ATTACHMENT 1

Final Transcript
RCNI – Q1 2007 RCN Corporation Earnings Conference Call
May 10, 2007

FINAL TRANSCRIPT

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RCNI - Q1 2007 RCN Corporation Earnings Conference Call

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PRESENTATION

Operator

Welcome to the RCN Corporation first quarter earnings conference call. At this time all participants are in a listen-only mode. Following management's prepared remarks, we'll hold a Q & A session. (OPERATOR INSTRUCTIONS) As a reminder this conference is being recorded, Thursday, May 10, 2007.

I would now like to turn the conference over to, Richard Ramlall, Senior Vice President of Strategic and External Affairs. Please go ahead, sir.

Richard Ramlall - *RCN Corporation - Senior VP of Strategic and External Affairs*

Thank you, operator. Welcome, everyone, and thank you for joining us today to discuss RCN's first quarter 2007 results. Joining me on the line are, Jim Mooney, Chairman of RCN ; Peter Aquino, President and Chief Executive Officer ; Mike Sicoli our Chief Financial Officer and our General Council, Ben Preston. Management will make prepared remarks and we'll open the line for Q&A. Today's conference call and webcast are being accompanied by a slide presentation that we invite to you join by accessing RCN's website at www.RCN.com and clicking on company and events calendar. We also posted a PDF document of the slides on our website so that you can download them for easier viewing. And if you haven't done so already, you can access the results press lease we have provided today at the same sight. We will refer to GAAP and non-GAAP measures in today's call and in the press release and webcast slides. Tables of reconciliation of income statement balance sheet and operating metric measures, are available on pages 9 through 11 of today's press release and can also be found on RCN's website at RCN.com, clicking on Company and Investor Relations.

Before we begin, I would like to remind you that today's released conference call and presentation contain forward-looking statements regarding future events and future performance of RCN that involve risks and uncertainties that could materially affect actual results. This information is qualified in its entirety by cautionary statements and risk factor disclosures contained in certain of RCN Securities & Exchange Commission filings. For a description of certain factors that could cause actual results to vary from current expectations and forward-looking statements, please refer to documents that RCN files with the SEC and that are available through RCN.com. Also, as you know, RCN has commenced a tender offer and consensus solicitation with respective, help stand the convertible second lien notes. The statements made today are for informational purposes only and are not an offer to buy or the solicitation of an offer to sell any second lien notes or other securities of RCN or the solicitation of any consent. The solicitation of offers to purchase RCN's second lien notes and of consents, is only being made pursuant to the offer to purchase and related materials that RCN has sent to note holders. Note holders should read nose materials carefully before making any decision as to whether to tender a second lien notes or the consent because these materials contain important information including the terms and conditions of the offer and consent solicitation. You may obtain copies of the offer to purchase in related materials filed by RCN as a part of its statements on schedule TL and other documents filed with the Securities & Exchange Commission through the commission's website without charge. Note holders may obtain copies of the offer to purchase and related materials as filed with the commission, excluding exhibits, without charge from RCN or by written or oral request direct to the depository HSBC at 800-662-9844. With that I will turn the call over to Jim Mooney. Jim.

Jim Mooney - *RCN Corporation - Chairman*

Thanks, Richard, and good morning, everyone. Thanks for joining our first quarter conference call. The results report -- report today, establish another solid start to the year and further demonstrate the steady progress that we're making in growing customers and revenue and through excellent cost control translating this advancement into incremental EBITDA and cash flow growth. The hallmarks of our performance remain our high level of focus on our strategy and our consistency of execution against these plans, which are really proving to be the keys to our success in delivering on our balance multi-year strategy.

Let – let's start by reviewing the plans and priorities on slide 3 to achieve our 2007 objectives which are laid out in detail on the slide. On the top line we are focused on growth in areas where we have a clear opportunity to drive penetration. We have built or rebuilt about 75,000 new homes over the past two years and as we discussed on our year end call we are looking to accelerate our investments in high return, footprint expansion, over the next few years. While our specifics plans are still under development, we are targeting up to 75,000 new homes this year and many more in 2008 and 2009. We are also driving growth in ARPU by improving the success rate of our up-sell activities for products like HD, VOD, and DVR and by making additional product enhancements for which there is customer demand.

On a commercial side, we are maintaining our momentum and enterprise and carrier customer growth and also building our small business penetration through a dedicated selling effort. We offer a very competitive alternative in small business and have a large growth opportunity in this segment. Also commercial margins are expanding nicely through consolidation. Pete will take us through all of these initiatives in a moment.

In terms of overall margin expansion, there are remaining areas of potential to remove costs and increase efficiency that we are focused on. This year we're working on creating greater efficiencies in field operations, customer care, corporate over head, and have already made progress in these areas in Q1. We are also investing selectively in technology to improve our customers experience including the ability to perform many sale -- sales and care activities online, while simultaneously enhancing our productivity. We are also driving improvements in the effectiveness of our sales and marketing spend by applying technology and customer segmentation studies to the effort.

On asset portfolio front, as I just mentioned, we are investing in prudent high-return footprint expansion opportunities, and we're always evaluating tuck-in acquisitions, in or adjacent to our current network that can strengthen our footprint or product portfolio.

