information service has meant that traditional telecommunications regulations do not apply. However, the FCC's decision to classify cable HSI as an interstate information service was vacated by a federal appellate court. This appellate court found that cable HSI service is, in part, a telecommunications service. If this decision is not overturned, it could significantly impact cable operators' regulatory obligations in providing cable HSI service, including possible pricing and resale restrictions and obligations to allow third party ISP access to our broadband networks. However, the appellate court has stayed its mandate pending a decision by the United States Supreme Court, which agreed to hear the appeal. Thus, it is unclear how our HSI service may ultimately be classified for regulatory purposes.

In addition, the FCC is considering whether it should impose any regulatory requirements on cable HSI (even if the interstate information service classification is upheld), and also whether local franchising authorities should be permitted to do so. A number of parties have also urged the FCC to adopt certain "nondiscrimination" principles related to cable's provision of cable Internet service. We cannot predict whether or when the FCC might adopt such principles or what effects, if any, they would have on our business. In addition, Congress and federal regulators have adopted and continue to consider a variety of laws and regulations affecting the Internet, including regulations in the areas of privacy, copyright, defamation, taxation, and obscenity. State and local governments have adopted Internet regulations, as well. Some of these governmental jurisdictions are also considering additional regulations in these and other areas, such as service pricing, service and product quality, and intellectual property ownership. The adoption of new Internet laws or the amendment of existing laws could have a material adverse effect on our Internet business.

Voice Over Internet Protocol

Our upgraded network will support the delivery of voice communications services using VoIP technology. In 2004, we began preparations for offering this service, including product development, negotiating commercial agreements, technical trials, marketing trials, and interoperability testing with our information and billing systems and with the PSTN. We anticipate commercial launch of VoIP in selected markets during 2005, with the specific date dependent on completion of operational readiness tests.

Communications services are generally subject to the Communications Act. The FCC has initiated a rulemaking to consider whether and how to regulate VoIP. It is likely that the FCC will have some regulatory authority with respect to VoIP. States regulate traditional telephone services, but the scope of state regulation of VoIP is unsettled. Several states have attempted to impose traditional common-carrier regulation on VoIP services. In addition, the Communications Act empowers states to supervise the terms under which competitors interconnect with incumbent local exchange carriers ("ILECs"). These same provisions call for removal of barriers to entry while imposing on ILECs duties to negotiate reasonable and nondiscriminatory interconnection agreements with CLECs.

The FCC adopted an order in November 2004 declaring that one particular VoIP service is not subject to traditional state public utility regulation. The order did not preempt state laws of general applicability, such as those relating to taxation, fraud, commercial dealings, marketing, advertising, and other business practices. The FCC indicated that other types of Internet protocol ("IP")-enabled telephone services, such as those offered by cable companies, would not be subject to traditional state public utility regulation if they require a broadband connection from the user's location; require the use of IP-compatible customer premises equipment; and include a suite of integrated capabilities and features, able to be invoked sequentially or simultaneously, that allows customers to manage personal communications dynamically. It is unclear how this ruling and other VoIP-related proceedings at the federal and state levels, and the related judicial proceedings that will ensue, might affect our VoIP service.

The Telecommunications Act of 1996 anticipates that competing wireline telephone companies will enter the market in three different ways: by reselling the services of the ILEC; by purchasing "network elements" from the ILEC at discounted rates and combining them with each other and/or competitor-supplied facilities to offer a finished service; or by deploying a separate network and interconnecting it with that of the ILEC. For approximately five years (1996-2001) the FCC supported policies and rules that allowed CLECs to use unbundled network elements ("UNEs") from ILECs. Following repeated court and other challenges by the ILECs, in 2001 the FCC began revising its policies to encourage "facilities-based" competition, i.e., competition from firms that own and operate their own networks. These actions have affected the traditional CLEC business models that evolved pursuant to the 1996 Act. The FCC's current policies generally favor the type of facilities-based competition provided by cable operators via cable-system-delivered VoIP services.

The specific rules applicable to VoIP are unclear, although some issues may be resolved by the time our service is operational. Under federal law, some services are regulated as "telecommunications services" and others as "information services." Information services are subject to less regulation than telecommunications services. It is not clear how VoIP will ultimately be classified. So, while less regulation for "information services" is beneficial, classifying VoIP as an "information service" might lead some ILECs to resist providing interconnection arrangements.

These issues are pending before the FCC in a number of proceedings. In the meantime, VoIP providers can obtain indirect interconnection to ILEC networks by contracting with existing CLECs, whose right to deal with ILECs is clear under the Communications Act and FCC regulations.

Depending upon the regulatory classification the FCC ultimately imposes on VoIP service, we could be subject to numerous regulatory obligations that apply to telecommunications carriers. For instance, we could be required to contribute to the universal service programs and be subject to the statutory and regulatory obligations to make our service accessible to persons with disabilities. The following is a discussion of several key regulatory issues arising in connection with cable-system provided VoIP.

Intercarrier Compensation. "Intercarrier compensation" refers to payments made from one telecommunications carrier to another when they exchange traffic. Under present rules it is often unclear whether VoIP should be treated as local, interstate long distance, intrastate long distance, or excluded from the compensation system altogether. Very different compensation rates apply to each classification, with much higher rates applying to intrastate long distance traffic.

CALEA. Under a 1994 federal law, the CALEA, telecommunications carriers must implement certain network capabilities to assist law enforcement in conducting surveillance of those suspected of criminal activity. It is widely expected that the FCC will require VoIP providers (including cable operators) to comply with CALEA, and the cable industry's principal trade association has formally told the FCC that cable-delivered VoIP services would do so. We believe that our VoIP service will fully comply with CALEA.

911 Emergency Services. Enhanced 911 refers to a system in which a call to 911 is not merely connected to an emergency answering center, but in which the telephone number of the calling party or other information is provided to the answering center so that the actual physical location of the caller is available to the answering center. The legal obligation of VoIP providers to provide enhanced 911 is unsettled. In addition, unlike traditional circuit-switched telephony, the technical arrangements necessary to provide enhanced 911 for calls produced by VoIP technology are not fully resolved. The NCTA has said that all VoIP providers should offer enhanced 911 services.

Universal Service. "Universal Service" refers to a set of federal and state policies designed to subsidize telecommunications services in rural and high cost areas of the United States, services provided to low-income households, and services provided to schools and libraries. In general, federal-level Universal Service is funded by means of a percentage fee applied to a service provider's interstate telecommunications services revenue. It is unclear whether VoIP services ultimately will be deemed to be covered by the "Universal Service" policies. This question is pending before the FCC.

Access to Telephone Numbers. A subscriber needs a telephone number in order to receive telephone calls. Blocks of telephone numbers are assigned by federally-established authorities to telecommunications carriers, for individual assignment to their subscribers. It is unclear whether VoIP providers will be treated as telecommunications carriers for the purpose of receiving telephone numbers. This question is also pending before the FCC, which has permitted an ILEC-affiliated VoIP service to receive numbers on a trial basis. Until the issue is resolved, VoIP providers normally rely on relationships with CLECs (which, as carriers, have the right to receive telephone numbers) to obtain numbers for reassignment to VoIP subscribers.

Other Regulatory Issues

Set forth below are other regulatory matters under review by Congress, the FCC and other federal agencies that could materially affect our cable business:

- *Tier Buy Through:* Cable operators must allow subscribers to purchase premium or pay-per-view services without having to subscribe to any tier of service, other than the basic service tier. The FCC has yet to clarify the applicability of this rule in a variety of situations involving the offering of digital services. For example, the FCC is now considering a complaint alleging that another cable operator's plan requiring customers to buy a digital program guide and digital music services to receive premium services violates the tier buy through rule. Adverse decisions by the FCC on this issue could affect the pricing and packaging of our services.

