

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
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In re: Chapter 11 Case No.
RCN CORPORATION, et al., 04-13638(RDD)

(Jointly Administered)
Debtors.
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**MONTHLY OPERATING REPORT FOR THE PERIOD
FROM JULY 1, 2004 TO JULY 31, 2004**

DEBTORS' ADDRESS: RCN CORPORATION
105 CARNEGIE CENTER
PRINCETON, NJ 08540

DEBTORS' ATTORNEYS: SKADDEN ARPS SLATE MEAGHER & FLOM LLP
4 TIMES SQUARE
NEW YORK, NY 10036

The undersigned has reviewed the attached report and is familiar with the Debtors' (defined below) financial affairs. The following monthly operating report includes the unaudited condensed combined financial statements for RCN Corporation, Hot Spots Productions, Inc., RCN Finance, LLC, RLH Property Corporation, and TEC Air, Inc. (collectively "the Debtors") which have filed voluntary petitions for reorganization under Chapter 11 of Title 11 of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York on May 27, 2004 (the "Petition Date"). The Debtors remain in possession of their assets and properties and continue to operate their businesses and manage their properties as "debtors-in-possession" pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code.

The monthly operating report is unaudited and may be subject to change at any time. The results of operations are not necessarily indicative of operating results expected for the full year or future interim periods.

The undersigned verifies under penalty of perjury that the information contained herein is complete, accurate and truthful to the best of his knowledge as of the below date.

By: /s/ Blair L. Worrall
Blair L. Worrall
Vice President, Accounting

Date: August 30, 2004

**RCN CORPORATION, HOT SPOTS PRODUCTIONS, INC., RCN FINANCE, LLC,
RLH PROPERTY CORPORATION AND TEC AIR, INC.
(DEBTORS-IN-POSSESSION)**

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**RCN CORPORATION, HOT SPOTS PRODUCTIONS, INC., RCN FINANCE LLC
 RLH PROPERTY CORPORATION AND TEC AIR, INC.
 (DEBTORS-IN-POSSESSION)
 UNAUDITED CONDENSED COMBINED STATEMENT OF OPERATIONS
 For the Period July 1, 2004 through July 31, 2004
 (In Thousands)**

Revenues	\$ -
Cost and expenses	55
Non-cash stock based compensation	356
Reorganization items, net (Note 7)	<u>2,709</u>
Operating loss	(3,120)
Interest expense (contract expense of \$13,015 for the period July 1, 2004 through July 31, 2004 (Note 5))	3,458
Other expense	<u>14</u>
Loss before income taxes	(6,592)
Equity in the loss of non-combined subsidiaries	<u>(15,876)</u>
Net loss	<u>\$ (22,468)</u>

The accompanying notes are an integral part of these unaudited Condensed Combined Financial Statements.

**RCN CORPORATION, HOT SPOTS PRODUCTIONS, INC., RCN FINANCE LLC
 RLH PROPERTY CORPORATION AND TEC AIR, INC.
 (DEBTORS-IN-POSSESSION)
 UNAUDITED CONDENSED COMBINED BALANCE SHEET
 July 31, 2004
 (In Thousands)**

ASSETS	
Current assets	
Cash and temporary cash investments	\$ 775
Other current assets	753
Total current assets	<u>1,528</u>
Accounts receivable from non-combined subsidiaries	913,709
Investment in and advances to non-combined subsidiaries	1,487,930
Deferred charges and other assets	250,460
Total assets	<u>\$ 2,653,627</u>
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities	
Current maturities of long-term debt	\$ 451,935
Accounts payable and accrued expenses	4,556
Total current liabilities	<u>456,491</u>
Accounts payable to non-combined subsidiaries	1,473,349
Pre-petition liabilities subject to compromise (Note 6)	1,191,045
Series A redeemable Preferred stock	350,362
Series B redeemable Preferred stock	1,474,850
Shareholders' deficit	
Common stock	123,588
Additional paid in capital	2,153,264
Cumulative translation adjustment	(17,288)
Unearned compensation expense	(147)
Treasury stock	(10,166)
Unrealized appreciation on investments	(170)
Accumulated deficit	<u>(4,541,549)</u>
Total shareholders' deficit	<u>(2,292,468)</u>
Total liabilities and shareholders' deficit	<u>\$ 2,653,629</u>

The accompanying notes are an integral part of these unaudited Condensed Combined Financial Statements.

