077)	31,628	27,322
SUPPLEMENTAL SCHEDULE OF NONCASH TRANSACTIONS:			
Noncash capital contribution from parent	$ -	$ 16,808	$ -
Purchase of real estate with nonrecourse debt	-	4,648	-

The accompanying notes are an integral part of these Consolidated Financial Statements.

POTOMAC CAPITAL INVESTMENT CORPORATION AND SUBSIDIARIES

(1) ACCOUNTING POLICIES

Potomac Capital Investment Corporation (PCI; the Company), a wholly owned subsidiary of the Potomac Electric Power Company (PEPCO) was formed in 1983 to provide a permanent vehicle for the conduct of PEPCO's ongoing nonutility businesses. PCI's principal investments are equipment leases and marketable securities, primarily preferred stock with mandatory redemption features, and real estate. Through its wholly owned operating subsidiaries, Pepco Enterprises, Inc. ("PEI"), Pepco Communications, Inc. and Pepco Services, Inc. (See Note 5), the Company also has business interests in the energy industry, including a liquefied natural gas storage and pipeline facility, telecommunications and energy management service contracts.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the Company and its majority-owned or controlled subsidiaries. All intercompany transactions have been eliminated. Generally, earnings or losses of 20% to 50% owned companies are accounted for using the equity method.

LEASING TRANSACTIONS

Income from direct finance and leveraged lease transactions in which the Company is an equity participant is reported on the financing method. In accordance with the financing method, the Company's investment in leased property is recorded as a receivable from the lessee to be recovered through the collection of future rents. For direct finance leases, unearned income is amortized to income over the lease term at a constant rate of return on the net investment. Income, including investment tax credits on leveraged equipment leases, is recognized over the life of the lease at a level rate of return on the positive net investment.

PCI's investment in equipment under operating leases is stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the equipment's estimated useful life. Assets held for disposal are carried at estimated fair value less cost to sell. No depreciation is taken on assets held for disposal.

OIL AND NATURAL GAS

The Company accounts for its investment in oil and natural gas-producing properties using the full cost method of accounting. Capitalized costs are depleted on a unit-of-production basis. The Company verifies the realizability of its investment by comparing its carrying value to a computation of the present value of future expected cash flows derived from an independent appraisal of the reserves and the contract price of its product at the balance sheet date.

RECEIVABLES

The Company continuously monitors its receivables and establishes an allowance for doubtful accounts against its notes receivable when deemed appropriate on a specific identification basis. The direct write-off method is used when trade receivables are deemed uncollectible.

STATEMENTS OF CASH FLOWS

For purposes of the consolidated financial statements, cash and cash equivalents include cash on hand and money market funds with original maturities of three months or less.

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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform to the current year presentation.

NEW ACCOUNTING STANDARD

In June 1997, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130 entitled "Reporting Comprehensive Income" which will become effective January 1, 1998. SFAS No. 130 establishes standards for reporting and displaying comprehensive income and its components. All items that are required to be recognized under accounting standards as components of comprehensive income must be reported in a financial statement that is displayed with the same prominence as other financial statements. The Company's principal components of comprehensive income are net income and unrealized gains and losses on marketable securities.

(2) MARKETABLE SECURITIES

The Company's marketable securities, primarily preferred stock with mandatory redemption features, are classified as available-for-sale for financial reporting purposes. Net unrealized gains or losses on such securities are reflected, net of tax, in stockholder's equity.

	At December 31, 1997			At December 31, 1996		
	Cost	Market Value	Net Unrealized Gain	Cost	Market Value	Net Unrealized Gain/(Loss)
(Thousands of Dollars)						
Mandatory redeemable preferred stock	$292,580	$302,522	$9,942	$375,595	$377,237	$1,642
Equity securities	-	-	-	3	-	(3)
Total	$292,580	$302,522	$9,942	$375,598	$377,237	$1,639

Included in net unrealized gains and losses are gross unrealized gains of $13.9 million and gross unrealized losses of $4 million at December 31, 1997, and gross unrealized gains of $9.9 million and gross unrealized losses of $8.3 million at December 31, 1996.

In determining gross realized gains and losses on sales or calls of securities, specific identification is used. A summary of realized gains and losses is shown below.

For the year ended December 31	1997	1996
(Thousands of Dollars)		
Gross realized gains	$7,529	$ 4,666
Gross realized losses	(645)	(1,051)
Net gain	$6,884	$ 3,615

The contractual maturities for mandatory redeemable preferred stock are as follows:

Cost at December 31	1997
(Thousands of Dollars)	
Within one year	$ 4,659
One to five years	118,753
Five to ten years	81,438
Over ten years	87,730
Total	$292,580

(3) LEASING ACTIVITIES

During 1997, the Company sold its remaining aircraft held for disposal resulting in a $2 million pretax ($1.3 million after-tax) charge to earnings. PCI's remaining aircraft portfolio consists of performing assets on lease to established commercial airlines. PCI continues to manage its remaining aircraft portfolio with the objective of identifying future opportunities for their sale or other disposition on economic terms. As a result of joint venture operations for the years ended December 31, 1997 and 1996, PCI's obligation for previously accrued deferred income taxes was reduced, resulting in after-tax earnings of $7.4 million and $27.7 million, respectively after provision for transaction costs.

PCI's aircraft portfolio at December 31, 1997, is summarized below:

	Qty	Year	Lessee	Lease Type
OPERATING LEASE EQUIPMENT				
B747-200 aircraft + spare engines	1	1972	Continental	Operating
B747-200 aircraft	2	1978	United	Operating
DC-10-30 aircraft	5	1973/74	Continental	Operating
DC-10-30 aircraft	2	1975/76	Canadian	Operating
INVESTMENT IN AIRCRAFT FINANCE EQUIPMENT LEASES				
B737-300 aircraft	4	1988	United	Direct Finance
B747-300 Combi aircraft	1	1984	KLM	Leveraged
B747-300 aircraft	1	1985	Singapore	Leveraged
B757-200 aircraft	1	1986	Northwest	Leveraged
DC-10-30 aircraft	1	1979	Continental	Direct Finance
MD-82 aircraft + spare engine	3	1982/87	Continental	Direct Finance
B747-200F aircraft + spare engine	1	1976	Atlas Air	Direct Finance

Includes all equipment in which PCI has a greater than 10% ownership interest.

Year of manufacture.

PCI owns a partial interest in certain of this equipment.

Includes partial interests in 2 DC-10-30 aircraft on operating lease to Continental Airlines which are included in Other Investments.

On July 31, 1997, an MD-11 aircraft owned by PCI and on long-term leveraged lease to FedEx Corporation was involved in a landing accident at Newark International Airport. There was no loss of life or serious personal injury resulting from the accident, however, the aircraft was a total loss. The aircraft, which had a book value of $28.4 million at the date of loss, was fully insured and PCI received cash proceeds representing full recovery of its investment on August 15, 1997. No material gain or loss was recognized as a result of this accident.

The components of the Company's net investment in finance leases at December 31, 1997 and 1996, are summarized as follows:

At December 31, 1997	Leveraged Leases	Direct Finance Leases	Total Finance Leases
(Thousands of Dollars)			
Rents receivable	$ 367,247	$ 296,964	$ 664,211
Estimated residual value	26,768	61,197	87,965
Less Unearned and deferred income	(160,150)	(128,434)	(288,584)
Investment in finance leases	233,865	229,727	463,592
Less Deferred taxes	(85,289)	(34,159)	(119,448)
Net investment in finance leases	$ 148,576	$ 195,568	$ 344,144
At December 31, 1996			
Rents receivable	$ 388,588	$ 323,373	$ 711,961
Estimated residual value	41,393	61,197	102,590
Less Unearned and deferred income	(183,353)	(146,226)	(329,579)
Investment in finance leases	246,628	238,344	484,972
Less Deferred taxes	(109,980)	(34,687)	(144,667)
Net investment in finance leases	$ 136,648	$ 203,657	$ 340,305

Income recognized from leveraged leases was comprised of the following:

For the year ended December 31,	1997	1996	1995
(Thousands of Dollars)			
Pretax earnings from leveraged leases	$ 9,801	$18,255	$ 9,992
Investment tax credit recognized	652	440	686
Income from leveraged leases, including investment tax credit	10,453	18,695	10,678
Income tax credit	5,926	3,829	299
Net income from leveraged leases	$16,379	$22,524	$10,977

Rents receivable from leveraged leases are net of non-recourse debt. Minimum lease payments receivable from finance leases, primarily aircraft, for each of the years 1998 through 2002 are $33 million, $34.5 million, $37.3 million, $36.7 million, and $34.9 million, respectively.