- *Set-Top Box Regulation*: FCC rules prohibit cable operators from leasing integrated digital set-top boxes (which combine security with other functions) to subscribers beginning on July 1, 2006. The cable industry has urged the FCC to eliminate the ban because it would limit consumer choice and increase set-top box equipment costs. The FCC is conducting a rulemaking on the ban, but the FCC may not accept the industry's position.

- *Broadcast Flag*: FCC rules require cable operators to implement the "broadcast flag," a code embedded in digital broadcast programming that directs digital televisions and other consumer electronics equipment to block the redistribution of such content over the Internet. It is unclear how these rules, which are the subject of challenges at the FCC and in the courts, might affect the future design of cable-related equipment and home-networking technologies.

- *MDU Access*: The FCC has adopted rules to promote competition between existing cable operators and new multichannel video service providers in MDUs. However, the FCC declined to prohibit exclusive MDU service agreements.

- *Pole Attachments*: The Communications Act requires most utilities to provide cable systems with nondiscriminatory access to any pole, conduit, or rights-of-way controlled by the utility. The FCC has adopted rules that regulate the rates utilities may charge for such access.

- *Leased Access Channels*: The Communications Act requires a cable system with 36 or more activated channels to designate a significant portion of its channel capacity for commercial leased access by third parties to provide programming that may compete with services offered by the cable operator.

- *Obscenity*: The Communications Act prohibits the transmission of obscene programming over cable systems. Obscene programming typically consists of graphic sexual conduct that lacks any serious literary, artistic, political or scientific value. Some members of Congress and the FCC and some consumers have expressed concerns about the distribution of certain adult programming over cable systems. Additionally, some parties have proposed that new rules regulating "indecent" programming be imposed on cable operators. It is uncertain whether and when any such regulations will be adopted, or if enacted, the magnitude of the impact on the Company.

- *Copyright Regulation*. Cable operators carry television broadcast stations pursuant to a federal copyright compulsory license. The fees required by this compulsory license and the carriage rights under the license are subject to change by legislation or Copyright Office rulemakings. Cable operators also pay standard industry licensing fees for the music used in the programming they provide to their customers, including local origination programming, local advertising, and pay-per-view events. These fees have been the source of litigation between the cable industry and music performance rights organizations in the past, and we cannot predict whether such disputes may arise in the future.

- *Consumer Electronics Equipment Compatibility*: The FCC has adopted rules aimed at promoting the manufacture of "plug-and-play" TV sets that can connect directly to the cable network without the need for a set-top box. The rules, for example, direct cable operators to implement technical standards in their networks to support digital television sets, require operators to provide conditional access devices to subscribers who want to receive scrambled programming services on their digital television sets, and require operators to support home recording rights and copy protection rules for digital programming content. These rules are subject to further rulemakings at the FCC and to challenges in the courts, and we cannot predict the outcome of these rulemaking proceedings and challenges.

- *Program Access*: The Communications Act and the FCC's "program access" rules prevent satellite delivered programming services affiliated with cable operators from discriminating among competing multichannel video distributors. The rules also limit the ability of such programmers to offer exclusive programming arrangements to cable operators. The FCC has extended the exclusivity restrictions through October 2007. These rules apply to Empire Sports Network, a regional sports programming service in which we own an equity interest.

- *Ownership Limits*: The FCC has a pending rulemaking in which it is considering adopting an ownership cap that would limit the percentage of multichannel video subscribers that any single cable operator could serve nationwide (a federal appellate court struck down the previous 30% limit). The FCC is also assessing whether it should reinstate ownership limits on the number of affiliated programming services a cable operator may carry on its cable systems. (The previous limit of 40% of the first 75 channels was also struck down by the federal appellate court.) Our current ownership interests are well below the limits struck down by the court.

FRANCHISES

The Cable Communications Policy Act of 1984, as amended (the "1984 Cable Act"), provides that cable operators may not offer cable service to a particular community without a franchise unless the operator was lawfully providing service to the community on July 1, 1984 and the relevant franchising authority does not require a franchise. Our cable systems operate pursuant to franchises or other authorizations issued by governmental authorities, all of which are nonexclusive. As of December 31, 2003, we held approximately 2,700 franchises. Most of these franchises may be terminated prior to their stated expiration date by the relevant governmental authority, after due process, for breach of material provisions of the franchise.

Under the terms of most of our franchises, a franchise fee is payable to the governmental authority. These fees vary by franchise up to the federal law maximum of 5% of gross revenue derived from the provision of cable services over the relevant cable system. In addition, many franchises have both financial and non-financial requirements related to public, educational and government access channels and facilities.

The franchises are subject to periodic renewal. Generally, within the 30 to 36 month period prior to the applicable expiration date, we are required to notify the relevant franchising authority of our intent to seek formal 1984 Cable Act renewal of the franchise in order to benefit from the renewal protections and the procedures set forth in the 1984 Cable Act. If such notice is given, the 1984 Cable Act requires that the relevant governmental authority consider the franchise holder's renewal proposal on its own merits in light of the franchise holder's past performance and the community's cable-related needs and interests, without regard to the presence of competing applications. In renewal hearings, the franchising authorities consider and evaluate, pursuant to federal standards, whether the franchise holder has provided adequate service, substantially complied with franchise terms and offered a renewal proposal that is reasonable and meets the community's cable related needs and interests. The failure to meet any one of these standards may be grounds for denial of the franchise renewal. In connection with a renewal, the franchise authority may attempt to impose different and more stringent terms, the impact of which cannot be predicted.

At December 31, 2003, the majority of our franchises have been renewed, extended or are in the process of renegotiation, generally on modified terms. Such modified terms generally have not been, in the aggregate, materially adverse to us. We believe that the majority of our franchises are in good standing. As of December 31, 2003, we had approximately 230 franchises, representing approximately 710,000 of our subscribers, that have expired but for which notice of renewal was timely provided to the franchising authority and for which we are entitled to the renewal protections and procedures of the 1984 Cable Act. As of December 31, 2003, notice of renewal under the 1984 Cable Act had not been timely provided for: (i) approximately 71 franchises representing approximately 80,000 subscribers that have expired; and (ii) approximately 100 franchises representing approximately 254,000 subscribers that have less than 30 months until expiration. We are working to reduce the number of expired franchises.

Our failure to obtain renewals of our franchises, especially those in the major metropolitan areas where we have the most customers, could have a material adverse effect on our consolidated financial condition, results of operations or our liquidity, including our ability to comply with our debt covenants.

TELCOVE

Prior to January 11, 2002, the Company provided various telecommunications services through a majority-owned subsidiary, Adelphia Business Solutions, Inc. ("Adelphia Business Solutions"), which has since changed its name to TelCove. All references in this Annual Report to "TelCove" refer to both TelCove and Adelphia Business Solutions. Prior to January 11, 2002, TelCove provided facilities-based integrated communications services to business, governmental and educational customers in various markets within the United States. The Company previously owned approximately 78% of the outstanding common stock of TelCove and held approximately 96% of the total voting power in TelCove. On January 11, 2002, the Company distributed all of the shares of TelCove common stock owned by the Company to the holders of its Class A Common Stock and Class B Common Stock in the form of a dividend (the "TelCove Spin-off"). See Note 9, "TelCove," to the accompanying consolidated financial statements.

PARTNERSHIPS AND VENTURES

We have interests in a number of partnerships and ventures, the most significant of which are described below.

Consolidated Partnerships and Ventures

Comcast Partnerships

The Company and Comcast are partners in the two joint ventures described below. The results and operating statistics of these partnerships are consolidated in our financial statements:

- Century-TCI—We hold a 75% interest in the Century-TCI partnerships and manage their day-to-day operations, subject to certain specified rights of our partner, Comcast. As of December 31, 2003, the Century-TCI partnerships had approximately 721,000 basic cable subscribers, substantially all of which were in the Los Angeles area.