And in addition to our organic growth, we are in the middle of delivering on our previously announced initiative to return capital to shareholders during 2007, which I will discuss further in a minute.

If I can ask you to move over to slide 4 and go over some of the details of the quarter. On the top line, first quarter revenue grew 13% from last year driven partly by the -- ConEd acquisition which we made in March 2006 and partly by core residential revenue growth of 5%. On a pro forma basis as if ConEd had been included in all of last year's first quarter, first quarter 2007 total revenue increased 5%. Now that we have passed the one-year mark in closing this deal, all future for comparisons will be on an apples-to-apples basis. On a sequential basis, we added approximately 1,000 customers and approximately 4,000 more RGU's in Q1 from Q4 '06 and since Q1 '06 we've added approximately 10,000 customers and approximately 33,000 RGU's. More importantly, we have started the year off by achieving positive net customer additions in Q1 despite the first quarter's normal lower seasonal activity. Our customer metrics were also very solid in the quarter. RPEC grew from $108, from $105 last year and $106 last quarter. We also maintained our bundled rate and improved churn. Steve's team is working hard at continuously improving communicate our service offering in the way which -- in which we communicate our offerings to our customers to demonstrate our competitive advantages. The overall, our top line performance is evidence of progress in these areas, and I think it positions us well as we move ahead in the rest of the year.

Our efforts to transform our operating model are clearly apparent in the margin expansion we reported today. First quarter EBITDA increased 41% from last year with EBITDA margin expanding nearly 500 basis points to 24% driven by the revenue growth and the excellent cost control, both in terms of absolute cost reduction as well as efficiency gains. SG & A is now down to 42% of revenue from over 46% last year. Now this expanding operating flexibility, represents permanent reductions in our cost base, further improving our ability to generate cash flow that we can in turn devote to growth. In terms of managing our asset portfolio, during Q1, we further concentrated our core asset base in the Northeast corridor in Chicago, by closing on the San Francisco asset sale and also acquiring 112 on-net commercial buildings via the MCI divesture primarily in Boston, which adds a meaningful opportunity for additional growth in RCN business solutions. And we have put in motion two key elements of our planned initiative to return capital to shareholders including the negotiation of a new credit facility and the launch of a tender offer and consent solicitation for our second lien notes which Mike will discuss in more detail in a few minutes. As I said at the outset, I think we've gotten off to a very solid start this year and the organization is executing very well and we look forward to continuing that as we move through 2007.

So, let's move onto the rest of the agenda. Peter Aquino our President and CEO will walk you through our first quarter 2000 performance in more detail and outline his key focus areas, and Michael Sicoli, our CFO, will take you through the numbers, including our 2007 guidance, and our planned capital structure initiative. And then we'll obviously be available for your questions in the time remaining. So, now I will turn the call over to Pete -- Pete Aquino. Pete?

Pete Aquino - *RCN Corporation - President and CEO*

Thank you, Jim, and good morning, everyone. We're off to a great start so far with our completed digital simulcast project, RCN is positioned to continue to provide customers with a quality alternative over incumbent cable and Tel Co's. At the same time we also posted record EBITDA now within 6 percentage points of our short-term goal of 30%. We've added another quarter of consecutive growth as Jim has said and completed the consolidation of our portfolio Northeast corridor in Chicago. We have great momentum in both business units in res. and bis. and added agate very quickly. So, I would like to highlight some of our first quarter initiatives and our accomplishments so far.

So, let's move onto slide 5. Our key advantages are in our expansive fiber network. Our demand in tier 1 markets and our on-net strategy that enhances profitability. With the disposition of San Francisco and Los Angeles, management is focused on capturing opportunities for growth from DC to Boston and Chicago, and there is no doubt the telecom traffic in these corridors is a perfect match for the RCN network.

From the residential perspective, management is targeting construction of new homes inside of our 5 million licensed footprint. We're also targeting new adjacent franchises in the Lehigh Valley area, where our network can be easily extended. RCN's telecom plant and infrastructure is highly scalable for cost effective expansion. The network was originally designed to take advantage of all of these licenses. We expect to achieve penetration rates that mirror our current success over incumbents today. RCN's penetration rate now is 31%, representing a combination of Lehigh Valley's penetration rate of over 50% and an average of 25% to 30% penetration for our other Metro markets. Looking ahead, management is implementing an investment strategy by considering highly accretive organic projects. In addition, we constantly -- constant we look at deal flow, for potential synergies in our footprint. Through the first quarter we're at the final stages of the expanding into five new franchises in Lehigh Valley where RCN continues to win high marks for customer satisfaction against all other competitors. The best of cable, phone, and internet providers. And in the New York Metro area, RCN is evaluating our expansion opportunities with our ConEd fiber assets. We have great potential in this market given our 3 million licensed homes. In Chicago our team is also planning to extend their network, and our Chicago system is one of our fastest-growing business units in our portfolio, and we look forward to continuing to fuel that growth. In Boston we just recently announced the commencement of construction in Milton and Dorchester and working closely with local municipalities to accelerate -- accelerate that start. And finally in Washington, D.C., suburban Maryland and Northern Virginia, this represents a substantial opportunity for RCN. This system was launched in 1998, and it's a state of the art system and built for significant growth. Overall RCN's telecom infrastructure and licensed capacity is a meaningful asset. And this provides management with an opportunity to construct hundreds of thousands of homes for less than $500 per home.