Rent payments receivable from aircraft operating leases for each of the years 1998 through 2002 are $37 million, $35.5 million, $30 million, $22.5 million, and $3.5 million, respectively.

Operating lease equipment consists entirely of aircraft and aircraft engines. Aircraft included in finance leases at December 31, 1997 and 1996, totaled $267.7 million and $304.8 million, respectively. The remaining investment in finance leases of $195.9 million and $180.2 million at December 31, 1997 and 1996, respectively, consists primarily of leveraged lease investments of two foreign power plants.

(4) RECEIVABLES

Included in receivables were promissory notes totaling $23.1 million and $72.3 million at December 31, 1997 and 1996, respectively. Receivables totaling $10.6 million at December 31, 1997, were due from parties related to the airline industry, of which $10 million were secured by aircraft assets. Also included in receivables at December 31, 1997, is a note receivable between PEI, a wholly owned subsidiary, and Cove Point LNG, L.P., a partnership in which PEI has a 50% interest. Principal and accrued interest at a market rate is paid quarterly by the partnership to PEI. The note balance was $13.1 million at December 31, 1997, and matures in September 2008.

During 1997, PCI received $25.8 million in cash proceeds from the sale of notes receivable from World Airways and recorded an after-tax charge to earnings of $.4 million. PCI also received $15.7 million in cash proceeds during the second quarter of 1997 for the early redemption of a note receivable related to a 1996 sale of an aircraft leasing subsidiary. Also during 1997, PCI received $12.9 million for the sale of notes receivable from Continental Airlines and recorded an after-tax gain of $.9 million.

(5) OTHER INVESTMENTS

Other investments are summarized as follows:

December 31,	1997	1996
(Thousands of Dollars)		
Partnership investments	$ 49,305	$ 48,934
Land held for development	30,514	40,546
Investment in SEGS	25,320	26,820
Land and buildings	22,677	23,369
Private placement preferred stock	19,812	9,812
Equity investments	9,138	36,873
Oil and natural gas	3,969	4,598
Other	2,050	2,050
Total other investments	$162,865	$193,002

Investments in real estate include commercial buildings built for and leased principally to the tenant, an apartment project, residential land under development and commercial, industrial and residential land held for long-term development. As of December 31, 1997 and 1996, PCI had net investments of $45.3 million and $54.4 million, respectively, in properties and real estate joint ventures. In late 1997, the Company altered its plans with respect to the development of a parcel of land in the District of Columbia, which resulted in significant uncertainty regarding the full recovery of its investment. As a result, the Company wrote down its investment in the property to its estimated fair value and incurred an after-tax charge to earnings of $6.5 million. Management continually re-evaluates the real estate portfolio. PCI has arranged interim income-producing uses for certain undeveloped commercial land where development activities are at minimal levels.

As a result of the first quarter 1996 implementation of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," a pretax charge of $9.6 million ($6.2 million after-tax) was recorded in the first quarter of 1996 related to PCI's investment in solar electric generating systems (SEGS) projects, reflecting revised first quarter assumptions relating to the recoverability of the investment. In addition, PCI recorded a pretax charge of $9 million ($5.9 million after-tax) in the first quarter of 1996 and $1.9 million ($1.2 million after-tax) in the fourth quarter of 1996, reflecting current assessments of the net realizable values of real estate and oil and natural gas investments.

PCI has limited partnership interests in five 30-megawatt SEGS projects in the Mojave Desert in California. The Company owns 22%, 10%, 19%, 31%, and 25% of SEGS projects III through VII, respectively. During 1996, the lenders to SEGS III and SEGS IV filed suit against the SEGS III and IV partnerships to restrain them from making distributions of 1996 profits. Due to the uncertainty associated with the litigation and the lack of success in reaching a negotiated settlement with the lenders, PCI wrote off its investments in SEGS III and IV at year end 1996. A decision was reached by the Court in the first quarter of 1997 in favor of the partnerships. Thereafter, the lenders immediately issued new default notices based on alleged maintenance deficiencies, again delaying the ability of the partners to distribute SEGS III and IV 1996 partnership profits. The partnerships continue to work toward a negotiated settlement with the lenders. PCI's current projections of future distributions from SEGS V, VI, and VII indicate a recovery of its remaining December 31, 1997, investment balance of $25.3 million.

On December 31, 1996, PCI sold its $2.8 million (20%) interest in Advanced Separation Technologies, Inc. ("AST") to Calgon Carbon Corporation for an after-tax gain of $6.7 million. On January 12, 1998, Calgon filed a lawsuit in federal district court alleging that PCI and Progress Capital Holdings (the subsidiary of Florida Progress Corporation, which had owned 80% of AST) misrepresented the financial statements and financial and operating condition of AST. Calgon seeks unspecified actual and punitive damages and the right to rescind the sale of AST. PCI is unaware of any factual basis for Calgon's claims. While PCI cannot predict the outcome of the litigation, it believes that it will not have a material adverse effect on its financial condition or results of operations.

Included in Other Investments as of December 31, 1997, is $13.8 million of investments made by PEI, which was contributed to PCI by PEPCO during 1996. Other income for the year ended December 31, 1997, includes $22.5 million in revenue from PEI and Pepco Services, Inc. activities. Through its new wholly owned subsidiaries, PCI has business interests which include energy management services, telecommunications, liquefied natural gas storage facilities, and underground cable construction and maintenance services.

(6) OTHER ASSETS

Other assets consist of the following:

December 31	1997	1996
(Thousands of Dollars)		
Securities held in trust	$ 4,344	$ 4,344
Property and equipment, net of accumulated depreciation	2,779	794
Deferred debt issuance costs, net of amortization	1,667	2,526
Prepaid and deferred expenses	912	4,661
Other	690	111
Total other assets	$10,392	$12,436

(7) SHORT-TERM DEBT

The Company's short-term financing requirements have been satisfied through the sale of commercial promissory notes.

Information concerning short-term borrowings is set forth below (calculations of average interest rates have been dollar weighted based on amounts outstanding):

December 31	1997	1996	1995
(Thousands of Dollars)			
OUTSTANDING AT END OF THE YEAR			
Aggregate face amount	$ 7,685	$ 51,650	$223,350
Weighted average effective interest rate	7.25%	6.16%	6.13%
OUTSTANDING DURING THE YEAR			
Maximum aggregate face amount	$163,575	$223,350	$279,591
Average aggregate face amount	$ 26,974	$125,176	$137,679
Weighted average effective interest rate	5.66%	5.61%	6.06%

PCI maintains a minimum 100% line of credit back-up for its outstanding commercial promissory notes, which was unused during 1997, 1996, and 1995. At December 31, 1997, PCI's committed bank credit facility totaled $400 million. The credit facility is available as support for the Company's commercial paper program and working capital requirements. The Company pays fees pursuant to the terms under which the credit arrangements have been made.