- Parnassos—We hold a 66.67% interest in the Parnassos partnerships and manage their day-to-day operations, subject to certain specified rights of our partner, Comcast. As of December 31, 2003, the Parnassos partnerships had approximately 434,000 basic cable subscribers, primarily in Western New York and Northeast Ohio. Through our interest in Parnassos, we also own an equity interest in Empire Sports Network, a regional sports programming service that carries the Buffalo Sabres hockey games, among other sports-related programming.

Tele-Media Ventures

We hold interests ranging from 75% to 82% in three ventures (the "Tele-Media Ventures") with certain affiliates of Tele-Media Corporation of Delaware ("TMCD") and manage their day-to-day operations. The results and operating statistics of these ventures are consolidated in our financial statements. As of December 31, 2003, the Tele-Media Ventures served approximately 145,000 basic cable subscribers located in Connecticut, West Virginia, Virginia, Florida and Maryland.

Each Tele-Media Venture was previously operated by TMCD pursuant to certain management agreements. In September 2003, Tele-Media Ventures entered into services agreements with TMCD that terminated and superceded the management agreements. These services agreements expired in accordance with their respective terms on March 31, 2004. Accordingly, as of such date, TMCD stopped providing any services to the Tele-Media Ventures and we assumed full day-to-day operations of the Tele-Media Venture cable systems.

Nonconsolidated Joint Venture

Century/ML Cable Venture

We hold a 50% interest in Century/ML Cable Venture ("Century/ML Cable") and manage its day-to-day operations, subject to certain specified rights of our partner, ML Media Partners, L.P. ("ML Media"). As of December 31, 2003, Century/ML Cable had approximately 140,000 basic cable subscribers located in Puerto Rico. The results and operating statistics of this joint venture are not consolidated in our financial statements.

On September 30, 2002, Century/ML Cable filed with the Bankruptcy Court a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code. This bankruptcy proceeding has been administered separately from the Chapter 11 Cases. Century/ML Cable is continuing to serve its subscribers in San Juan (through Century/ML Cable's subsidiary, which is not a debtor) and Levittown, Puerto Rico as a debtor and debtor-in-possession. Adelphia and Century/ML Cable are involved in litigation with ML Media concerning various matters. See Item 3, "Legal Proceedings — ML Media Litigation."

On March 17, 2004, ML Media presented a non-binding written indication of interest (the "Vaughn Indication of Interest") for the acquisition of 100% of Century/ML Cable by an investor group led by James C. Vaughn. The Vaughn Group has since indicated that it is not prepared to proceed with a transaction on the terms set forth in the Vaughn Indication of Interest, and has submitted a revised bid at a lower price. ML Media and the Company are engaged in a process exploring the potential sale of the venture to a third party, and from time to time have explored other potential transactions relating to

Century/ML Cable. See Note 21, "Commitments and Contingencies — Contingencies — Litigation Matters," to the accompanying consolidated financial statements.

EMPLOYEES

As of December 31, 2003, we had approximately 14,300 employees, approximately 800 of whom were covered by collective bargaining agreements at 28 locations. As of November 30, 2004, we had approximately 475 employees covered by collective bargaining agreements at 18 locations. We consider relations with our employees to be good.

CERTAIN SIGNIFICANT BUSINESS DEVELOPMENTS OCCURRING SINCE 1999

Acquisitions and Financings

From 1999 through 2001, the Company, under the direction of Rigas Management, undertook a series of acquisition and financing transactions that dramatically increased the size of the Company and its indebtedness. During this period, the Company grew from approximately 1,528,000 basic cable subscribers and $3,754 million of total debt at January 1999 to approximately 5,256,000 basic cable subscribers and $17,417 million of total debt (including liability under co-borrowing agreements, as described below) at December 2001. The Company issued Class A Common Stock and entered into significant new financing arrangements in connection with these acquisitions. The effects of the acquisitions have been included in our accompanying consolidated financial statements effective with the purchase date. See Note 8, "Acquisitions," to the accompanying consolidated financial statements. The table below summarizes the Company's acquisition activity during 2001, 2000 and 1999 (dollars in thousands):

Acquisition date	Entity acquired	Approximate number of basic cable subscribers acquired	Total purchase price	Liabilities assumed (excluding deferred tax liabilities)	Total consideration	Consideration paid per subscriber*
2001						
March 9, 2001	GS Communications	123,400	$ 723,032,000	$ 4,589,000	$ 727,621,000	$ 5,896
March 2, 2001	Benchmark II	56,500	203,516,000	7,685,000	211,201,000	3,738
May 1, 2001	CVC	47,800	141,664,000	31,242,000	172,906,000	3,617
December 17, 2001	Certain AT&T Cable Systems	119,000	309,092,000	165,000	309,257,000	2,599
Various 2001 acquisitions	All other	27,400	80,900,000	1,129,000	82,029,000	2,994
Total 2001		374,100	$ 1,458,204,000	$ 44,810,000	$ 1,503,014,000	$ 4,018
2000						
November 1, 2000	Cablevision	307,000	$ 1,484,224,000	$ 4,714,000	$ 1,488,938,000	$ 4,850
July 5, 2000	Prestige Communications and Prestige of North Carolina	176,000	1,094,191,000	9,271,000	1,103,462,000	6,270
Various 2000 acquisitions	All other	60,000	228,513,000	9,345,000	237,858,000	3,964
Total 2000		543,000	$ 2,806,928,000	$ 23,330,000	$ 2,830,258,000	$ 5,212
1999						
October 1, 1999	Century/Citizens	1,424,500	$ 2,520,654,000	$ 2,876,349,000	$ 5,397,003,000	$ 3,789
October 1, 1999	FrontierVision	705,800	937,634,000	1,313,080,000	2,250,714,000	3,189
October 1, 1999	Harron	294,800	1,216,566,000	49,225,000	1,265,791,000	4,294
October 1, 1999	Olympus	471,700	437,206,000	562,347,000	999,553,000	2,119
October 29, 1999	Benchmark I	35,000	277,305,000	291,000	277,596,000	7,931
December 7, 1999	Century-TCI	253,100	29,459,000	809,306,000	838,765,000	3,314
Various 1999 acquisitions	All other	135,400	496,036,000	71,186,000	567,222,000	4,189
Total 1999		3,320,300	$ 5,914,860,000	$ 5,681,784,000	$ 11,596,644,000	$ 3,493

* Consideration paid per subscriber is total consideration divided by approximate number of basic cable subscribers acquired.

During this period of acquisitions, the Company incurred substantial amounts of debt and sold a substantial amount of equity securities, including the following:

- bank debt, reaching $7,167 million in principal amount of senior secured debt under six different credit facilities (collectively, the "Credit Facilities"), $5,040 million of which was borrowed under the Co-Borrowing Facilities (as defined below);

- the issuance of $3,780 million in aggregate principal amount of debt securities under several series of senior notes or debentures;

- the issuance of $2,005 million in aggregate principal amount of convertible debt securities under two series of convertible subordinated notes, of which approximately $567 million aggregate principal amount was issued to Rigas Family Entities; and

- the issuance of three series of preferred stock with an aggregate liquidation value of $1,495 million.

During this period, to demonstrate compliance with financial covenants in its outstanding debt obligations, to overstate revenue and other measures of its operating results, to artificially reduce reported debt and increase reported equity, and generally to cover their misappropriation of corporate assets, Rigas Management allegedly engaged in sham transactions and record-keeping and other financial manipulations. These financial manipulations also allegedly included: issuing false and misleading consolidated financial statements and compliance certificates, inappropriately capitalizing operating expenses, engaging in improper transactions, and failing to reflect indebtedness for which the Company was liable on the Company's accounting records or in the Company's public disclosure. In addition, Rigas Management engaged in allegedly improper self-dealing transactions and allegedly utilized Company assets for their personal benefit.