Now let's move onto residential highlights slide 6. Our residential customers really are the cream of the crop, and once again generating industry-leading results. This is primarily due to meeting demand for the Triple Play where RCN provides the best of cable, phone and internet. Our data product suite of up to 20 megabit,s meets or exceeds most of the broadband alternatives in our service area. And RCN continues to be the benchmark for many operators across the country. Unlike most others who are just now adding the third service, RCN is highly penetrated in all three, with 38% Triple Play penetration and 67% bundled rate. Even so, our Triple Play customer base continues to expand, with 5% growth year-over-year. This has contributed to an all-time low rate of 2% for this quarter in churn. In terms of digital set-top deployment, approximately 60% of our video customers currently watch programming in digital format. Given our completed simulcast investments and set-top acceleration strategy, we intend to increase the take rates even further, and we're preparing for an all digital world, and rapidly deploying digital set-tops in every new home. Our average revenue per customer, as Jim said, is up to $108 per month, which is due in part to our annual rate increase and our high bundled penetration rate. Compared to larger companies -- companies in the industry, RCN remains at the top of the list. Year-over-year management added 10,000 new customers and 33,000 RGU's, and we ended the first quarter with 407,000 residential customers and 867,000 RGU's.

Now let's turn to slide 7 for some key initiatives on the residential side. By digitizing 100% of our lineup, we are unmatched by any competitive MSO. Our high quality transmission and digital vision is consistent with the FCC's direction. Others are considering significant capital upgrades for node-splitting or switched digital free up capacity. Many cable operators, large or small, need -- need general capacity to offer high definition TV. And RCN is well ahead of the curve with our 860 megahertz network, our small node sizes and digital simulcast investments behind us. Our incremental spending is largely based on a footprint that can be expanded, when -- had -- and our did deployment of digital CPE. In addition, VOD content in our international marketplace initiative, continues to be be area focused by our team. And we are very committed to HD expansion and searching up new content where available. In the first quarter we added sports net New York and national geographic in HD. We're now up to 20 HD channels and growing rapidly, and the viewing experience is incredible on the RCN network. Our programming team continues to optimized our online activity and adding new content, developing new a la carte packages. All of this is in balance between adding new content and controlling costs at the same time. We're also very big on sports content acquisitions, and we signed up major league baseball, college sports TV and the America channel with local college sports programming. Given the heightened awareness of HD and DVR functionality, we're doing our best to keep up with set top demand and cable cards. While we continue to be innovative to attract new customers, we're also increasing our visibility in our markets. We are strategically negotiating sponsorships with local professional and University sports teams providing services to their facilities and securing advertising rights. In the first quarter we announced transactions in our Washington market with DC united, the Washington Capitals, and George Mason University. These win-win marketing and services deals, ties in with our strategy to increase brand awareness and promote our suite of services including international products. We've also launched an e-commerce platform through our portal where customers can create their desired RCN package and schedule their own installation online. This is an exciting new revenue generator for us and customer convenience application that we think has great future. We aim to launch future off-net products to this website such as wireless and Voice Over IP, which are currently under development. These initiatives demonstrate a that when you connect to RCN you connect to something more.

Now, let's move onto our commercial business, slide 8. Our commercial business really is a diamond in the rough, and we're really focused on capitalizing this opportunity for RCN given our footprint. Our Metro and intercity rings, are the envy of most regional CLEC providers, and we're at the beginning of the path here, to exploit this opportunity. RCN's business solutions group branded RBS, now has the ability to utilize RCN's core fiber backbone as well as leverage the diverse ConEd routes. RBS has completed the majority of integrations starting in '06, we made immediate investments in hardening our Metro and intercity rings and provide quality, high availability services to fortune 100 companies. We have recently released our long haul pricing structure to our sales force and have begun to market this service. For example, when RBS provides transport for a major financial institution, in Boston or Chicago, they can hop on our Metro network and be seamlessly connected to New York. In addition, MPLS enabled services, currently in New York, were expanded to Boston in the first quarter. By mid-year, we'll be adding Chicago and DC, and RBS will offer end-to-end MPL S enabled Ethernet services between the Metro markets that we serve. Management is also focused on a profitable on-net strategy. This quarter we close on the acquisition as Jim mentioned with the MCI divested buildings, eliminating one of our competitors at the same time. The 112 commercial locations are primarily in Boston, and with this complete, RCN now has 1,000 buildings on-net. This acquisition was very opportunistic and comes with transport back to our own network. As RCN and others consolidate the regional CLEC's, fiber assets will become even further constrained. Dark fiber will virtually disappear creating a significant barrier to entry for those without facilities. In addition, non-facility spaced CLECs who are reselling RBOC circuits will soon be facing shrinking margins as regulated discounts disappear. In the first quarter RBS posted 22 million in revenues and approximately 25% EBITDA margin for this business unit on a direct basis. Today, transport services and dedicated access to the internet make up the bulk of RBS's revenues and approximately half of these customers are categorized as enterprises and 30% are carrier. The balance of our customers are made up of education, government, and hospitality segments. All in all I believe we're off to a great start, and I want to thank our employees for another great quarter and I look forward to continuing to build on shareholder value. At this point I would like to turn it over to Mike Sicoli, our CFO. Mike?