(8) LONG-TERM DEBT

Long-term recourse debt consists of borrowings from institutional lenders with varying interest rates and maturity dates as follows:

At December 31, 1997 Interest Rates	Maturities	Amount
(Thousands of Dollars)		
5.00% - 5.99%	1998 - 2002	$136,000
6.00% - 6.99%	1998 - 2002	234,500
7.00% - 8.99%	1998 - 2003	248,750
9.00% - 10.10%	1998 - 2001	159,000
Total		$778,250

The weighted average effective interest rate of long-term debt was 7.48% at December 31, 1997, and 7.44% at December 31, 1996. Maturities for long-term recourse debt are as follows:

At December 31, 1997	Year	Amount
(Thousands of Dollars)		
	1998	$300,750
	1999	170,000
	2000	122,500
	2001	71,500
	2002	93,000
	2003 and thereafter	20,500
	Total	$778,250

Included in nonrecourse debt at December 31, 1997, was $29.4 million secured by aircraft currently under operating lease. The debt is payable in monthly installments at rates of LIBOR plus 1.25% and LIBOR plus 1.375% with final maturity on March 15, 2002. Also included in nonrecourse debt was $22.8 million related to the Company's majority-owned real estate partnerships. Of this amount, $15.1 million is due in consecutive monthly installments based on a 30-year amortization period at a fixed rate of interest of 9.05%. Final maturity is on May 11, 2001, when the principal payment due will be $14.6 million. The remaining $7.7 million is payable in monthly installments at a fixed rate of interest of 9.66% with final maturity on October 1, 2011.

(9) ADMINISTRATIVE AND GENERAL EXPENSE

PCI obtains certain management services from PEPCO, including the administration of salaries and related fringe-benefit costs for personnel assigned to the Company on a full time or part time basis. PCI reimburses PEPCO for these costs, which totaled $3.7 million, $3.8 million and $3.9 million for the years ended December 31, 1997, 1996 and 1995, respectively.

(10) INCOME TAXES

The results of the Company's operations are included in the consolidated federal income tax return of PEPCO or reported separately. PCI reports its share of consolidated federal income tax expense on a separate company, incremental basis. Total income taxes payable amounted to $10.8 million at December 31, 1997, and total income taxes receivable amounted to $2.6 million at December 31, 1996. Of these amounts, total income taxes payable to PEPCO were $11.5 million and $1 million at December 31, 1997 and 1996, respectively.

As a result of joint venture operations and other activity for the years ended December 31, 1997 and 1996, PCI's obligation for previously accrued deferred taxes was reduced resulting in a reduction in income tax expense of $13.3 million and $34.9 million, respectively.

Significant components of the Company's deferred tax liabilities and assets are as follows:

December 31	1997	1996
(Thousands of Dollars)		
DEFERRED TAX LIABILITIES:		
Finance leases	$119,448	$144,667
Operating leases and other	28,823	49,551
Total deferred tax liabilities	148,271	194,218
DEFERRED TAX ASSETS:		
AMT credit carryforward	97,109	97,109
Other	50,947	36,041
Total deferred tax assets	148,056	133,150
DEFERRED INTERCOMPANY INCOME TAX	$ 215	$ 61,068

The reconciliation of the intercompany income taxes to the amounts computed by applying the statutory tax rate to reported pretax results and a summary of the components is set forth below:

For the year ended December 31	1997	1996	1995
(Thousands of Dollars)			
RECONCILIATION OF INTERCOMPANY INCOME TAXES:			
Loss before intercompany income tax	$(14,769)	$(37,731)	$(210,105)
Income tax at federal statutory rate	$ (5,169)	$(13,206)	$ (73,537)
Decreases resulting from:			
Dividends received deduction	(5,419)	(7,114)	(8,524)
Reversal of previously accrued deferred taxes	(10,125)	(30,804)	-
Other	(11,137)	(3,501)	(3,647)
	(26,681)	(41,419)	(12,171)
Intercompany income tax credit	$(31,850)	$(54,625)	$ (85,708)
COMPONENTS OF INTERCOMPANY INCOME TAXES:			
Current income tax expense (credit):			
Arising from finance leases	$ 15,570	$(22,214)	$ (12,643)
Other	14,851	3,962	(22,949)
	30,421	(18,252)	(35,592)
Deferred income tax (credit) expense:			
Arising from finance leases	(33,997)	24,024	14,174
Asset basis adjustment	(10,125)	(39,425)	-
Loss on assets held for disposal	-	(4,460)	(59,500)
Accelerated depreciation and other	(18,149)	(16,512)	(4,790)
	(62,271)	(36,373)	(50,116)
Intercompany income tax credit	$(31,850)	$(54,625)	$ (85,708)

(11) FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values of the Company's financial instruments at December 31, 1997 and 1996, are shown below:

	December 31			
	1997		1996	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
(Thousands of Dollars)				
ASSETS:				
Marketable securities	$ 302,522	$ 302,522	$ 377,237	$ 377,237
Notes receivable	23,125	19,549	72,251	71,593
LIABILITIES:				
Long-term debt	$ 830,458	$ 840,974	$ 996,232	$1,011,814

The fair value of marketable securities is based on quoted market prices. The estimated fair value of notes receivable is based upon discounted future cash flows using current rates and similar terms. The estimated fair value of long-term debt, including non-recourse debt, is based on current rates offered to similar companies for debt with similar remaining maturities.

(12) NEW BUSINESS VENTURE

On December 18, 1997, PCI and RCN Telecom Services, Inc., (RCN) of Princeton, New Jersey, signed the definitive agreements forming a joint venture known as Starpower Communications, L.L.C. to provide a package of local and long distance telephone, cable television, high speed Internet and other telecommunication services to residents and businesses in the Washington, D.C./Baltimore/Northern Virginia metropolitan region. The joint venture is equally owned and managed by PCI and RCN. PCI and RCN each will invest up to $150 million over a three-year period to build out, market, and provide services over an advanced fiber optic network. PCI's investment in the joint venture will be funded through cash from operations and borrowings under its Medium-Term Note facility. PCI expects that the joint venture will incur operating losses initially, as it develops and expands its network and customer base. Start-up costs incurred by PCI relating to the telecommunications business have been expensed.

POTOMAC CAPITAL INVESTMENT CORPORATION

DIRECTORS

DENNIS R. WRAASE (CHAIRMAN)
Senior Vice President and
Chief Financial Officer
Potomac Electric Power Company

A. JAMES CLARK[1]
Chairman of the Board and President
Clark Enterprises, Inc.
Bethesda, Maryland

H. LOWELL DAVIS
Retired Vice Chairman
Potomac Electric Power Company

JOHN M. DERRICK, JR.
President and Chief Executive Officer
Potomac Electric Power Company

EDWARD F. MITCHELL
Chairman of the Board
Potomac Electric Power Company

PETER F. O'MALLEY[1]
Of Counsel
O'Malley, Miles, Nylen & Gilmore, P.A.
Calverton, Maryland

LOUIS A. SIMPSON[1]
President and Chief Executive Officer
Capital Operations
GEICO Corporation
Washington, D.C.

W. REID THOMPSON[1]
Retired Chairman of the Board
Potomac Electric Power Company

A. THOMAS YOUNG[1]
Retired Executive Vice President
Lockheed Martin Corporation
Bethesda, Maryland

[1] Member of Audit Committee of which Mr. Clark is Chairman.

OFFICERS

DENNIS R. WRAASE
Chief Executive Officer

JOHN D. McCALLUM
President and Chief Operating Officer

WILLIAM DANA SHAPIRO
Senior Vice President,
General Counsel and Secretary

FRANK J. SPINGLER
Senior Vice President - Real Estate

BETTY F. DAVIS
Vice President and Controller

ROBERT W. HOLLIS
Vice President - Energy

FRANK A. KELLY
Group Vice President - Leasing

KEVIN M. MCGOWAN
Treasurer

LESLIE C. ZIMBERG
Assistant Secretary and
Associate General Counsel

PEPCO COMMUNICATIONS, INC.