As a part of these actions, Rigas Management established four credit facilities accessible by both the Company and certain Rigas Family Entities (such Rigas Family Entities and their subsidiaries are collectively referred to as the "Rigas Co-Borrowing Entities"), of which $4,576 million in principal amount (collectively, the "Co-Borrowing Facilities") was outstanding in June 2002. The Co-Borrowing Facilities allowed the Rigas Co-Borrowing Entities, based on the creditworthiness of the Company, to incur indebtedness beyond their ability to repay, as the Company was jointly and severally liable for all borrowing under each Co-Borrowing Facility regardless of whether the Company actually borrowed the total indebtedness. Under the terms of each of the Co-Borrowing Facilities, each of the Rigas Co-Borrowing Entities that were co-borrowers could borrow up to the entire amount of available credit under the applicable Co-Borrowing Facility.

During the period from 1999 to 2001, Rigas Management caused the Company to issue the following securities to certain Rigas Family Entities: 4,000,000 shares of Class A Common Stock, 14,220,889 shares of Class B Common Stock, $567.4 million aggregate principal amount of convertible subordinated notes and $100 million aggregate principal amount of TelCove senior subordinated notes. The Company believes that Rigas Management caused these securities to be issued to avoid dilution of the Rigas Family's direct and indirect ownership in the Company and to artificially remove indebtedness from the Company's balance sheet. Although the Company, during the tenure of Rigas Management, previously reported that the Rigas Family Entities paid cash for such securities, current management has determined that Rigas Management arranged these transactions to provide that the Rigas Family Entities assumed a portion of the co-borrowing indebtedness that appeared on the Company's books and records and, with the exception of $70 million paid in 1999, the Company's cash balance did not increase as a result of the issuance of the foregoing securities to the Rigas Family Entities.

Events Leading to the Installation of Interim Management and Commencement of the Chapter 11 Cases in 2002

Public Disclosure of the Co-Borrowing Facility Contingent Liabilities

On March 27, 2002, the Company disclosed that it was jointly and severally liable for more than $2 billion of borrowings under the Co-Borrowing Facilities attributed to various Rigas Co-Borrowing Entities that were not reflected as debt on the Company's publicly disclosed consolidated financial statements. A portion of the borrowings for which the Company was jointly and severally liable had been advanced to the Rigas Co-Borrowing Entities to finance purchases of the Company's securities by other Rigas Family Entities. In response to this disclosure, the SEC began an informal inquiry into the Co-Borrowing Facilities and asked the Company to provide it with further information and documentation relating to the facilities. The Company was informed in April 2002 that the SEC had issued a formal order of investigation in connection with the Co-Borrowing Facilities. In the wake of these disclosures, Adelphia failed to file its Annual Report on Form 10-K for the year ended December 31, 2001 (the "2001 Annual Report"). Also in April 2002, Adelphia received a NASD Staff Determination Letter indicating that Adelphia was not in compliance with certain NASD rules because of Adelphia's failure to timely file with the SEC its 2001 Annual Report and, consequently, that the Class A Common Stock was subject to delisting from the Nasdaq Stock Market.

Discovery of the Alleged Rigas Family Improper Acts, the Restatement and Related Events

The March 2002 disclosure of more than $2 billion in off-balance sheet liabilities led to the disclosure of numerous alleged improprieties of the Rigas Family. In early May 2002, the Company announced that it expected to restate its consolidated financial statements for the years ended December 31, 1999 and 2000, its quarterly consolidated financial statements for 2001 and possibly its consolidated financial statements for other periods. Deloitte & Touche LLP ("Deloitte"), the Company's independent auditors at that time, suspended its auditing work on the Company's consolidated financial statements for the year 2001. As further discussed below, Deloitte was terminated as the Company's auditors on June 9, 2002. In these circumstances, the Company was unable to: (i) deliver audited consolidated financial statements as required under its then outstanding Credit Facilities; (ii) comply with certain information delivery and other requests made pursuant to the Credit Facilities and the notes issued by the Company (the "Notes"); and (iii) file its 2001 Annual Report with the SEC. The failure to comply with these obligations resulted in default under these Credit Facilities and Notes. On May 15, 2002, the Company failed to make interest payments totaling approximately $38.3 million under certain of the Notes and a dividend payment of approximately $6.5 million on its Series E Mandatory Convertible Preferred Stock ("Series E Preferred Stock"). These payment defaults in turn triggered cross-defaults among certain of the Credit Facilities and Notes.

The Special Committee of the Board and the Covington & Burling Investigation

In May 2002, the four members of the Board who were not members of the Rigas Family, Dennis Coyle, Leslie Gelber, Erland Kailbourne and Pete Metros (collectively, the "Carryover Directors"), began to take action to deal with the Rigas Family's alleged misconduct. A special committee of the Board, composed solely of three Carryover Directors (the "Special Committee"), Dennis Coyle, Leslie Gelber and Erland Kailbourne, began to investigate the allegations against the Rigas Family. In furtherance of its investigation, the Special Committee had its counsel, the law firm of Covington & Burling, conduct an independent investigation of the allegations against the Rigas Family, which included an investigation of transactions between the Company, on the one hand, and certain members of the Rigas Family and certain Rigas Family Entities, on the other hand. The investigation was primarily conducted from May 2002 through March 2003. Covington & Burling based its investigation on numerous interviews and a review of documents. As a result of this investigation, Covington & Burling alleged certain misconduct on the part of the Rigas Family, including: (i) using Company funds and resources for personal expenses and purchases, including real estate; (ii) misusing the Company's centralized cash management system (the "CMS" or "Cash Management System"); (iii) obtaining the Company's securities without payment; (iv) manipulating the Company's financial disclosures, accounting records and operational data; and (v) causing the Company to incur debt that was not disclosed on the Company's consolidated financial statements.

The Rigas Agreement

On May 15, 2002, the Company announced that John J. Rigas agreed to resign as President and CEO of Adelphia and to step down as Chairman of the Board. At that time, one of the Carryover Directors, Erland Kailbourne, assumed the position of Chairman and became Adelphia's interim CEO (together with the Carryover Directors and certain officers engaged by the Company after May 2002, "Interim Management"). As further evidence of the Rigas' alleged improper acts was uncovered, by agreement dated May 23, 2002 (the "Rigas Family Agreement") the Special Committee obtained the agreement of certain members of the Rigas Family to resign from their positions as officers and directors of Adelphia. Subsequently, certain other Adelphia officers and employees who were alleged to have willfully participated in the alleged wrongdoings were dismissed. The Company has not assumed or rejected the Rigas Family Agreement in the Chapter 11 Cases (to the extent such agreement is executory).

The Alleged Rigas Improper Acts and Transactions with the Rigas Family and Rigas Family Entities

Adelphia's investigations in the period following the resignation of members of the Rigas Family from their positions as officers and directors of Adelphia, and other events, including the jury verdict of guilty against John J. Rigas and Timothy J. Rigas on, among other charges, bank fraud and securities fraud as described below, support a variety of allegations against Rigas Management, including those described below and in certain actions the Company has instituted against the Rigas Family and the Rigas Family Entities in the Rigas Civil Action (defined below). Rigas Management materially misstated the Company's operating performance, levels of debt and other significant information to, among other things, enhance the Company's reported financial results. Rigas Management failed to disclose the extent of this highly leveraged capital structure to investors, the Company's auditors and the SEC by failing to report the total borrowings under the Co-Borrowing Facilities for which the Company was jointly and severally liable. Rigas Management also failed to disclose that the Rigas Family and the Rigas Family Entities used a substantial portion of $2,800 million in indebtedness under the Co-Borrowing Facilities to purchase the Company's securities, and represented that the Company received cash or other consideration for such purchases when it did not. A short time after these disclosures, the Debtors commenced the Chapter 11 Cases.