Mike Sicoli - *RCN Corporation - CFO*

Thanks, Pete. Good morning, everyone. As a reminder, due to the sale of our San Francisco assets and plans to discontinue service in L.A., results from our California properties are reflected as discontinued operations. Therefore, all information contained in today's presentation, including historical information, excludes the results from our California properties.

Slide 9 highlights our revenue trends. Overall, first quarter 2000 revenue of 153 million increased 13% from first quarter 2006 driven mostly by the CEC acquisition in March of 2006. On a pro forma basis, as if CEC were included in all of the first quarter 2006, total revenue increased 5% year-over-year. Core residential revenue, which does include some small business accounts, was also up 5% year-over-year to $128 million. Comprised of video revenues of $66 million, up 9% from last year, driven by an increase of approximately 6,000 video RGUs, rate increases and higher penetration of our enhanced services. Cable modem revenues of $32 million, up 16% from last year driven by an increase of approximately 31,000 cable modem RGUs. And voice revenues of $28 million down 11% from last year due in part to a decrease of approximately 4,000 voice RGUs as our off-net customer base continued to shrink and some of our on-net customers dropped second phone lines or switched to other alternatives, as well as a decline in average revenue per line due to market price dynamics. First quarter 2007 commercial revenue of $22 million, increased 141% from last year, due primarily to the acquisition of CEC on a pro forma basis as if CEC were included in all of first quarter 2006. Commercial revenue increased 12% year-over-year driven by continued momentum in transport and other data products. Offsetting our growth in core residential and commercial revenue, were declines in dial-up and reciprocal compensation revenue which decreased by approximately $2 million last year to $3 million in total for first quarter 2007. On a sequential basis, total revenue increased by 2% driven primarily by residential rate increases.

Turning to slide 10 on the upper left you will see that our first quarter 2007 direct costs of $53 million, increased by approximately $6 million from last year driven by the addition of CEC and anticipated increases in programming and franchise fees. The sequential increase of approximately $1 million, was primarily related to increases in programming and franchise fees. These cost increases were consistent with our revenue growth, so we were able to maintain our gross margin at about 65%. On the upper right you will see that our first quarter 2007 SG & A, excluding non-cash stock-based comp, increased by approximately $1 million from last year driven primarily by the addition of CEC which was offset by declines in head count related costs, third party support costs and property taxes. On a sequential basis SG & A decreased by approximately $2 million, due to lower field maintenance related costs as well as declines in third party support costs. We were able to reduce SG & A as a percentage of revenue by over 400 basis points year-over-year and over 200 basis points quarter over quarter, accounting for virtually all of our EBITDA margin improvement. Moving to go the chart on the lower left, you will see that our first quarter 2007 EBITDA was $36 million with a 24% margin showing significant growth compared to first quarter 2006 EBITDA of $26 million with a 19% margin and fourth quarter 2006 EBITDA of $32 million with a 21% margin. While there is still work to be done in this area to get to our goal of 30% margins, we are pleased with our progress to date. On the lower right, you will see that our first quarter CapEx of $26 million increased $12 million from last year driven by timing of both commercial and residential network investments, as well as higher spending on customer premise equipment due to increased digital equipment penetration. As Pete mentioned, over the last few months we've increased our investments in an all-digital platform rolling out digital simulcasts in all markets and driving higher digital set-top box penetration. Based on the current view, this set-top box activity will likely be dramatically reduced in the second half of 2007 due to the significant increase in box costs related to the introduction of conditional access functionality per the federal mandate. We will have no choice but to pass this higher cost onto our customers unless we can fulfill orders with recycled equipment, and we do not expect that many customers will be willing to pay significantly more for a basic box. This will then defer the benefits to both RCN and our customers of an all digital platform, which we think is a lose-lose scenario for everyone. That's why we have a waiver request in front of the FCC that would allow us to continue using the current lower cost boxes without conditional access, until a low cost box with conditional access is available. We don't know if and or when this request will be addressed and we'll update you as more information becomes available. Residential build activity was relatively light in the first quarter of 2007, due to normal seasonal first issues as well as our brief time out to conduct a strategic review of our growth opportunities. But as Jim mentioned, we continue to flush out our three-year capital play book and are targeting up to 75,000 new homes in 2007 with more to come in 2008 and 2009.

Moving to slide 11, first quarter 2007 free cash flow improved by $12 million year-over-year to a use of $7 million driven by EBITDA growth, lower interest expense, and the absence of the Megacable tax payment during the first quarter of 2006 offset by CapEx timing. The sequential decline was due to the timing of payments particularly related to set top boxes and other CapEx items as well as interest expense plus the 2006 bonus plan payout. On the upper right, you will see that our liquidity position strengthened further with cash and short-term investments growing to $161million at quarter end, up $36 million from year end and $63 million from last year. The year-over-year increase was driven primarily by $16 million in free cash flow, $45 million in proceeds from asset sales, mainly San Francisco, $7 million in proceeds from option exercises, net of treasury stock purchases, less $6 million in financing related payments including $4 million in fees associated with our May 2006 refinancing. Our current debt balance of $203 million is flat from year end and last year and last year, as we completed our significant repayment of debt in March 2006 from the proceeds of our Megacable sale. Our net debt remains very low at $41 million as do our leverage ratios at 1.5 times on a gross basis and 0.3 times on a net basis.

