

<p>Read Clayton Christensen's</p> <p><b>STRATEGY &amp; INNOVATION</b></p> <p>on Forbes.com</p>		<p>Must-read analysis of disruption and innovation occurring in business today.</p> <p><b>READ NOW &gt;</b></p>	
--	---	---	---



## Market Scan

# RCN Has A Clear Picture For 2008

Lisa LaMotta, 03.11.08, 1:19 PM ET

RCN expects 2008 to be in high-definition and investors seem to agree.

The Herndon, Va.-based cable operator had growing sales, positive free cash flow, and an optimistic outlook for the coming year that had investors scrambling for its stock on Tuesday. RCN was up 8.2%, or 83 cents, to \$10.98 in afternoon trading on the announcement of its fourth quarter results.

The company, which provides service to Boston, Washington D.C., New York, Chicago, and eastern Pennsylvania, reported sales growth of 11.5% to \$167.9 million in the fourth quarter of 2007, ending Dec. 31. While it reported a loss of 31.2% for the quarter of \$32.4 million, \$30 million of that loss can be attributed to a one-time charge related to the acquisition of Neon Communications Group, a fiber-optic company, in November. Neon was combined with the RCN business unit to form RCN Metro Optical Networks. RCN Metro is anticipated to bring in about 23% to 24% of RCN's sales in 2008.

Despite the loss and the \$255 million cost of the acquisition, RCN continued to have positive free cash flow for the quarter of about \$5 million, according to one analyst. RCN also had customer growth of 2.5% for the quarter, increasing its customer base to 416,000 from 406,000 in the fourth quarter of 2006.

"The residential has not been a big growth sector, with the majority of that growth coming from price increases, but they have two other businesses -- voice and data," said Merriman Cuhran Ford analyst Caolby Synesael. "The revenue growth is coming from the voice. Where they are going to increase their growth is on the commercial side, probably about 11% or 12% organically."

The cable operator expects sales growth of 5% to 6%, or \$730 million to \$740 million for 2008, beating analyst expectations. Analysts surveyed by Thomson Financial expected full-year sales of \$726.5 million. RCN's chief financial officer Michael T. Sicoli expects to stay cash flow positive in 2008.