JOHN D. McCALLUM
President and Chief Executive Officer

JANET HECK DOYLE
Vice President,
General Counsel and Secretary

JOHN NG
Vice President -
Telecommunications Engineering

PEPCO ENTERPRISES, INC.

JOHN D. McCALLUM
President and Chief Executive Officer

STEVEN M. SCHERER
Senior Vice President - Operations

DAVID G. MENCARINI
Vice President and Controller

LESLIE C. ZIMBERG
Vice President,
General Counsel and Secretary

PEPCO SERVICES, INC.

E.R. MAYBERRY
President and Chief Executive Officer

JOY JOHNSON
Vice President,
General Counsel and Secretary

ROD LARSON
Vice President -
New Product Development

A. GLENN SIMPSON
Vice President - Finance

DAVID WEISS
Vice President - Federal Projects

Potomac Capital Investment Corporation
1801 K Street, N.W., Suite 900
Washington, D.C. 20006
(202) 775-4620

EXHIBIT 3

Managerial and Technical Qualifications

Starpower may rely on the managerial and technical resources of its owners, RCN-DC and its parents RCN Telecom Services and RCN Corporation, and Pepco Communications and its parents Pepco Communications, Inc. and PCI. Starpower is a newly-organized company and is currently certified to provide local exchange and interexchange services in Maryland and Virginia and local exchange services in the District of Columbia. Other affiliates or subsidiaries of both RCN Corporation and Pepco Communications have significant experience in providing telecommunications and facilities-based services.

RCN Corporation subsidiaries are among the first facilities-based telecommunications companies to offer a package of competitive local and long-distance telephone, television, and high-speed Internet access to residential and commercial customers over advanced fiber optic networks. It currently provides bundled and unbundled telecommunications services through a subsidiary in New York City and through a joint venture with Boston Edison, in the Boston Metropolitan area. An RCN Corporation subsidiary, RCN Long Distance Company (formerly Commonwealth Long Distance Company), has been a long distance service provider since 1992. RCN Long Distance Company is also authorized to provide similar interexchange services in every other state except Alaska and Hawaii. Other subsidiaries of RCN Corporation are authorized to provide local exchange service in Delaware, District of Columbia, Massachusetts, New Jersey, New York, Pennsylvania, and Virginia.

Affiliates of Pepco Communications engage in various energy and telecommunications activities. PEPCO provides electric service to approximately 682,000 businesses and households throughout Washington, D.C. and its Maryland suburbs. PepData, Inc. provides wireless Internet services throughout the Washington, D.C. metropolitan area.

In addition to the management, operations, and marketing team which will be put in place to commence operations in Florida, Applicant's Florida system will be able to draw upon the resources and expertise of RCN-DC and its parents and affiliates, and of Pepco Communications and its parents Pepco Communications, Inc. and PCI, for management, marketing, network, and operational assistance. Descriptions of some of these key personnel, which demonstrate the extensive operational experience and expertise available to Starpower follows.

STARPOWER COMMUNICATIONS, LLC

KAREN GUTHRIE GIET
Director of Government Relations

Karen Guthrie Giet is responsible for working with units of local government to secure Open Video System agreements and for working with state and local governments in securing authorization to provide telephone services. Additionally, Ms. Giet is responsible for maintaining a positive working relationship between Starpower Communications and multiple regulatory authorities.

Previously, Ms. Giet held a similar position with Telecommunications, Inc. (TCI) as Director of Government Affairs. Additionally, Ms. Giet has held management and regulatory positions in the cellular and PCS industries.

For over a decade, Ms. Giet represented local governments in cable television regulation. She was President of Local Government Resources, Inc. where she was responsible for negotiating cable television franchise agreements and drafting cable television enabling ordinances as well as consumer protection ordinances.

Ms. Giet was an officer of the National Association of Telecommunications Officers and Advisors (NATOA) - Illinois Chapter and served two terms as President. She is active in numerous industry associations.

Ms. Giet has a Bachelor's Degree in Radio-Television from Southern Illinois University; a Bachelor's Degree in Speech from Southern Illinois University; a Master of Arts Degree in Telecommunications from Kent State University; and a Paralegal Certificate from Harper College.

RCN TELECOM SERVICES OF WASHINGTON D.C., INC.

DAVID C. McCOURT
Chairman and Chief Executive Officer

Mr. McCourt was named Chairman and Chief Executive Officer of RCN Corporation's predecessor, C-TEC Corporation -- a diversified telecommunications and high-technology company with operations including local and long-distance telephone, cable television, and network engineering -- in October 1993, after Mr. McCourt and Peter Kiewit Sons' jointly purchased a controlling interest in C-TEC Corporation. Since that time, C-TEC completed nearly $2 billion in transactions. Sales, net income, cash flow and total assets have posted impressive gains under the direction of Mr. McCourt and the leadership team he has assembled. During his tenure at C-TEC, Mr. McCourt also took the company international, acquiring a 40% stake in Megacable S.A. de C.V., Mexico's second-largest cable television company.

Mr. McCourt's broad industry experience began more than (15) years ago, when he established an engineering, design, and construction firm to build communications networks in the United States, including several fiber optic networks for MFS Communications, presently a WorldCom subsidiary. Later he joined forces with Peter Kiewit Sons', one of the country's largest privately-held engineering and construction firms, to form McCourt/Kiewit International. At McCourt/Kiewit International, Mr. McCourt managed the design and construction of residential cable television and telephone networks for many of the largest and most successful companies in the United Kingdom.

Mr. McCourt serves on the boards of WorldCom, Megacable S.A. de C.V., Mercom, Inc., and Cable Satellite Public Affairs Network (C-SPAN). He is also a member of the Northeastern University Corporation and continues to serve the community by donating his time and resources to various national and local organizations.

Mr. McCourt is a graduate of Georgetown University in Washington, D.C.

MICHAEL J. MAHONEY

President & Chief Operating Officer

Mr. Mahoney has been President and Chief Operating Officer of RCN Corporation (or C-TEC Corporation, its predecessor), since February 1994 and served on the Board of Directors since May 1995. Presently, Mr. Mahoney oversees the operations of RCN Telecom Services, Inc. and its operating subsidiaries and has overall responsibility developing the company's offerings and deploying its services. He has been President and Chief Operating Officer of Mercom, Inc., since February 1994 and a Director for Megacable S.A. Television Group since January 1995. His previous positions include Executive Vice President, Cable Television Group, June 1991 - February 1994, Executive Vice President of Mercom, Inc. December 1991 - February 1994, and Chief Operating Officer of Harron Communications Corp. April 1983 - December 1990.

BRUCE C. GODFREY

Executive Vice President, Chief Financial Officer, and Director

Bruce C. Godfrey brings a wealth of financial management and capital market expertise to the RCN Corporation executive management team. In April 1994, Mr. Godfrey joined C-TEC Corporation as Executive Vice President and Chief Financial Officer. He is responsible for managing all aspects of RCN Corporation's financial resources and for pursuing development opportunities. Since his arrival, Mr. Godfrey has been involved in several key acquisitions and capital market transactions that have both focused and grown the company's operations while improving its capital structure.

Prior to joining C-TEC, Mr. Godfrey was a partner at Daniels & Associates, a Denver-based investment banking boutique, specializing in telecommunications industries. In his (10) years at Daniels, Mr. Godfrey was involved in a wide range of capital market, as well as merger and acquisition transactions. He also advised telecommunications companies in the United States and overseas. Previously, he was a member of the corporate banking group at a Denver-based banking institution.

Mr. Godfrey has served on the C-TEC and then RCN Corporation Board of Directors since November 1996. He also serves on the Board of Directors of Megacable S.A. de C.V., Mexico's second largest cable television company, and Mercom, Inc.

Mr. Godfrey holds a bachelor's degree in economics from the University of Colorado at Boulder.