Next let me update on you the progress of our recapitalization initiative. As we announced on our last call, our board has approved an initiative to pursue a potential return of capital to shareholders in the range of $350 to $400 million. To effect this potential return of capital, we've negotiated a new $595 million first lien credit facility, consisting of a seven-year, $520 million term loan at LIBOR plus 225 basis points and a six-year $75 million revolving line of credit at LIBOR plus 200 basis points. The proposed new facility would contain only incurrent space covenants, with a section of a senior secured leverage covenant on the revolver applicable only when the revolver is utilized. Proceeds of the proposed new facility combined with cash on hand, would be used to fund the repayment of our existing first lien credit facility, the cash portion of the second lien tender offer, which I will discuss in a minute, as well as the potential return of capital. We expect to close and fund the proposed new facility upon successful completion of the second lien tender offer and consensus (Inaudible) process. Two weeks ago we took another important step in effecting the potential return of capital, by launching a tender offer and consent solicitation to purchase any and all of our outstanding second lien notes in exchange for cash of $1,133 per bond plus accrued unpaid interest. Which would result in a total cash payment of approximately $145 million if all note holders tender, plus 42.63 new warrants per bond, each representing the right to purchase one share of common stock at an exercised price of $25.16 subject to future adjustment under certain circumstances including the payment of dividends. If all note holders tender we would issue warrants to purchase a total of approximately 5.3 million shares of common stock. The spirit of this deal is to simply decouple the current convertible notes by offering a make hole in the bond component of the current instrument and issuing new warrants with terms that are nearly identical to those associated with the equity option component of the current instrument including term, exercise price, adjustments to exercise price, optional redemption and other features. The only meaningful difference, is that we offered slightly more new warrants per bond than the 39.75 options per bond embedded in the current convertible note, to encourage participation in the process. In connection with the tender offer we're also soliciting consents from the second lien holders, to eliminate substantially all of the restricted covenants and events of default in the current indenture and to release all of the collateral securing the notes. Which will only be relevant to the extent that we don't get 100% participation in the tender. Tender offer will expire on May 25, 2007, unless extended or earlier terminated and successful completion of the tender offer is conditioned on several factors including receipt of the required consents as well as closing and funding the proposed new credit facility. Based on indications from the holders of more than a majority of our second lien notes, we currently expect that the tender and consent process will be completed successfully and on schedule. We'll provide specifics regarding the form, size and timing of the potential return of capita,l following completion of the second lien tender and consent process. As we discussed on our last call, while no final determinations have been made, based on the analysis performed to date, including a detailed review of our history of tax losses, we continue to believe that a dividend would be the most tax efficient means by which to return capital to stock holders. We're pleased with the status and terms associated with the proposed new credit facility as well as the second lien tender and consent process and targeting completion of the potential return of capital by the end of the second quarter of 2007.

Moving to slide 12, on the upper left it is an illustrative sources and uses schedule for the proposed recap, assuming full participation in our second lien tender and the mid-point of our $350 to $400 million range -- return of capital range. Carrying this forward on a pro forma basis our first quarter 2007 liquidity position would go from approximately $174 million,, comprised of $161 million in cash and $12 million of unused revolver, to approximately $114 million comprised of$ 81 million in cash and $32 million of unused revolver. Our pro forma first quarter 2007 debt would increase to $523 million on a gross basis, $442 million on a net basis and our leverage ratios would increase to 3.8 times on a gross basis and 3.2 times on a net basis. As we discussed our last call, we feel that this approach strikes the right balance in terms of translating our significant financial and strategic flexibility into shareholder value by pursuing a recapitalization initiative to effect a meaningful near term return of capital while preserving sufficient flexibility to pursue additional organic and strategic growth initiatives to drive longer-term value.

Moving to slide 13, our 2007 outlook remains unchanged with revenue of $620 to $630 million, EBITDA of $140 to $150 million, and CapEx of $100 to $110 million, including the $10 to $20 million year-over-year increase in spending to capture high return foot print expansion opportunities, as we've discussed previously. That concludes our prepared remarks and now I will turn it back to the operator to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) We ask that you limit yourself to one question and one follow-up. One moment for the first question. The first question comes from Ian [Defino] with Oppenheimer, please go ahead with your question.

Ian Defino - *Oppenheimer - Analyst*

Hi, good morning. Very good quarter. Two questions. The first one would be what was your churn in this past quarter?

Pete Aquino - *RCN Corporation - President and CEO*

2% in the first quarter.

Ian Defino - *Oppenheimer - Analyst*

Okay.

Pete Aquino - *RCN Corporation - President and CEO*

2% flat.