Rigas Management commingled Company funds with funds from the Rigas Family Entities through operation of the Cash Management System. Rigas Management misused the CMS and the Rigas Family Entities to access money from the Company and the Company's credit for personal use. The improper operation of the CMS resulted in continuous commingling of funds among the participants in the CMS, which included Adelphia and its subsidiaries, the Rigas Family Entities and members of the Rigas Family. Among other transactions, Rigas Management allegedly misused the CMS to purchase cable and other assets for their personal benefit, including the acquisition of real estate, Adelphia debt and equity securities, and other assets.

The alleged misuse of the CMS by Rigas Management permitted the Rigas Family Entities to "settle" their debts to the Company through journal entries that purported to "reclassify" debt from the books of an Adelphia subsidiary to the books of one of the Rigas Family Entities even though the Adelphia subsidiary in fact remained jointly and severally liable for this debt even after "reclassification." Thus, Rigas Management deemed the Rigas Family Entities to have satisfied their obligations to the Company, even though the Company was not released from the underlying debt and did not receive equivalent consideration, if any, in return.

Other improprieties allegedly committed by Rigas Management included:

- failing to apply the proper accounting or provide required disclosures with respect to a variety of related party transactions, including (i) the Co-Borrowing Facilities pursuant to which certain subsidiaries of Adelphia and the Rigas Co-Borrowing Entities were jointly and severally liable, and (ii) purchases of Adelphia securities by the Rigas Family Entities;

- engaging in sham transactions and record keeping and other financial manipulations in order to (i) overstate revenue, understate expenses and manipulate other measures of the Company's operating results, (ii) artificially reduce reported debt and increase reported equity, and (iii) meet financial covenants of debt facilities;

- otherwise misappropriating and improperly using corporate assets; and

- covering up such misappropriations.

On July 8, 2004, the jury returned a partial verdict related to the criminal charges brought against certain members of the Rigas Family and certain co-conspirators (the "Rigas Criminal Action"). John J. and Timothy J. Rigas were each found guilty of conspiracy (one count), bank fraud (two counts), and securities fraud (15 counts) and not guilty of wire fraud (five counts). Michael C. Mulcahey was acquitted of all 23 counts against him. The jury found Michael J. Rigas not guilty of conspiracy and wire fraud but remained undecided on the securities fraud and bank fraud charges against him. On July 9, 2004, the court declared a mistrial on the remaining charges to those charges. The bank fraud charges against Michael J. Rigas have since been dismissed with prejudice, but the DoJ has requested that a new trial date be set to retry Michael J. Rigas on the securities fraud charges. On November 1, 2004, Michael J. Rigas' post-trial motion for dismissal of all charges was denied. The post-trial motions of John J. and Timothy J. Rigas in which they sought to overturn the guilty verdicts were denied on November 15, 2004. Both have stated that they intend to appeal the guilty verdicts. A hearing is scheduled for January 5, 2005, at which time the District Court is expected to consider the DoJ's request to set a retrial date for Michael J. Rigas. The sentencing of John J. Rigas and Timothy J. Rigas is currently scheduled for February 23, 2005.

Nasdaq Delisting, Dismissal of Deloitte and Determination to Seek Chapter 11 Protection

In connection with the Company's failure to timely file the 2001 Annual Report with the SEC, the Class A Common Stock was delisted by the Nasdaq Stock Market on June 3, 2002, triggering obligations under certain indentures to repurchase certain of the Notes at 100% of their principal amount plus accrued and unpaid interest. On June 17, 2002, the Company failed to make interest payments totaling approximately $55.4 million under certain of the Notes.

The Company dismissed Deloitte as its independent auditors on June 9, 2002. Based on the Company's decision to restate certain of its historical consolidated financial statements, Deloitte subsequently withdrew the audit report it had issued with respect to the Company's consolidated financial statements. As described below, in November 2002, the Company brought an action against Deloitte for professional negligence, breach of contract, fraud and other wrongful conduct in connection with its work auditing the Company's consolidated financial statements during the time of the Rigas Family's alleged wrongdoing (the "Deloitte Litigation"), and this action is currently pending. See Item 3, "Legal Proceedings – The Company's Lawsuit Against Deloitte."

As a consequence of Rigas Management's alleged misrepresentations in the Company's books, records and public disclosures, among other issues, the Company had no borrowing availability under its various Credit Facilities and no access to traditional sources of liquidity in the capital markets. In addition, the Company's efforts to generate liquidity through the sale of certain of its assets were unsuccessful. Moreover, the Company faced governmental agency investigations (as more fully described below), mounting litigation and the risk of collection and foreclosure actions by creditors. Accordingly, the Company determined that the continued viability of its businesses required immediate access to debtor-in-possession financing, a respite from creditors to resolve its financial reporting and related issues and the restructuring of its highly leveraged capital structure that would only be available through the filing of a voluntary petition for protection under the Bankruptcy Code.

Events Occurring During the Pendency of the Chapter 11 Cases under Interim Management and Current Management

Chapter 11 Filing and Events in the Chapter 11 Cases

On June 25, 2002, the Debtors filed voluntary petitions to reorganize under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Previously, on June 10, 2002, Century Communications Corp. ("Century") filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. The Debtors are currently operating their businesses as debtors-in-possession under Chapter 11. See Note 2, "Bankruptcy," to the accompanying consolidated financial statements.

On July 11, 2002, the United States Trustee for the Southern District of New York (the "U.S. Trustee") appointed a committee to represent the interests of unsecured creditors of the Debtors (the "Creditors Committee"). On July 31, 2002, the U.S. Trustee appointed a committee to represent the interests of equity holders of the Debtors (the "Equity Committee" and, together with the Creditors Committee, the "Committees").

Under the Bankruptcy Code, actions to collect pre-petition indebtedness, as well as most other pending litigation, are stayed and other contractual obligations against the Debtors generally may not be enforced. Substantially all pre-petition liabilities are subject to settlement under a plan of reorganization to be voted upon by holders of claims against and equity interests in the Debtors and approved by the Bankruptcy Court.

In connection with the Chapter 11 filings, Adelphia and certain of its subsidiaries (the "Loan Parties") entered into a \$1,500 million debtor-in-possession credit facility (as amended, the "DIP Facility"). On August 23, 2002, the Bankruptcy Court approved the DIP Facility, and on September 3, 2002, the Loan Parties consummated the DIP Facility. On May 10, 2004, the Loan Parties entered into a \$1,000 million extended debtor-in-possession credit facility (the "Extended DIP Facility"), which was approved by the Bankruptcy Court on May 6, 2004 and which amends and restates the DIP Facility in its entirety. The terms of the Extended DIP Facility provide for, among other things, (i) the extension of the maturity date from June 25, 2004 to March 31, 2005 and (ii) a decrease in the aggregate commitments of the lenders from \$1,500 million to \$1,000 million as the Company no longer required a facility in the amount of \$1,500 million. See Note 14, "Debt," to the accompanying consolidated financial statements.

Claims Process and Bar Dates

On July 31, 2003, the Debtors each filed with the Bankruptcy Court their Schedules of Liabilities, Schedules of Executory Contracts and Unexpired Leases and Statements of Financial Affairs. Amendments to Schedules of Liabilities and Executory Contracts have since been filed by the Debtors from time to time.