MICHAEL A. ADAMS
President
Technology and Network Development Group

Mr. Adams joined RCN Corporation's predecessor, C-TEC Corporation, in 1993 as Vice President of Technology where he was responsible for determining the appropriate technologies for the Company's cable and telephone operations. His tenure with C-TEC and RCN Corporation have included positions as President, Technology and Strategic Development and Executive Vice President of Commonwealth Communications, an engineering and technical services subsidiary of C-TEC. Significant projects Mr. Adams supervised include the upgrade of C-TEC Cable's New York systems; technical and purchasing support for Megacable S.A. de C.V., C-TEC's Mexican cable partner; design and construction of the Northwest Michigan College 120-mile regional network; project management of a regional network for MFS of New Jersey; design and installation of voice and data communications facilities for NatWest Bank; and expanded consulting services domestically in Michigan, Massachusetts and New Jersey and internationally to Latin America.

Mr. Adams holds a Master of Science Degree in Engineering from the Massachusetts Institute of Technology (M.I.T.) in Cambridge, Massachusetts. He completed his undergraduate statues at Northeastern University in Boston, with a Bachelor of Science Degree with honors in Engineering.

D.G. GULATI

Senior Vice President

Technical Strategic Development Group

Mr. Gulati has overall responsibility for the planning, development, engineering and subsequent deployment of voice and data services in the different strategic markets. His responsibilities also include the evaluation, development, and testing of new technologies for the Company.

Mr. Gulati came to RCN Corporation's predecessor, C-TEC Corporation, in 1995 with over twelve (12) years experience in the telecommunications industry. His tenure includes an Assistant Vice Presidency for Network Services at Warwick Telephone Company, Warwick, New York, as well as several director level positions at Rochester Telephone, Rochester, New York, including Director of Network Sales, Director of Business Development, and Director of Network Operations at Rochester Telephone, Rochester, New York.

Mr. Gulati was awarded a Bachelors Degree in Engineering from City College of New York and holds an MBA in Corporate Finance from Pace University, New York.

SCOTT JARUS

Senior Vice President of Operations

Scott Jarus is responsible for directing the operations of RCN Telecom Services, Inc.'s telephone switch, cable head-end and Internet networks including the installation and maintenance of customer equipment, such as interior cable wiring and converters. Mr. Jarus is also responsible for managing customer service, provisioning and network purchasing functions.

Mr. Jarus has over fifteen (15) years of management experience in the telecommunications industry, beginning with a company that built one of the world's first public packet-data switching networks. Prior to joining RCN Corporation, Mr. Jarus co-founded and served as Vice-President of Multimedia Medical Systems, a provider of advanced multimedia applications to the health care industry. Mr. Jarus was with Metromedia Communications for nine (9) years in various executive positions, ultimately service as its Vice President of Operations. He has also held senior management positions in information systems, sales, and loss prevention.

Mr. Jarus holds a Bachelor of Arts degree in Psychology and a Masters Degree in Business Administration from the University of Kansas.

SCOTT BURNSIDE
Senior Vice President Regulatory and Government Affairs

Scott Burnside is responsible for all regulatory matters at the local, state, and federal levels. In addition, Mr. Burnside is responsible for maintaining RCN Corporation's legislative relations with the United States Congress, state, and local governments.

Previously, Mr. Burnside held the position of Vice President, Regulatory and Government Affairs for RCN Corporation's predecessor C-TEC. In that position, Mr. Burnside was responsible for all regulatory matters including tariff creation and filing, certifications and authorizations necessary for C-TEC companies to operate in federal and state jurisdictions, and the development and maintenance of all government relations with the company. Prior to his C-TEC responsibilities, Mr. Burnside held a number of management positions with Commonwealth Telephone Company and Commonwealth Communications, Inc., both C-TEC subsidiaries.

Mr. Burnside is a member of the Pennsylvania State Chamber of Business and Industry's task force on telecommunications, board member of Alliance for Telecommunications Industry Solutions (ATIS), and a former director of the Greater Wilkes-Barre Area Chamber of Commerce. He is also an active member of numerous industry associations and committees.

Mr. Burnside is a graduate of Wilkes College, Wilkes-Barre, Pennsylvania.

JOSEPH O. KAHL
Director of Regulatory Affairs

Mr. Kahl is responsible for Company related regulatory issues, maintaining certifications and compliance in the States where the Company does business. He is also responsible for the Company's tariff filings.

Prior to his joining RCN Corporation, Mr. Kahl served in a similar capacity at MFS WorldCom for three and one-half years and has over eight years of regulatory experience in the telecommunications industry.

Mr. Kahl is a graduate of Rutgers University with a Bachelors Degree in Accounting and Economics.

PEPCO COMMUNICATIONS, L.L.C.

JOHN D. McCALLUM
President and Chief Executive Officer

Mr. McCallum is President of Potomac Capital Investment Corporation (PCI), the wholly owned subsidiary of Potomac Electric Power Company (PEPCO) which was formed in 1983 to conduct PEPCO's ongoing nonutility business operations. PCI manages a portfolio of financial investments. PCI's operating businesses are conducted through its wholly owned subsidiaries PEPCO Communications, L.L.C. (PEPCO Communications), PEPCO Enterprises, Inc. (PEI) and PEPCO Services, Inc. These PCI subsidiaries develop and operate new long-term businesses that provide utility industry-related, telecommunications and energy-related services. Mr. McCallum also serves as President and Chief Executive Officer of PEPCO Communications and PEI. PEI has a liquefied natural gas joint venture with subsidiaries of Columbia Gas System, Inc.; a wireless Internet joint venture with Metricom, Inc., of Los Gatos, California; and owns W.A. Chester, Inc., an underground high-voltage construction and maintenance business.

JOHN NG
Vice President Telecommunications Technology Development

Mr. Ng joined PEPCO in 1973 and served in a number of capacities, including over ten years as PEPCO's Manager of Telecommunications Engineering where he was responsible for the engineering and planning of PEPCO's communications systems including voice and data over its private fiber optics, microwave and dispatch radio and paging networks. He now serves as Vice President, Telecommunications Engineering of PEPCO Communications. Mr. Ng received his undergraduate degree in Electrical Engineering from the University of Maryland, and his Masters degree in Engineering Administration from George Washington University. He is an active member of the IEEE, Power Engineering Society and is a member of the Board of Directors of the UTC, a utility telecommunications trade association and serves as the chairman of their combined microwave, fiber optics, satellite and power line carrier committee. He is a registered professional engineer in the District of Columbia, Maryland and Virginia.

JANET HECK DOYLE, ESQ.
Vice President, Secretary & General Counsel

Ms. Doyle has been Associate General Counsel at Potomac Capital Investment Corporation, Pepco Communications' parent company, since 1992. Ms. Doyle has been responsible for negotiating numerous investment transactions for PCI, including investments in the telecommunications, energy and technology areas. Ms. Doyle also has responsibility for providing legal services to PCI and numerous PCI subsidiaries. Prior to joining PCI, Ms. Doyle was an attorney at Shaw, Pittman, Potts & Trowbridge in Washington, D.C., where she specialized in corporate, securities and finance transactions.

Ms. Doyle holds a Bachelors Degree in Spanish and Latin American Studies from New College, a Masters Degree in Counseling from the State University of New York at Buffalo, and a Juris Doctor Degree from the State University of New York at Buffalo.

<u>EXHIBIT 4</u>

Proposed Tariff

TITLE SHEET

FLORIDA TELECOMMUNICATIONS TARIFF

This tariff contains the descriptions, regulations, and rates applicable to the furnishing of telecommunications services provided by Starpower Communications, LLC, with principal offices at 105 Carnegie Center, Princeton, New Jersey 08540. This tariff applies for services furnished within the State of Florida. This tariff is on file with the Florida Public Service Commission (Commission), and copies may be inspected, during normal business hours, at the Company's principal place of business.

