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COMMUNICATIONS CHALLENGE

C-Tec surges ahead in phone, cable markets

By Steve Rosenbush
USA TODAY

NEW YORK – If you hold C-Tec's annual report up to a mirror and study it closely, you'll find a secret message from David McCourt, chief executive of the telecommunications upstart.

Beneath the title, "The Revolution Continues," is a famous picture of a mob tearing down the Berlin Wall. The wall is covered with graffiti, so it's easy to miss three words – written backward – that McCourt has added: Bell Atlantic, Cablevision, Nynex. He equates his entrenched competitors with Communist-era "tyrannies."

At a time when many big companies are scaling back plans to compete in the residential local phone and cable markets, McCourt, 40, is waging the most aggressive challenge in the country.

C-Tec of Princeton, N.J., will spin off Commonwealth Telephone Enterprises, Cable Michigan and RCN Communications on Sept. 30. McCourt will run the newly independent RCN, which had \$60 million in fiscal 1997 revenue and is building a \$7 billion fiber-optic network that will carry voice, cable television and high-speed Internet access over the same wires to residential customers in 24 cities from Washington to Boston.

It's already operating in New York, Boston, Washington and the Lehigh Valley in Pennsylvania. "Someone has



Breaking down the wall: David McCourt, CEO of up-and-coming telecommunications company RCN, wants to outdistance the entrenched, big-name competition.

to jump in the water and prove that it isn't over everyone's head," McCourt says.

The water is turbulent, though. Phone and cable TV companies are upgrading their networks.

"We are not about to be out-marketed by anyone," Cablevision spokesman Charles Schueler says.

Cablevision has 3.2 million customers in Boston, New York and Cleveland. It's preparing to carry phone service and high speed Internet access and it's offering advanced services on Long Island, N.Y.

Critics note that RCN is still reselling Bell Atlantic service in some areas and

accuse it of paying attention only to affluent markets.

The giants of the telecommunications business have been wading in the shallow water since the law unleashed competition last year. Long-distance carriers AT&T, MCI and Sprint are finding the going is slow as they begin offering local phone service to residential and business customers.

The regional Bell carriers have failed to invade each other's local territory. The cable TV companies have backed way from their threat to offer telephone service, and the Bells have backed away from their threat to offer TV.

Some analysts argue that

competition in the local market is unrealistic. "Congress got it wrong. It thought the local loop is like long-distance," says analyst Scott Cleland of Legg Mason's Precursor Group. The local companies have networks worth \$270 billion. The long-distance networks are worth only \$40 billion.

Cleland says the local business is so expensive that it only makes sense to build one network. And competitors simply can't make money buying local service from the dominant carriers and reselling it, he says.

Enter RCN. McCourt believes the Internet is stirring demand for networks that

accommodate voice, video and data. He plans to grab the market while the big carriers fight among themselves.

"We realized that a brand new network designed and built around the Internet was the way to go," he says. He had planned to lease capacity on the network of partner MFS Communications which was acquired by WorldCom last year.

The leasing arrangement would have cut McCourt's capital expenses by half. But MFS, which built a fiber-optic system to provide local service to businesses, kept running out of capacity. It was 1995, the Internet was just beginning to surge in popularity and MFS suddenly didn't have capacity to spare.

"My first reaction was to panic," McCourt recalls. "But then I said, maybe our premise that we couldn't afford to build our own network was faulty. We were lucky the MFS deal didn't work out."

McCourt figures he can build his fiber network for about \$1,500 a customer, or half the cost of buying an existing cable TV system. He should know. Cablevision founder Chuck Dolan hired him years ago to build one of the first urban systems in the nation.

Entering one market every 90 days, McCourt expects RCN to cover 24 markets within six years. He's waging an aggressive marketing campaign, running ads that

compare phone competition to the toppling of the Berlin Wall. He's rolled \$35 million of his own money into the business. He believes RCN will be to the residential market what MFS was to the business market.

Dillon Read telecommunications analyst Bruce Roberts thinks RCN can do it. He predicts net losses will rise until 2001, and decline until the company breaks even in 2004.

"The smaller companies are in a better position," he says. Big companies will need more time to expand their services because they have so many customers. "AT&T has 80 million customers. How is it going to provide them local service right away?"

It's been an eventful summer: C-Tec stock has climbed more than 20% since last month. RCN agreed in August to send communications over Potomac Electric Power's 350-mile fiber network in greater Washington.

It plans a high-yield debt offering with Merrill Lynch in early October.

RCN has 75,000 cable and phone customers in Boston, New York and Washington. It expects to add 16,000 in September.

"I think David McCourt will be running a very profitable and very formidable residential telephone company," says analyst Jack Grubman of Salomon Bros.

A promise the first step in future path

By Steve Rosenbush
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NEW YORK — David McCourt is counting on his background in the construction industry to help make RCN Communications work.

He was one of seven children and grew up in Watertown, Mass., an industrial city where his late father ran a construction company. B.F. Goodrich and Underwood Deviled Ham plants were fixtures in town. The Irish-Catholic family lived in a four-bedroom home on a quarter-acre plot. An average student, McCourt liked to play sports and wanted to be a cop when he grew up.

His interests shifted in college. He studied to be a social worker at Georgetown University in Washington and worked as a probation officer's aide in the city after graduation.

McCourt spent a summer working for his father and noticed that Cablevision was planning to build a cable network in Boston. A news story

think I could do it."

McCourt and Dolan got into a disagreement over money. Dolan wanted McCourt to reduce his bill for the later

his first communications business: a phone network that bypassed the local carrier and provided businesses a direct, discount link to their long-distance service.

Construction giant Peter Kiewit & Sons was running a similar telephone bypass business in Chicago called MFS Communications. The two companies combined operations, giving McCourt 20% of the new company and a seat on the board. He ran the Boston network and then went to Britain to run M c C o u r t - K i e w i t International.

McCourt came back from Europe four years ago and bought C-Tec as a vehicle to launch a residential telecommunications business. Now he's breaking up C-Tec and focusing on RCN. He sold his \$35 million MFS stake and put it in the new business.

About David McCourt

Offbeat move: Ran a television station in Grenada in 1985, restoring service after the U.S. invasion.

Most memorable lesson: Don't whine. A friend bit McCourt's nose during dinner at a Boston restaurant one night to stop his whining about his dispute with Cablevision.

Family: Wife, Deborah; two children. "I met Deborah in a furniture store. I was buying a couch at the same time she was buying a chair. A year later, I ran into her again at a function in Boston. It's another example of me being lucky."

said urban cable systems wouldn't work because it was too expensive to dig up city streets.

McCourt told Cablevision founder Chuck Dolan that he could build the system by Thanksgiving and got the job. "It was probably stupidity or inexperience that made me

part of the job, saying he had overpaid McCourt during the first part, McCourt says. The dispute was finally settled, McCourt says, after he dug up part of the cable. Dolan could not be reached for comment. The young entrepreneur, then 24, used the estimated \$1 million to invest in