The Bankruptcy Court established a bar date for filing proofs of claim against the Debtors' estates of January 9, 2004. A bar date is the date by which proofs of claims must be filed if a claimant disagrees with how its claim appears on the Debtors' Schedules of Liabilities, subject to certain limited exceptions. As of the bar date, over 18,000 proofs of claim asserting approximately \$3.2 trillion in claims had been filed, including duplicative claims, but excluding any estimated amounts for unliquidated claims. The Debtors currently are in the process of reviewing, analyzing and reconciling the scheduled and filed claims. The Debtors have filed one omnibus objection to claims and anticipate filing additional omnibus objections addressing a substantial portion of the proofs of claims filed. At present, the ultimate number and allowed amounts of such claims are not determinable, and the Debtors expect that the claims resolution process will take significant time to complete.

Rejection and Amendment of Executory Contracts and Unexpired Leases

As of the commencement of the Chapter 11 Cases, the Debtors were party to approximately 1,000 unexpired real property leases and approximately 21,000 executory contracts. The Debtors are performing an extensive review and analysis of such leases and executory contracts in order to reduce operating costs and expenses through the rejection of contracts and leases as authorized under the Bankruptcy Code.

Procedures for Settlement of Disputed Claims

With the review of the proofs of claim, the Debtors have commenced settlement discussions with certain creditors in an effort to compromise and/or settle their claims in accordance with the settlement procedures protocol authorized by order of the Bankruptcy Court dated February 9, 2004 (the "Settlement Procedures Order").

The Settlement Procedures Order provides for the expedited claims settlement procedure based on either (i) the proposed settlement amount agreed upon by the Debtors and the claimant (the "Settlement Amount") and/or (ii) the difference between the allowed unsecured claim listed on the Debtors' Schedules of Liabilities and the amount listed on the claimant's proof of claim (the "Claim Difference").

If the Settlement Amount or Claim Difference is less than or equal to $1.5 million, the Debtors are required to provide written notice of the proposed settlement to the Debtors' key constituents pursuant to the terms of the Settlement Procedures Order. If no objections are received within ten days of sending such notice, the Debtors are authorized to settle the claim without prior approval of the Bankruptcy Court. If the Settlement Amount or Claim Difference is greater than $1.5 million but less than $5 million, the Settlement Procedures Order outlines procedures for providing notice to the Debtors' key constituents through the filing of a proposed order by the Debtors. The Bankruptcy Court may then enter such an order approving the proposed settlement of the claim without a hearing, provided no objections are received. If objections are received, the Bankruptcy Court may require the Debtors to seek approval of the settlement by way of a motion. If the Settlement Amount is equal to or greater than $5 million, the Debtors will also be required to seek Bankruptcy Court approval of the settlement. In addition, for any compromise or settlement of claims by or against any former or current insider of the Debtors or any of the defendants in the case Adelphia Communications Corp., et al. v. Bank of America, N.A. et al., the Debtors must request the Bankruptcy Court's approval of such compromise and settlement by way of a motion. Except if other authority for immediate payment exists pursuant to other orders entered by the Bankruptcy Court, amounts with respect to any of the claims that are settled will be paid only in accordance with a confirmed plan of reorganization in the Debtors' Chapter 11 Cases.

The Plan of Reorganization

On February 25, 2004, the Debtors filed the proposed Stand-Alone Plan and related draft disclosure statement with the Bankruptcy Court. The Debtors believe that there is substantial opposition to the terms of the Stand-Alone Plan as filed on February 25, 2004 from many of their constituents. The Debtors are in the process of amending the Stand-Alone Plan to address the opposition of certain constituents. In addition, if the Stand-Alone Plan is rejected by certain classes of claims or equity interests, the Bankruptcy Court may determine not to confirm it.

To successfully emerge from bankruptcy, the Debtors must, among other things:

- obtain an order of the Bankruptcy Court approving a disclosure statement as containing "adequate information;"
- solicit acceptance of a plan of reorganization from the holders of claims and equity interests in each class that is impaired and not deemed by the Bankruptcy Court to have rejected the plan of reorganization;
- obtain an order from the Bankruptcy Court confirming the plan of reorganization; and
- consummate the plan of reorganization.

To complete these steps, the Bankruptcy Court must first hold a hearing to determine if the disclosure statement contains adequate information. No date for such hearing to approve the disclosure statement has been scheduled at this time. Second, before it can issue a confirmation order, the Bankruptcy Court must find that either (i) each class of impaired claims or equity interests has accepted the plan of reorganization or (ii) the plan of reorganization meets the requirements of the Bankruptcy Code to confirm the plan of reorganization over the objections of dissenting classes. In addition, the Bankruptcy Court must find that the plan of reorganization meets certain other requirements specified in the Bankruptcy Code. Confirmation of a plan of reorganization would resolve, among other things, the Debtors' pre-petition obligations, determine the revised capital structure of the newly reorganized Company and provide for the Company's corporate governance following emergence from bankruptcy.

Sale Process

On April 22, 2004, Adelphia announced that it intended to pursue a possible sale of the Company while simultaneously continuing to prepare to emerge from bankruptcy as a stand-alone company pursuant to the proposed Stand-Alone Plan. The Company is pursuing the dual track process to determine which alternative is in the best interest of the Debtors' constituents in the Chapter 11 Cases.

On July 14, 2004, Adelphia announced that it had engaged UBS Securities LLC and Allen & Company LLC (collectively, the "M&A Advisors") as financial advisors and Sullivan & Cromwell LLP as legal advisor in connection with a possible sale of the Company. On July 21, 2004 and September 14, 2004, the Bankruptcy Court approved Adelphia's engagement of Sullivan & Cromwell LLP as legal advisor and the M&A Advisors as financial advisors, respectively.

In consultation with the M&A Advisors, Adelphia developed a two-phase process for the sale process in one or a series of transactions: (i) a solicitation of initial indications of interest in a possible acquisition of the Company or one or more designated clusters of assets ("Phase I"); and (ii) a formal bid process in which selected bidders from Phase I have been invited by Adelphia to submit final and binding offers to acquire the Company or one or more designated clusters of assets ("Phase II"). The clusters were configured and designed to create a competitive dynamic by (i) attracting the interest of multiple bidders, including members of the private equity and broader financial community, for one or more clusters, (ii) making cable systems suitable to strategic buyers on a less than entire Company basis, and (iii) maintaining flexibility by providing the Debtors with the option of confirming the Stand-Alone Plan or confirming a plan of reorganization involving the sale of all of the Debtors' assets, or confirming a plan of reorganization involving the sale of some but not all clusters and the emergence on a stand-alone basis of the remaining assets of the Debtors.

Prior to Phase I, the M&A Advisors engaged in informal discussions with potential bidders and also developed a list of potential bidders, each of which was sent a form non-disclosure agreement ("NDA").

On September 21, 2004, Adelphia formally launched Phase I, and each potential bidder who had executed an NDA received a confidential information memorandum describing the Company's business, assets and related items and instructions on submitting a non-binding indication of interest. Potential bidders were invited to submit a non-binding indication of interest with respect to the Company as a whole, or one or more of the Company-designated clusters of assets.

Based on the non-binding indications of interest, on November 1, 2004, the Company invited qualified bidders to participate in Phase II in accordance with the bidding procedures approved by the Bankruptcy Court on October 22, 2004 (the "Bid Procedures Order"). The Bid Procedures Order, among other things, (i) established the method for the submission of bids in Phase II for all or a portion of the Company in a one-step auction, (ii) authorized Adelphia to agree to a no-shop requirement that prohibits Adelphia and its professionals from soliciting or encouraging (other than with respect to a plan of reorganization not involving the sale of any material amount of assets of the Debtors) third party proposals with respect to at least 10% of the assets that are the subject of a transaction with the successful bidder, except as required by the Board of Directors in the exercise of its fiduciary duties, and (iii) authorized under certain conditions the awarding of a breakup fee to the successful bidder based on a percentage of the successful bidder's purchase price if either the successful bidder or Adelphia terminates the purchase agreement between the parties. Adelphia has established January 2005 as the deadline for the submission of final, legally-binding bids; however, Adelphia has reserved the right to change the deadline if such a change is deemed to be warranted.