**RCN CORPORATION, HOT SPOTS PRODUCTIONS, INC., RCN FINANCE LLC
 RLH PROPERTY CORPORATION AND TEC AIR, INC.
 (DEBTORS-IN-POSSESSION)
 UNAUDITED CONDENSED COMBINED STATEMENTS OF CASH FLOWS
 For the Period July 1, 2004 through July 31, 2004
 (In Thousands)**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	(\$22,468)
Non-cash stock based compensation	356
Equity loss of non-combined subsidiaries	15,876
Accretion of discounted debt	338
Amortization of financing costs	537
Net cash used in operating activities	<u>(5,361)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Payment of long-term debt	-
Investments from non-combined subsidiaries	5,361
Net cash provided by financing activities	<u>5,361</u>
Net increase/(decrease) in cash and temporary cash investments	-
Beginning cash & temporary cash investments	<u>775</u>
Ending cash & temporary cash investments	<u>\$775</u>

The accompanying notes are an integral part of these unaudited Condensed Combined Financial Statements.

**RCN CORPORATION, HOT SPOTS PRODUCTIONS, INC., RCN FINANCE, LLC,
RLH PROPERTY CORPORATION AND TEC AIR, INC.
(DEBTORS-IN-POSSESSION)
NOTES TO UNAUDITED CONDENSED COMBINED FINANCIAL STATEMENTS**

(1) Basis of Presentation

The Debtors caution readers not to place undue reliance upon the information contained in this monthly operating report (the "Operating Report"). This report should not be construed as the financial statements of the registrant. This Operating Report contains unaudited information which is subject to further review and potential adjustments and may not be indicative of the Debtors' operating results. The accompanying financial statements have been prepared on a going concern basis, which assumes the realization of assets and the payment of liabilities in the ordinary course of business, and do not reflect any adjustments that might result if the Debtors are unable to continue as a going concern. There can be no assurance that this Operating Report is complete and the Debtors undertake no obligation to update or revise the Operating Report.

This Operating Report includes the Debtors' unaudited condensed combined Statement of Operations for the period July 1, 2004 through July 31, 2004, Balance Sheet at July 31, 2004 and Statement of Cash Flows for the period July 1, 2004 through July 31, 2004. The Operating Report includes combined information from the Debtors that filed voluntary petitions for reorganization under Chapter 11 on May 27, 2004. Investments in non-combined subsidiaries and equity in income of non-combined subsidiaries are shown separately in the balance sheet and income statement.

The accompanying unaudited condensed combined financial statements do not include all of the information and footnote disclosures required by generally accepted accounting principles ("GAAP") for complete financial statements. Further, the amounts reported in this Operating Report, when reported on a quarterly or annual basis on Form 10-Q or Form 10-K and filed with the United States Securities and Exchange Commission, may differ materially due to adjustments to accruals, changes in facts and circumstances, changes in estimates, further analysis and other factors.

The unaudited condensed combined Statement of Operations has also been prepared in accordance with Statement of Position ("SOP") No. 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code." SOP 90-7 requires an entity's statement of operations to portray the results of operations of the reporting entity during Chapter 11 proceedings. As a result, any revenues, expenses, realized gains and losses, and provisions resulting from the reorganization and restructuring of the Debtors should be reported separately as reorganization items, except those required to be reported as discontinued operations and extraordinary items in conformity with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

In the opinion of management, all disclosures considered necessary for an informative presentation have been included.

(2) Summary of Significant Accounting Policies

Cash and temporary cash investments:

The Debtors consider cash in banks and short-term investments with original maturities of three months or less as cash and cash equivalents. At July 31, 2004, the Debtors had approximately \$775 of cash and temporary cash investments.

Reorganization Items:

In the accompanying unaudited combined Statement of Operations, the Debtors classify expenses, restructuring costs, severance costs, retention plans, professional fees and interest income, as reorganization items based upon the provisions of SOP 90-7.