Ian Defino - *Oppenheimer - Analyst*

Okay. That's very good. And then the second one would be, Mike I guess are you think about whether you should do a dividend or a share repurchase, what are the factors of that -- go into that decision, both from you know, float standpoint, from a taxation standpoint, et cetera, if you could kind of go through that a little bit, that would be helpful. Thanks.

Mike Sicoli - *RCN Corporation - CFO*

Sure, Ian, it is Mike. I'll take that one. I mean, as you know, there is a lot of different factors that go into this. Some of them you -- you've just highlighted. You know, when we really look at it, it, I think, you know the decision to favor a dividend at this point really relates to the company's history of tax losses and the fact that on a cumulative basis we believe there to be a deficit in terms of the -- the term earnings and profits as it relates to the IRS code. So, when you're in that situation and you pay a dividend, it's deemed a quote-on-quote "Return of Capital", not a dividend, and therefore it just lowers the basis of the holder as opposed to being a taxable event. So, in general, you know, a -- a deferral of a taxable event is a very favorable thing to any investor, and that's really why we're favoring a dividend in this case. I think if -- if this were not the case, you know a lot of those theoretical points of debate would -- would be probably more relevant, I think in this case it's -- it's a little bit of an easier decision because of our tax position.

Ian Defino - *Oppenheimer - Analyst*

Okay. So from an investor standpoint what will be the tax burden?

Mike Sicoli - *RCN Corporation - CFO*

Well, there -- there wouldn't be.

Ian Defino - *Oppenheimer - Analyst*

So, it would be zero?

Mike Sicoli - *RCN Corporation - CFO*

So, basically the -- the amount in the proceeds would just go to lower the investors basis, and, you know, if and when they were to sell their position at some point in the future, the gain represented would, you know, just be different than it would be had they sold today.

Ian Defino - *Oppenheimer - Analyst*

Okay.

Mike Sicoli - *RCN Corporation - CFO*

So, that -- that's the deferral comment.

Ian Defino - *Oppenheimer - Analyst*

Okay, very good. Thank you very much. Congratulations again.

Mike Sicoli - *RCN Corporation - CFO*

Thanks.

Operator

Your next question comes from Lucas Binder with UBS.

Lucas Binder - *UBS - Analyst*

Hi. Good morning, guys. Can you hear me okay?

Mike Sicoli - *RCN Corporation - CFO*

Yes.

Lucas Binder - *UBS - Analyst*

Okay, so my two questions are I guess first of all when you look at the impact of this increased debt, you know, how do you -- how do you look at free cash flow for 2007? I think we're going to be -- you know, obviously you were slightly negative in the first quarter, but you know, would have -- would have expected still positive for the rest of the year, but with the increased leverage you're going to probably be closer to break even or only slightly positive. You know how do you think about addressing this, not only this year but you know, going forward into '08 and '09 and then I have one follow-up.

Mike Sicoli - *RCN Corporation - CFO*

Sure. We talked about it last quarter as well, that you know, this is a balancing act, and you know, we're committed to maintaining positive free cash flow and to growing free cash flow, but at the same time when you have the types of high return investment opportunities that we have, we're compelled to make sure we take an appropriate amount of money and invest it in those opportunities as well within the construct of you know, maintaining a very strong credit profile and positive and growing free cash flow. I think that's how we think about it without giving specific guidance around exact numbers of free cash flow expectation, that's kind of the way we're -- we're approaching it.

Lucas Binder - *UBS - Analyst*

Okay and then as the follow-up, I think both -- I -- I think both Pete and Jim mentioned the idea of you know, increasing -- or continuing to go grow out the number of homes in 2008 -- 2009, and number one, can you talk about what kind of scale we're talking about? Would we actually see CapEx continue to rise in 2008 and 2009?

Mike Sicoli - *RCN Corporation - CFO*

I think it's possible that you would see it rise, but only to the extent that the EBITDA and free cash flow is rising as well.

Lucas Binder - *UBS - Analyst*

Okay.

Mike Sicoli - *RCN Corporation - CFO*

You know again, it really comes down to that balancing act of you know, our responsibilities to drive the maximum you know, long-term shareholder value. And when you have the opportunities that we have, you know when you have hundreds of thousands of home that you can build at $500 or less, the returns are extremely compelling and well north of 30% in many cases, and you just don't find those returns every day, so to the extent that we can do it all within the balance that I described earlier, we're going to try to do that.

Lucas Binder - *UBS - Analyst*

Okay, great. Thank you very much.

Operator

Our next question is from Chris Roberts with [Kayhoss] Securities group.

Chris Roberts - *Kayhoss Securities Group - Analyst*

Good morning, guys. Thanks for taking my call. First on the churn number of 2%, that is a pretty big improvement from your historical levels. Was there any benefit in that due in part to the divesture of the San Francisco market?

Pete Aquino - *RCN Corporation - President and CEO*

No. No. This is Pete. Good morning, Chris.

Chris Roberts - *Kayhoss Securities Group - Analyst*

Good morning, Pete.