CHECK SHEET

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

SHEET	REVISION	SHEET	REVISION
1	Original	26	Original
2	Original	27	Original
3	Original	28	Original
4	Original	29	Original
5	Original	30	Original
6	Original	31	Original
7	Original	32	Original
8	Original	33	Original
9	Original		
10	Original		
11	Original		
12	Original		
13	Original		
14	Original		
15	Original		
16	Original		
17	Original		
18	Original		
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20	Original		
21	Original		
22	Original		
23	Original		
24	Original		
25	Original		

* Indicates new or revised page with this filing.

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105 Carnegie Center
Princeton, New Jersey 08540

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INDEX (Con't)

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EXPLANATION OF SYMBOLS

(D) Delete or Discontinue
(I) Change Resulting In An Increase To A Customer's Bill
(M) Moved From Another Tariff Location
(N) New
(R) Change Resulting In A Reduction To A Customer's Bill
(T) Change In Text Or Regulation But No Change In Rate Or Charge

TARIFF FORMAT

A. Sheet Numbering - Sheet numbers appear in the upper right corner of the page. Sheets are numbered sequentially. However, new sheets are occasionally added to the tariff. When a new sheet is added between sheets already in effect, a decimal is added. For example, a new sheet added between sheets 14 and 15 would be 14.1.

B. Sheet Revision Numbers - Revision numbers also appear in the upper right corner of each page. These numbers are used to determine the most current sheet version on file with the Commission. For example, the 4th revised Sheet 14 cancels the 3rd revised Sheet 14. Because of various suspension periods, deferrals, etc. the Commission follows in their tariff approval process, the most current sheet number on file with the Commission is not always the tariff page in effect. Consult the Check Sheet for the sheet currently in effect.

C. Paragraph Numbering Sequence - There are nine levels of paragraph coding. Each level of coding is subservient to its next higher level:

2.
2.1.
2.1.1.
2.1.1.A.
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TARIFF FORMAT (Con't)

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

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS

Authorization Code:

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

Automatic Numbering Identification (ANI):

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

Billed Party:

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

(a) In the case of a calling card or credit card call, the Billed Party is the party assigned the Authorization Code for the calling card or credit card used by the Users; and

(b) In the case of a collect or third party call, the Billed Party is the person responsible for the local telephone service at the telephone number that agrees to accept charges for the call.

Called Station:
The terminating point of a call.

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (Con't)

Calling Card:

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

Calling Station:

The originating point of a call.

Company:

Starpower Communications, LLC.

Commission:

Florida Public Service Commission.

Customer:

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

Customer Dialed Calling Card Call:

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

SECTION 1 - TECHNICAL TERMS AND ABBREVIATIONS (Con't)

Subscriber:

See "Customer" definition.

Universal Range:

Limitation of a Customer's ability to place calls to selected Area Codes through the placement of restrictions on a Customer's 1+ and calling card access to the network. Such limitations may be imposed by only specific request of Customers on their own lines or cards.

Telecommunications:

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

User:

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

Verified Account Code:

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

SECTION 2 - RULES AND REGULATIONS

2.1. APPLICATION OF TARIFF

2.1.1. This tariff contains the rates applicable to the provision of intrastate interexchange resale telecommunications services by Starpower Communications, LLC between various locations within the State of Florida. Service is furnished subject to transmission, atmospheric and like conditions.

2.1.2. The telecommunications services of the Company are not part of a joint undertaking with any other entity providing telecommunications channels, facilities or services.

2.1.3. The rates and regulations contained in this tariff do not apply, unless otherwise specified, to the lines, facilities, or services provided by a local exchange telephone company or other common carrier for use in accessing the services of the Company.

2.2. UNDERTAKING OF STARPOWER COMMUNICATIONS, LLC

2.2.1. The Company undertakes to provide telecommunications services to Customers for their lawful direct transmission and reception of voice, data, and other types of communications in accordance with the terms and conditions set forth in this tariff.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.2. UNDERTAKING OF STARPOWER COMMUNICATIONS, LLC (Con't)

2.2.2. All service is subject to the availability of necessary and suitable facilities and to the provisions of this tariff. The Company or its designee may act as the Customer's agent for ordering access connection facilities provided by other carriers or entities, when authorized by the Customer, to allow connection of a Customer's location to a service provided by the Company. The Customer shall be responsible for all charges due for such service arrangement.

2.2.3. The Company's services are provided on a monthly basis unless otherwise provided, and are available twenty-four (24) hours per day, seven (7) days per week.

2.2.4. For additional cost, and subject to availability, the Customer may use Authorization Codes to identify the users or user groups on an account. The numerical composition of the codes shall be set by Company to assure compatibility with the Company's accounting and billing systems and to avoid the duplication of codes.

2.2.5. The Company shall not be responsible for any installation, operation or maintenance of any Customer-provided communications equipment. Where such equipment is connected to service furnished pursuant to this tariff, the responsibility of the Company shall be limited to the furnishing of services under this tariff and to the maintenance and operation of such services in the proper manner.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.2. UNDERTAKING OF STARPOWER COMMUNICATIONS. LLC (Con't)

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

2.3. LIMITATIONS

2.3.1. Company reserves the right to disconnect service immediately without incurring liability when necessitated by conditions beyond the Company's control or when the Customer is using the service in violation of either the provisions of this tariff or the laws, rules, regulations, or policies of the jurisdiction of the Calling Station or the Called Station, or the laws of the United States including rules, regulations and policies of the Federal Communications Commission.

2.3.2. The Company does not undertake to transmit messages, but offers the use of its facilities when available, and will not be liable for errors in transmission or for failure to establish connections.

2.3.3. Prior written permission from the Company is required before any assignment or transfer. All regulations and conditions contained in this tariff shall apply to all such permitted assignees or transferees, as well as all conditions of service.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.4. USE

2.4.1. Services may be used for the lawful transmission of communications by the Customer consistent with the provisions of this tariff.

2.4.2. Service may not be used for any unlawful purpose. The use of the Company's services to make calls which might reasonably be expected to frighten, abuse, torment, or harass another or in such a way as to unreasonably interfere with use by others is prohibited.

2.4.3. The use of the Company's services without payment for service, as well as any attempt to avoid payment for service by fraudulent means or devices, schemes, false or invalid numbers, or false calling or credit cards, is prohibited.

2.4.4. The Company's services are available for use twenty-four (24) hours per day, seven (7) days per week.

2.4.5. Customers of service provided under this tariff may authorize or permit others to use these services, and may resell or share such services subject to the regulations contained in this tariff. The Customer remains responsible to the Company for payment of all charges for services used by others pursuant to this paragraph, with or without the Customer's knowledge, and is responsible for notifying the Company immediately of any unauthorized use of services.

2.5. LIABILITIES OF THE COMPANY

2.5.1. Except as stated in this Section 2.5, the Company shall have no liability for damages of any kind arising out of or related to events, acts, rights or privileges contemplated in this tariff.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.5. LIABILITIES OF THE COMPANY (Con't)

2.5.2. The Company shall not be liable for any failure of performance hereunder due to causes beyond its control, including but not limited to acts of God, fires, flood or other catastrophes; any law, order, regulation, directive, action or request of the United States Government, or any other government, including state and local governments having jurisdiction over the Company, or of any department, agency, commission, bureau, corporation or other instrumentality of any one or more of said governments, or of any civil or military authority; national emergencies; insurrections; riots; wars; or other labor difficulties.

2.5.3. The Company shall not be liable for any act or omission of any other entity furnishing to the Customer facilities, equipment, or services used with the Company's services. Nor shall the Company be liable for any damages or losses due to the failure or negligence of the Customer or due to the failure of Customer-provided equipment, facilities or services. Company is not liable for any act or omission of any other company or companies furnishing a portion of the service. No agents or employees of connecting, concurring or other participating carriers or companies shall be deemed to be agents or employees of the Company without written authorization.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.5. LIABILITIES OF THE COMPANY (Con't)

2.5.4. Company shall not be liable for and Customer shall indemnify and hold Company harmless from any and all losses, claims, demands, suits, or other action or liability whatsoever, whether suffered, made, instituted or asserted by the Customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage, defacement or destruction of the premises of the Customer or any other property, whether owned by the Customer or by others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of equipment or wiring provided by Company where such installation, operation, failure to operate, maintenance, condition, location or use is not the direct result of Company's negligence.