(3) Insurance

Premiums to date for all insurance policies, including workers' compensation and disability insurance, have been paid and such policies are in full force and effect.

(4) Income Taxes

Income taxes due on postpetition income for all Federal, State, and Local taxing authorities have been paid in full.

(5) Interest Expense

As of the Petition Date, the Debtors ceased accruing interest on certain unsecured pre-petition debt classified as Pre-petition liabilities subject to compromise in the unaudited condensed combined balance sheets in accordance with SOP 90-7. Interest at the stated contractual amount on pre-petition debt that was not charged to results of operations for the period July 1, 2004 – July 31, 2004 was approximately \$9,557.

(6) Liabilities Subject to Compromise

Under U.S. bankruptcy law, actions by creditors to collect indebtedness the Debtors owed prior to the Petition Date are generally stayed and certain other pre-petition contractual obligations may not be enforced against the Debtors. All pre-petition liabilities of the Debtors have been classified as liabilities subject to compromise in the unaudited condensed combined balance sheets. Adjustments to these amounts may result from negotiations, payments authorized by the Bankruptcy Court, and/or rejection of executory contracts and leases. Amounts recorded may ultimately be different than amounts filed by the creditors under the Bankruptcy Court claims reconciliation and resolution process.

Notices to creditors and equity holders of the commencement of these cases were mailed in June 2004. The Bankruptcy Court established August 11, 2004 as the general deadline for submission of proofs of claim for general unsecured claims. A separate bar date for certain other government claims was established as November 23, 2004. In accordance with the bar date order entered by the Bankruptcy Court, holders of certain pre-petition claims against the Debtors are required to file proofs of claim on or prior to the applicable bar date to be eligible to participate in any distribution of assets from the Debtors in connection with a plan of reorganization. Until such claims are investigated and resolved, the ultimate number and amount of resolved claims cannot be determined. Because any recovery on allowed pre-petition claims is subject to a confirmed plan of reorganization, the ultimate distribution with respect to allowed claims is not presently ascertainable.

The following table summarizes the components of the liabilities classified as liabilities subject to compromise in the unaudited condensed combined balance sheet:

	July 31, 2004
Accounts payable	\$ 195
Accrued expenses	80,529
Accrued cost of sales	815
Long-term debt	<u>1,109,506</u>
Total liabilities subject to compromise	<u>\$ 1,191,045</u>

(7) Reorganization Items, Net

Reorganization items represent amounts the Debtors incurred as a result of the Chapter 11 process and are presented separately in the unaudited condensed combined statement of operations.

	For the period July 1 through July 31, 2004
Professional fees	\$ 2,265
Employee costs	504
Interest income	(60)
Total	<u>\$ 2,709</u>

Cash paid for reorganization items during the period July 1, 2004 through July 31, 2004 was \$4.

The following paragraphs provide additional information relating to the above reorganization items:

- Professional fees

Professional fees include financial, legal and valuation services directly associated with the reorganization process.

- Employee costs

The Debtors have implemented a Bankruptcy Court approved retention plan that provides for cash incentives to key members of the management team of RCN Corporation and its affiliates. The retention plan is a milestone-based plan expected to encourage employees to continue their employment through the completion of the reorganization process.

- Interest income

Interest income represents interest income earned by the Debtors as a result of excess cash balances due to the Chapter 11 filing.

Schedule 1 – Disbursements by Legal Entity

<u>Case Number</u>	<u>Name of Company</u>	<u>Disbursements</u> <u>7/1/2004 - 7/31/2004</u>
04-13638(RDD)	RCN Corporation (a)	\$ 2,869,393
04-13637(RDD)	Hot Spots Productions, Inc.	\$ -
04-13640(RDD)	RCN Finance, LLC	\$ -
04-13639(RDD)	RLH Property Corporation	\$ -
04-13641(RDD)	TEC Air, Inc.	\$ -
	Total	<u>\$ -</u>

(a) Please note that these payments were made by RCN Telecom Services, Inc. by way of an intercompany transaction with RCN Corporation