Exit Financing Facility

We have received commitments from four financial institutions for an $8,800 million fully-committed exit financing facility (the "Exit Financing Facility") that will be used to finance cash payments to be made under our proposed Stand-

Alone Plan. This facility will include $4,750 million of senior secured credit facilities, a $3,300 million bridge facility and a $750 million secured revolving credit facility that would be available following our emergence from bankruptcy. The commitments were approved by the Bankruptcy Court on June 30, 2004. Funding under the commitments is subject to certain other conditions.

Appointment of the New Board

As discussed above, prior to May 2002, the Rigas Family held a majority of the positions on the Board. At that time, the Board consisted of John J. Rigas, Michael J. Rigas, Timothy J. Rigas, James P. Rigas, Peter L. Venetis (the son-in-law of John J. Rigas) and the four Carryover Directors. In May 2002, John J., Michael J., Timothy J. and James P. Rigas resigned from the Board and, in June 2002, Peter L. Venetis resigned from the Board. During the pendency of the Chapter 11 Cases, Adelphia has appointed seven new directors, and all of the Carryover Directors have resigned.

Adelphia's seven new directors, the first six of whom have been determined by the Board to be independent pursuant to the listing standards of Nasdaq, are: (i) E. Thayer Bigelow, former President and CEO of Time Warner Cable Programming, Inc. and former Acting CEO of Courtroom Television Network LLC; (ii) Rodney Cornelius, a former cable industry executive and investor; (iii) Anthony Kronman, Sterling Professor of Law and former Dean of Yale Law School; (iv) Philip Lochner, former SVP and Chief Administrative Officer of Time Warner, Inc. and a former Commissioner of the SEC; (v) Susan Ness, a former Commissioner of the FCC; (vi) Kenneth Wolfe, former Chairman and CEO of Hershey Foods Corporation; and (vii) William Schleyer, CEO of Adelphia.

Appointment of New Management

Effective March 18, 2003, Adelphia appointed William T. Schleyer to serve as its new CEO and Chairman and Ron Cooper to serve as its new President and COO. Mr. Schleyer replaced Erland Kailbourne, the interim CEO since May 2002. On March 7, 2003, the Bankruptcy Court entered an order approving the employment of Messrs. Schleyer and Cooper.

Shortly after the appointments of Messrs. Schleyer and Cooper, the Board and these new officers hired a new senior management team, including Vanessa A. Wittman, as Executive Vice President and Chief Financial Officer ("CFO"), Brad Sonnenberg, as Executive Vice President, General Counsel and Secretary, and Scott D. Macdonald, as Chief Accounting Officer ("CAO"). Each of these officers has in turn hired new executives who report to them. These executives, among other things, have implemented new internal controls and procedures designed to prevent a recurrence of the alleged improper acts that occurred during the tenure of Rigas Management.

Headquarters Move

The Board authorized the relocation of our corporate headquarters to Greenwood Village, Colorado in January 2003, subject to confirmation of the appointments of Messrs. Schleyer and Cooper, to better enable us to attract and assemble a high-caliber management team with the strong cable experience needed to lead an effective restructuring effort. The Bankruptcy Court approved the relocation of the corporate headquarters on March 28, 2003. Despite the relocation of our corporate headquarters, we maintain a significant portion of our corporate operations in Coudersport, Pennsylvania.

Restructuring of the Company's Businesses

Following the commencement of the Chapter 11 Cases, we implemented a process to assess and restructure our businesses and assets. We, together with our financial and legal advisors, have reviewed and analyzed our businesses, owned properties, contracts and leases to determine if any of these assets should be divested during the Chapter 11 Cases.

Asset Dispositions

We have conducted a comprehensive review of our non-core businesses and real estate holdings to determine if any of our or our subsidiaries' assets should be sold. In furtherance thereof, the Company and its advisors have engaged in an asset disposition program. On September 17, 2002, the Bankruptcy Court entered an order that, among other things, authorized and established procedures for the sale of certain property and interests free and clear of all liens, claims and encumbrances for a sale price in each case of up to $1 million. In addition, prior to effecting any such sale, the Debtors must provide prior notice of such sale to certain specified parties.

Buffalo Sabres

The Company made an aggregate of approximately $187 million in loans and advances, including accrued interest, to Niagara Frontier Hockey, L.P., a Delaware limited partnership owned by the Rigas Family ("NFHLP"), which owned the Buffalo Sabres hockey team.

On January 13, 2003, NFHLP and certain of its subsidiaries (the "NFHLP Debtors") filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the Western District of New York (the "NFHLP Bankruptcy Court"). Certain of the NFHLP Debtors entered into an asset purchase agreement with Hockey Western New York LLC in March 2003 with respect to the sale of certain assets and the assumption of certain liabilities of the NFHLP Debtors. The sale was consummated on April 23, 2003. In connection with this transaction and the joint plan of liquidation of the NFHLP Debtors, which was approved by the NFHLP Bankruptcy Court on October 3, 2003, we are to receive, among other things, a distribution of certain causes of actions against the Rigas Family, Deloitte and others, certain contingent residual interests in assets of the estates of the NFHLP Debtors and releases from certain financial obligations. We cannot predict what, if any, recovery we will receive from these interests at this time.

TelCove

On March 27, 2002, TelCove and its direct subsidiaries commenced cases under Chapter 11 of the Bankruptcy Code, and on June 18, 2002 certain indirect subsidiaries of TelCove commenced cases under Chapter 11 of the Bankruptcy Code. On December 19, 2003, the Court confirmed TelCove's Modified Third Amended Joint Plan of Reorganization Under Chapter 11 of the Bankruptcy Code, dated December 18, 2003 (the "TelCove Plan"). The effective date of the TelCove Plan occurred on April 7, 2004.

On February 21, 2004, the Company and TelCove executed a global settlement agreement (the "Global Settlement") which resolves, among other things, certain of the parties' claims against each other. Pursuant to the Global Settlement which was consummated on April 7, 2004, we transferred to TelCove certain settlement consideration, including approximately $60 million in cash plus an additional payment of up to $2.5 million related to certain outstanding payables, as well as certain vehicles, real property and intellectual property licenses used in the operation of TelCove's businesses. The Global Settlement also provides for the transfer by us to TelCove of certain CLEC market assets, together with the various licenses, franchises and permits related to the operation and ownership of such assets, and for the execution of various annexes to the Global Settlement (the "Annex Agreements"), which provide, among other things, for (i) a five-year business commitment to TelCove by us; (ii) future use by TelCove of certain fiber capacity in assets owned by us; (iii) the mutual release by the parties from any and all liabilities, claims and causes of action which either party has or may have against the other party; and (iv) TelCove's management, pending transfer, of our active CLEC markets pursuant to a master management agreement that amended and superceded pre-existing management agreements between us and TelCove. On March 23, 2004, the Bankruptcy Court approved the Global Settlement. We recorded a $98 million liability during the fourth quarter of 2003 to provide for the estimated costs to be incurred by us in connection with the Global Settlement.

On August 20, 2004, the Company paid TelCove an additional $2.5 million pursuant to the Global Settlement in connection with the resolution and release of certain claims. On August 21, 2004, the CLEC market assets were transferred to TelCove.