2.5.5. The liability of the Company for mistakes, omissions, interruptions, delays, errors, or defects in transmission shall not exceed an amount equivalent to the proportionate recurring charge to the Customer for the period of service during which such events occur. No credit shall be allowed for an interruption of a continuous duration of less than two (2) hours. For purposes of determining service credits, a month shall be deemed to have seven-hundred twenty (720) hours. Any credits will be set off against charges billed during the next month.

2.5.6. Company shall be indemnified and held harmless by the Customer against:

A. Claims for libel, slander, infringement of copyright or unauthorized use of any trademark, trade name or service mark arising out of the material, data, information or other content transmitted over Company's facilities; and

SECTION 2 - RULES AND REGULATIONS (Con't)

2.5. LIABILITIES OF THE COMPANY (Con't)

B. Claims for patent infringement arising from combining or connecting Company's facilities with apparatus and systems of the Customer; and

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

2.5.7. The Company shall not be liable for damages or adjustment, refund, or cancellation of charges unless the Customer has notified the Company in writing, of any dispute concerning charges, or the basis of any claim for damages, within thirty (30) calendar days after the invoice is rendered or a debit is effected by the Company for the call giving rise to such dispute or claim. Any such notice must set forth sufficient facts to provide the Company with a reasonable basis upon which to evaluate the Customer's claim or demands. If notice of a dispute concerning the charges is not received, in writing, within thirty (30) calendar days after an invoice is rendered or a debit is effected, such invoice shall be deemed to be correct, accepted, and binding upon the Customer.

2.6. OBLIGATIONS OF THE CUSTOMER

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

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

SECTION 2 - RULES AND REGULATIONS (Con't)

2.6. OBLIGATIONS OF THE CUSTOMER (Con't)

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

2.6.4. The Company may, upon notification of the Customer, at a reasonable time, make such tests and inspections as may be necessary to determine that the requirements of this tariff are being complied with in the installation, operation and maintenance of Customer-provided equipment and in the wiring of the connection of Customer channels to Company-owned facilities. The Company may temporarily suspend service without liability, while making such tests and inspections, and thereafter until any violations of such requirements are corrected.

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

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

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

SECTION 2 - RULES AND REGULATIONS (Con't)

2.7. INTERRUPTION OF SERVICE

Credit allowance for the interruption of service which is not due to Company's testing or adjusting, to the negligent or willful acts of the Customer, or to the failure of channels and/or equipment provided by the Customer, are subject to the general liability provisions set forth in Section 2.5, herein. It shall be the obligation of the Customer to notify Company of any interruptions of service for which a credit allowance is desired. Before notifying Company of any service interruption, the Customer shall ascertain that the trouble is not being caused by any action or omission by the Customer, not within the Customer's control, and/or is not in the wiring or equipment, if any, furnished by the Customer and connected to the facilities of the Company.

For purposes of credit computation, every month shall be considered to have 720 hours. No credit shall be allowed for an interruption of a continuous duration of less than two hours. The customer shall be credited for an interruption of two hours or more at the rate of 1/720th of the monthly charge for the facilities affected for each hour or major fraction thereof that the interruption continues, according to the following credit formula:

Credit = A/720 X B

"A" = outage time in hours
"B" = total monthly charge for affected facility

2.8. RESTORATION OF SERVICE

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

SECTION 2 - RULES AND REGULATIONS (Con't)

2.9. PAYMENTS AND BILLING

2.9.1. Service is provided and billed on a monthly (30 day) basis. Unless otherwise agreed, the minimum service period is one month (30 days). Service continues to be provided until canceled by the Customer in accordance with the provisions of this tariff.

2.9.2. The Customer is responsible for the payment of all charges for services furnished by the Company. Charges are based on actual usage during a month and will be billed monthly in arrears.

2.9.3. Bills are due and payable upon receipt and past due thirty (30) days after issuance. Past due amounts are subject to late charges which shall be assessed at a rate not to exceed eighteen percent (18%) per year.

2.9.4. An additional charge will be assessed for any Customer check returned as non-payable. Such charge shall not exceed twenty dollars ($20.00) per check or five percent (5%) of the amount of the check returned.

2.9.5. Customer questions, complaints and disputes regarding billing or service provided by the Company may be referred to Starpower Communications' customer service department in writing at 100 Lake Street, Dallas, Pennsylvania 18612 or by telephone at 800-443-4253.

2.10. CANCELLATION BY CUSTOMER

2.10.1. Residential Customers may cancel service by giving notice to Starpower Communications; however, the Customer shall remain liable for charges incurred prior to such cancellation. Business Customers may cancel service upon not less than thirty (30) days' written notice to Starpower Communications unless a longer notice period is specified in an applicable service contract executed by the Customer.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.10. CANCELLATION BY CUSTOMER (Con't)

210.2. If the Customer has ordered service requiring special facilities dedicated to the Customer's use and then cancels the order before completion of the minimum service period or some other period mutually agreed with the Customer, the Customer shall be liable for the nonrecoverable portions of expenditures or liabilities incurred expressly on behalf of the Customer by Company.

2.11. INTERCONNECTION

2.11.1 Service furnished by Company may be interconnected with services or facilities of other authorized communications common carriers and with private systems, subject to the technical limitations established by Company. Any special interface of equipment or facilities necessary to achieve compatibility between the facilities of Company and other participating carriers shall be provided at the Customer's expense.

2.11.2. Interconnection between the facilities or services of other carriers shall be under the applicable terms and conditions of the other carriers' tariffs. The Customer is responsible for taking all necessary legal steps for interconnecting Customer provided terminal equipment or communications equipment with Company's facilities. The Customer shall secure all licenses, permits, rights-of-way, and other such arrangements necessary for interconnection.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.12. CANCELLATION BY COMPANY

2.12.1. Service may be discontinued or temporarily suspended by the Company, without notice to the Customer, and Company may block traffic to certain cities or NXX exchanges, or may block calls using certain Authorization Codes, when the Company deems it necessary to take such action to prevent unauthorized use of its service or any use by any Customer which adversely affects the Company's service to others. The Company will restore service as soon as it can be provided without undue risk.

2.12.2. Without incurring liability, the Company may discontinue the provision of service to a Customer or to a particular Customer location, or may withhold the provision of ordered or contracted services:

A. For nonpayment of any sum due the Company for more than thirty (30) days after issuance of the bill for the amount due, provided that five (5) days written notice is given to Customer.

B. For violation of any of the provisions of this tariff or any applicable service contract, or for violation of any law, rule, regulation or policy of any governing authority having jurisdiction over the Company's services, provided that five (5) days written notice is given to Customer;

C. For fraudulent use of the Company's services, or for any other use of Company's services which adversely affects the Company's equipment or ability to serve others; or

D. By reason of any order or decision of a court, public service commission or federal regulatory body or other governing authority prohibiting the Company from furnishing its services.

SECTION 2 - RULES AND REGULATIONS (Con't)

2.12. CANCELLATION BY COMPANY (Con't)

Cancellation of service by the Company shall be consistent in all respects with Chapter 25-24 of the Commission's rules.

2.13. DEPOSITS

Starpower Communications does not require deposits from Customers.

2.14. TAXES

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

SECTION 3 - DESCRIPTION OF SERVICE

3.1. TIMING OF CALLS

3.1.1. Billing for calls placed over the Company's network is based in part on the duration of the call. Timing of each call begins when the Called Station is answered (i.e. when two-way communications, sometimes referred as conversation time is possible), as determined by standard industry methods generally in use for ascertaining answer, including hardware answer supervision in which the local telephone company sends a signal to the switch or the software utilizing audio tone detection or other methods. Timing of each call ends when either the Called or the Calling Station hangs up.