Pete Aquino - *RCN Corporation - President and CEO*

You know it really hasn't anything to do with that, it is a very small weighted portion relative to the whole base. It is just the constant execution by management to work on retention and to really focus on keeping our customers, and the bundled rate really helps. But 2%, in a seasonally, you know, typically down quarter, is -- we are very happy with that number. Also, keep in mind we also launched the rate increase in the first quarter as well, so we -- we actually overcame any of the downward pressure from the rate increase, so it is -- its a a really good accomplishment for us.

Chris Roberts - *Kayhoss Securities Group - Analyst*

Okay, great. And then moving to the commercial business. Now that -- now that you have close to 1,000 billings net, can you give us an idea of what type of penetration rate you expect with these new buildings on net and then can you give us any color about the terms of the additional 112 on-net buildings that you got from the Verizon/MCI merger?

Pete Aquino - *RCN Corporation - President and CEO*

I can -- I can give you some general understanding of how that works. First of all, the -- the penetration of the 1,000 buildings is -- is basically a portfolio management strategy that Phil Alvarez and team are working through today. These are -- these are huge multi-tenant and single tenant commercial buildings and some carry are pops, of course, so the aggregation points are very attractive to -- to harvest, and the buildings on-net are very attractive to penetrate, and -- and the clientele is excellent. So in terms of how we go about that, we have teams basically focused on blocks of --of buildings, and we'll continue to market to them. It's all part of the integration strategies and is part of the new launching of MPLS in those Metro markets. So, there is a lot of activity around the penetration of those, but the specific target rates are really building by building. So, I can't comment too much on what the overall target is, but there is a lot of opportunity. I will just say that.

Chris Roberts - *Kayhoss Securities Group - Analyst*

Okay.

Pete Aquino - *RCN Corporation - President and CEO*

Regarding the MCI buildings, the way it works basically is we have almost up to eight fibers available to us on a long-term RU for a very good price I should say, something that we can't disclose because of the way the deal was structured, but for the most part, those loops are meeting us somewhere, either at a MCI pop or back at our location and connected to our network, so they're active and ready to go. It basically comes -- they basically fiber assets for us to harvest. They don't come with revenues. It is just facilities. At this point those -- those are so close to what we're doing today in our Boston market that it's just an absolute home run when it comes to synergy.

Chris Roberts - *Kayhoss Securities Group - Analyst*

Okay, great. Well that's it for me. Congratulations on a solid quarter.

Pete Aquino - *RCN Corporation - President and CEO*

Thanks, Chris.

Operator

(OPERATOR INSTRUCTIONS) Our next question comes from Colby Synesael, with Merriman.

Colby Synesael - *Merriman - Analyst*

Okay, thank you for taking my question. I think you guys mentioned on the last call that you know, there is about 400,000 homes that can passed for less than the $500 mark, and you guys mentioned that you're doing a rebuild of about 75,000 homes this is year. How many of those 75,000 are for that under $500 price range, and can you give us an update exactly how far you are on the rebuild in terms of the 75,000? And then real quickly on the inventory issue you guys were talking about, approximately how many set-top boxes are -- do you guys have in your possession now that you think that you're not going to necessarily be able to get rid of?

Mike Sicoli - *RCN Corporation - CFO*

Hey, Colby, it is Mike. I will go in descending order. The -- obviously -- the -- your last question is not a question that we would be you know, prepared to answer. Obviously at this point we believe that all of the set top box that we have in inventory today, you know, that are not in compliance with the post 71 mandate, will be deployed, so , you know that's just sort of blocking and tackling work between now and then to get that done. On the you know, 75,000 homes, just to clarify, the -- the set -- there were really two 75,000 numbers we talked about on the -- on the -- in the prepared remarks. The first 75,000 that Jim mentioned was the number of homes we've built or rebuilt over the past two years. I think it is about 50/50 in terms of the -- the rebuild versus the new build inside that 75,000 that we have already done. In terms of the 75,000 that we articulated that we're targeting, and that's an up to 75,000 number for 2007, there is a much higher percentage of that that's new build versus rebuild although there is still some rebuild in there. There is about 20,000 homes left in Lehigh Valley to -- to rebuild, and should be -- be knocking those out this year and next. In terms of the, you know, the -- the average price per home, it is, you know, it is for that entire 75,000 it is our expectation that it would be 500 or less. There may be a neighborhood here and there that's about 500, but in aggregate it -- it's 500 or

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Colby Synesael - *Merriman - Analyst*

Okay. Great. And if I can just get one follow-up. How many commercial sales guys or direct to commercial sales guys do you now have?

Pete Aquino - *RCN Corporation - President and CEO*

You know, I'd have to go back to Phil given all the work he has been doing. I think we're almost up to 50 guys that we have spread across the jurisdictions, and that's a combination of direct sales force and system engineers, and that -- that's a pretty good start for us right now.

Colby Synesael - *Merriman - Analyst*

Great. Thanks, Pete.

Pete Aquino - *RCN Corporation - President and CEO*

You're welcome.

Operator

Our next question comes from David Kestenbaum with Morgan Joseph. Please go ahead with your question.

David Kestenbaum - *Morgan Joseph - Analyst*

Okay, thanks. You -- you're still show pretty impressive ARPU growth and I am just wondering is that based on bundling or have you been able to raise prices with some of the programming you've offered? And do you think you'll be able to close that gap with cable vision even though you're still one of the highest in the industry? And then second, what has been the penetration now on the 75,000 home that you have built in the past year?