3.1.2. The minimum call duration for billing purposes is as specified for the subscribed service.

3.1.3. For billing purposes, usage is measured and rounded to the next highest billing increment as specified for subscribed services.

3.1.4. There is no billing for incomplete calls.

3.2. STARPOWER COMMUNICATIONS SERVICES

Starpower Communications provides switched and dedicated inbound and outbound services to business and/or residential Customers. Starpower Communications' services include MTS, WATS, 800 services and directory assistance for presubscribed Customers.

Starpower Communications also offers the Starpower 25 Cent Card, which is an 800 access calling card. Starpower Communications also offers a prepaid Debit Card.

SECTION 3 - DESCRIPTION OF SERVICE (Con't)

3.3. MINIMUM CALL COMPLETION RATE

A Customer can expect a call completion rate (number of calls completed/number of calls attempted) of at least ninety-five percent (95%) during peak use periods.

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105 Carnegie Center
Princeton, New Jersey 08540

SECTION 4 - RATES

4.1. RATE CALCULATIONS

The aggregate per minute rates for each service offered by Starpower Communications are listed below, along with the increments in which those charges are billed. In cases where the billing increment is less than one minute, the charge for a call lasting less than one minute is determined by multiplying the per minute rate by a fraction, the numerator of which is the total applicable billing increment in seconds and the denominator of which is 60. However, call times are rounded up to the next highest billing increment. For example, an 18 second daytime Starpower Communications Switched Outbound Commercial Call for a single location, low volume user would be $0.1750 x 18/60 = $0.0525; a 45 second call would be rounded up to the next highest increment (48 seconds), so the applicable charge would be $0.1750 x 48/60 = $0.1400. Applicable monthly charges, installation fees, and other requirements are set forth below.

4.2. STARPOWER COMMUNICATIONS AND PER MINUTE RATES

4.2.1. Starpower Communications Switched Outbound - Residential (Billed in one minute increments)

Day/Eve/Night/Wkd - $0.1800

4.2.2. Starpower Communications Switched Outbound - Commercial (Initial billing increment is 18 seconds; additional increments of 6 seconds)

Day/Eve/Night/Wkd - $0.1750

Discounts available for multi-location customers.
Discounts available for volume/term commitment contracts. See Section 4.3

SECTION 4 - RATES (Con't)

4.2. STARPOWER COMMUNICATIONS PRODUCTS AND PER MINUTE RATES (Con't)

4.2.3. Starpower Communications Switched Inbound - Residential (Billed in one minute increments)

Day/Eve/Night/Wkd - $0.1850

$4.00 per month fee.
One time $10.00 installation fee.

4.2.4. Starpower Communications Switched Inbound - Commercial (Initial billing increment is 18 seconds; additional increments of 6 seconds)

Day/Eve/Night/Wkd - $0.1850

$5.00 per month minimum charge.

Discounts available for multi-location customers.
Discounts available for volume/term commitment contracts.
See Section 4.3.

4.2.5. Starpower Communications Dedicated Outbound - Commercial (Initial billing increment is 18 seconds; additional increments of 6 seconds)

Day/Eve/Night/Wkd - $0.1000

SECTION 4 - RATES (Con't)

4.2. STARPOWER COMMUNICATIONS PRODUCTS AND PER MINUTE RATES (Con't)

Dedicated access circuits may be provided and billed by the local exchange company (LEC). Dedicated access channels may be purchased from carriers other than the LEC only in accordance with Commission Rules or if the special access channel is jurisdictionally interstate. Charges for the dedicated access channel are determined by the access provider and Starpower Communications reserves the right to pass such charges through to customer.

Discounts available for multi-location customers.
Discounts available for volume/term commitment contracts.
Minimum contract term of 1 year.
See Section 4.3.

4.2.6. Starpower Communications Dedicated Inbound - Commercial (Initial billing increment is 18 seconds; additional increments of 6 seconds)

Day/Eve/Night/Wkd - $0.1100

Dedicated access circuits may be provided and billed by the local exchange company (LEC). Dedicated access channels may be purchased from carriers other than the LEC only in accordance with Commission Rules or if the special access channel is jurisdictionally interstate. Charges for the dedicated access channel are determined by the access provider and Starpower Communications reserves the right to pass such charges through to customer.

Discounts available for multi-location customers.
Discounts available for volume/term commitment contracts.
Minimum contract term of 1 year.

SECTION 4 - RATES (Con't)

4.2. STARPOWER COMMUNICATIONS PRODUCTS AND PER MINUTE RATES (Con't)

4.2.7. Starpower Communications $.25 Card (No surcharge. Initial billing increment is 18 seconds; additional billing increments of 6 seconds)

Day/Eve/Night/Wkd - $0.2500

4.2.8. EZ Call Debit Card (Billed in one minute increments; no surcharge; card balance may be replenished by credit card)

Day/Eve/Night/Wkd - $0.4000

4.2.9. Directory Assistance Surcharge - Residential

Day/Eve/Night/Wkd - $1.0400

4.2.10. Directory Assistance Surcharge - Commercial

Day/Eve/Night/Wkd - $0.9600

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SECTION 4 - RATES (Con't)

4.3. DISCOUNT SCHEDULES

4.3.1. VOLUME/TERM COMMITMENT CONTRACTS

The following discount schedule applies to customers contracted with Volume/Term commitments:

Monthly Dollar Volume	Term Commitment	Discount
$ 0.00 - $1,499.99	1 year	5.0%
$1,500.00 +	1 year	7.5%
$ 0.00 - $1,499.99	2 year	7.5%
$1,500.00 +	2 year	10.0%

4.3.2. MULTI-FACILITY CONTRACTS

The following discounted product schedule applies to customers with multiple service locations:

Starpower Switched Outbound - Commercial	Discount - 17.7%
Starpower Switched Inbound - Commercial	Discount - 22.0%
Starpower Dedicated Outbound - Commercial	Discount - 20.0%
Starpower Dedicated Inbound - Commercial	Discount - 14.5%
Directory Assistance - Commercial	Discount - 25.7%

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SECTION 4 - RATES (Con't)

4.3. DISCOUNT SCHEDULES (Con't)

4.3.3. DISCOUNTS FOR HANDICAPPED CUSTOMERS

A. Discounts for Hearing Impaired Customers -- Rates for intrastate toll message calls involving use of a telecommunications device for the deaf (TDD) by properly certified business establishments or individuals equipped with TDDs for communications with hearing or speech impaired persons, shall be evening rates for daytime calls and night rates for evening and night calls.

B. Directory Assistance Charges for Handicapped Persons -- Pursuant to Florida Public Service Commission Rules and regulations Starpower Communications will not charge for the first 50 directory assistance calls made each month by a handicapped Customer who is unable to use the published directory.

C. Operation of Telecommunications Relay Service -- For intrastate toll calls received from the Telecommunications Relay Service, each Starpower Communications-billed relay call will be discounted by 50 percent of the applicable rate for a voice nonrelay call, except that where either the calling or called party indicates that either party is both hearing and visually impaired, the call will be discounted by 60 percent of the applicable rate for a voice nonrelay call. The above discounts apply only to time-sensitive elements of a charge for the call and shall not apply to per call charges such as a credit card surcharge.

SECTION 4 - RATES (Con't)

4.4. CUSTOMIZED SERVICE PACKAGES

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

4.5. PROMOTIONS

The Company may, from time to time, engage in special promotional offerings or trial service offerings limited to certain dates, times and/or locations in order to attract new Customers or increase usage by existing Customers. In such cases, the rates will not exceed those specified herein. These promotions will be approved by the Commission with specific starting and ending dates and under no circumstances run for longer than ninety (90) days in any twelve (12) month period.