Pete Aquino - *RCN Corporation - President and CEO*

I will take the first question on ARPU. I think when it comes to our bundled rate, it's just a -- it's just a great advantage for us. We have 67% of our customers take at least two products. By -- by the sheer take rates, we're going to be probably over 100 pretty consistently. We've been look at market share expansion as well. Historically RCN was really a triple-play company, and we dedicated all of our resources to selling all three products. But we're looking at market share expansion strategies where, whether one or two products, we could get into a customer's home, impress them and hopefully move them up the curve. And so -- so where we are today is a -- is a very good mark, and I think some of the new services that are coming on board, whether it's video-on-demand, or some of the off-net products we're looking at, are going to add to our averages.

Mike Sicoli - *RCN Corporation - CFO*

I think just to clarify, we did put a rate increase through during the first quarter. It was not as substantial as the rate increase last year, but it did get done you know, sort of starting in January, and that was a -- obviously a big contributor to the lift both quarter over quarter and year year-over-year. Can you -- would you mind repeating your second question?

David Kestenbaum - *Morgan Joseph - Analyst*

Yes, I was asking what the penetration is on the 75,000 homes you built out in the past year?

Mike Sicoli - *RCN Corporation - CFO*

Sure. It is not actually a number that we're comfortable disclosing externally, you know, primarily for competitive reasons, but you know, the -- the way we typically think about penetration is, you know on a three to five year basis, depending on whether it is new build or rebuild, and you know, it -- it sort of earns in over the period you know, of that three to five years, you know, fairly equally. You know, we don't do a huge marketing and sales blitzes when we build new territories. It is kind of business as usual, so you know, we'll -- we'll sort of ramp that penetration up on a measured basis. And I will tell you that, you know, with that framework in mind, virtually all of the projects that we've undertaken over the past couple of years are either on that curve or even slightly above it.

David Kestenbaum - *Morgan Joseph - Analyst*

So you're confident you can get to the 30% of penetration level, I think that -- that was your goal, right?

Mike Sicoli - *RCN Corporation - CFO*

Yes, I mean it depends on where it is. If it is Lehigh Valley, we obviously expect more than 30%, but if it is in the other Metro markets, then somewhere in that 25% to 30% range we enjoy today is the expectation.

David Kestenbaum - *Morgan Joseph - Analyst*

Okay. Thanks. (OPERATOR INSTRUCTIONS)

Operator

Our next question comes from David Joyce with Miller Tabak and company. Please go ahead with your question.

David Joyce - *Miller Tabak and Company - Analyst*

Thanks. Can you just give a little color on the voice RGU's? They slipped a bit sequentially, and I was actually expecting some adds. Is there anything going on there, was that a pricing issue or was it just kind of a seasonal thing where maybe the first quarter is light other the voice adds? And I was wondering how many voice subs are in a bundle?

Mike Sicoli - *RCN Corporation - CFO*

The voice RGU's for RCN have been declining for several quarters, even the past couple of years. I think a lot of that had to do with the off-net voice customers coming off. There is still a few thousand of those left you know, on the UNI platform, but we've -- we-we've substantially -- have traded that customer base off over the past couple of years. I think also in -- in many of our territories where you know, RCN had launched guns a blazing with the full triple-play, you know we had very high phone penetration, you know RBOC like phone penetration in some of these foot prints. So, some of the trend it -- it -- just because of the same thing that incumbent phone companies are experiencing. You know, whether it be you know dropping second lines or -- or you know switching to different solutions or dropping -- or you know, cutting the cord altogether. Those are the same trends that we're experiencing today. Now that being said, we do have portions of our footprint that are under penetrated in phone, that we're really applying a lot of focus to, Chicago and Lehigh Valley being the two biggest ones. So, we do expect that -- you know, we -- we should be growing voice RGU's here at some point. You know, we don't want to give specific direction or guidance on that particular metric, but there is a lot going on underneath that number, you know both positive and negative.

David Joyce - *Miller Tabak and Company - Analyst*

Do you have a metric on how many of the voice subs are in a bundle?

Mike Sicoli - *RCN Corporation - CFO*

I don't have that off the top of my head. We don't have a whole lot of a la carte voice customers, except for those ones that are the UNI platform customers. But, I don't know the exact percentage of the on-net customers that are -- are a la carte, but most of our a la carte customers are either video or data.

David Joyce - *Miller Tabak and Company - Analyst*

Okay. Great. Thank you.

Operator

There are no further questions at this time. I will now turn the call back over to management for closing remarks.

Richard Ramlall - *RCN Corporation - Senior VP of Strategic and External Affairs*

Thank you, operator. Well, again, we're very pleased with the start to the year. We will continue to give you the information on the refinancing on the -- the dividend as we go forward. The team is poised to continue executing, driving the margins up, continuing to go drive our customer growth, and operate the business very effectively as we have been as well as to return some value to shareholders for their investment. So, thanks for listening this morning and we look forward to speaking to you at the -- to you again in the near future. Have a good day.

Operator

Ladies and gentlemen, that concludes your conference call for today. We thank you for your participation and ask that you please disconnect your lines.