Other

The Company has entered into agreements to sell its interest in its Venezuelan and Colombian cable systems, as well as substantially all of its interest in its home security business, and has filed motions seeking Bankruptcy Court approval of such sales. The Company is also marketing its interest in its Brazilian cable systems and certain other non-core assets for sale.

RISK FACTORS

Risk Factors Relating to Legal Matters

Adelphia is subject to civil claims filed by the SEC and an ongoing investigation by the Department of Justice.

On July 24, 2002 the SEC filed a civil enforcement action (the "SEC Civil Action") against Adelphia, certain members of the Rigas Family and others, alleging various securities fraud and improper books and records claims arising out of actions allegedly taken or directed by certain members of the Rigas Management (none of whom remain with the Company). This case is pending in the District Court and settlement discussions are in progress among Adelphia and representatives of the SEC and the DoJ. The SEC's proof of claim filed in the Chapter 11 Cases includes claims for penalties, disgorgement and prejudgment interest in an unspecified amount. The staff of the SEC has told our advisors that its asserted claims for disgorgement and civil penalties under various legal theories could amount to billions of dollars. The SEC Civil Action is stayed by order of the District Court until April 29, 2005. The SEC Civil Action is not subject to the automatic stay provisions of the Bankruptcy Code. In addition, the Company remains subject to continuing investigation and further action by the DoJ. The outcome of the SEC Civil Action and the investigation by the DoJ cannot be determined at this time. The outcome of the SEC Civil Action could include civil penalties, disgorgement, and the imposition of mandatory governance guidelines or other restrictions imposed on Adelphia. The outcome of the investigation by the DoJ could include the criminal indictment of Adelphia and/or the Managed Cable Entities, monetary remedies, including fines and restitution, criminal and/or civil forfeiture, and remedies restricting the Company's conduct. Adelphia has offered $300,000,000 in value to settle the SEC Civil Action and to resolve the DoJ's ongoing investigation of the Company, of which $125,000,000 would be funded from potential proceeds from litigation by or on behalf of Adelphia. The Creditors' Committee has filed an adversary proceeding seeking, in effect, to subordinate the SEC's claims based on the SEC Civil Action.

The Company cannot predict the ultimate resolution of the SEC Civil Action or the DoJ investigation or determine the ultimate effect on its financial condition or results of operations. Although the Company cannot estimate its total liabilities in these matters, the Company has recorded a $175,000,000 reserve in the accompanying consolidated financial statements reflecting the aforementioned offer.

Other governmental agencies, such as the FCC or LFAs might also take action against the Company in response to or based on the outcome of, or developments in, the SEC Civil Action or the investigation by the DoJ. The outcome of, or developments in, the SEC Civil Action and the investigation by the DoJ could have a material adverse effect on the Company, including possible liquidation of the Company.

We are unable to produce audited financial statements for certain of our subsidiaries, and such subsidiaries will be unable, therefore, to comply with applicable law.

Because of record keeping and financial reporting practices employed during the tenure of Rigas Management, we cannot obtain the data required to produce reliable financial statements for certain of our subsidiaries that are reporting companies under the Exchange Act due to issues associated with intercompany transfers of assets during the tenure of Rigas Management. As a result, certain of our subsidiaries will not be able to comply with the rules and regulations of the Exchange Act. Failure by these subsidiaries to comply with the Exchange Act could subject them to civil and criminal penalties. In addition, the inability to produce such financial statements may increase the likelihood of substantive consolidation of our Chapter 11 Cases, which could materially adversely alter the recovery to creditors of our subsidiaries from the recovery contemplated by the Stand-Alone Plan.

We may not obtain full ownership of the Managed Cable Entities and may not retain operational control of the Managed Cable Entities.

We have filed a civil action against certain members of the Rigas Family and certain Rigas Family Entities with respect to, among other things, the funds borrowed by the Rigas Family Entities under the Co-Borrowing Facilities for which the Company is jointly and severally liable and which we anticipate will be satisfied by us under the terms of any plan of reorganization. We may not be successful in this litigation or, if successful, may obtain relief that does not include the transfer of ownership of the Managed Cable Entities to us. The timing of a resolution of this litigation is also uncertain. In addition, other claimants against the Rigas Family and the Rigas Family Entities, including the Internal Revenue Service (the "IRS"), the DoJ and securities class action plaintiffs, may seek to attach the assets or equity interests of the Managed Cable Entities in satisfaction of their claims. On December 10, 2004, the DoJ filed an application for a preliminary order of forfeiture finding John J. Rigas and Timothy J. Rigas jointly and severally liable for personal money judgments in the amount of $2,533,000,000. If we do obtain a judgment against the Rigas Family or the Rigas Family Entities, such persons may not have sufficient assets to satisfy the judgment. In addition, although we currently have operational control of the Managed Cable Entities, we may not continue to maintain operational control of the Managed Cable Entities. The failure to acquire ownership of the Managed Cable Entities and to maintain operational control would have a material adverse effect on the Company.

We are not in compliance with the Exchange Act.

We are not current in our periodic reporting obligations under the Exchange Act. Failure to comply with the Exchange Act affects the ability of our securityholders to utilize the safe harbor provided by Rule 144 under the Securities Act, lengthens the period of time we are precluded from using a short-form registration statement (which permits quicker access to the capital markets), and could subject us to civil and criminal penalties.

Risk Factors Relating to Our Business

Our basic cable subscribers have declined in recent years, and such decline is continuing.

We lost approximately 106,000 basic cable subscribers in 2003, and we expect materially greater subscriber loss in 2004. This decline was driven primarily by competitive pressures from DBS providers, brand impairment and the implementation of new packaging with increased pricing. In addition, seasonality issues (college communities, warm/cold weather community migrations) can increase churn and subscriber loss. Also, a significant portion of our subscribers on promotions disconnect their service when the promotion expires. Increases in churn result in higher operating costs through increased service calls, higher customer call volume and added marketing expense. If we are not able to stop or slow the decrease in basic cable subscribers, the loss of such subscribers may result in a material adverse effect on our financial condition and results of operations.

Our average revenue per unit lags behind industry averages, and we may not be able to narrow the difference.

Although our average revenue per unit ("ARPU") increased approximately 12% in fiscal year 2003 over our ARPU in fiscal year 2002, we believe that as of December 31, 2003, our ARPU was below the industry average. Future ARPU growth depends upon several factors, including basic video price increases and continued growth in HSI subscribers at historic pricing levels. Competitive pressures, principally from DBS and DSL providers, may limit our ability to increase or maintain video and HSI prices and may cause us to match greater promotional offerings from other video and HSI service providers. As a result of these competitive pressures, our ARPU increases may not continue and we may not be able to achieve ARPU levels obtained by other major cable companies.

Increases in ARPU may not result in improvement to our financial condition and results of operations.

Although we have made progress in increasing overall ARPU in 2003, due to increased expenses necessary to improve the performance of our cable operations, these ARPU increases have not resulted in equivalent improvements in our financial condition and results of operations. While we believe that these near term investments in operations will, over time, result in more efficient operations and improved customer service, subsequent improvements in ARPU may not result in corresponding improvements in our financial condition and results of operations.

Our business is subject to extensive governmental legislation and regulation, which could materially adversely affect our business by increasing our expenses or limiting our pricing flexibility.

Various laws and regulations affect our business. The key regulatory risks currently facing us are set forth below:

- Pricing. The Communications Act and the FCC's regulations and policies limit the prices that cable systems may charge for basic services and equipment in communities that are not subject to effective competition, as defined by federal law. Some parties have proposed imposing new regulations on the pricing and packaging of cable services. The FCC and the DoJ have certain cable pricing matters under review. We cannot now predict the outcome of these pricing-related initiatives.

- Must-Carry. Cable companies are currently subject to a requirement that they carry, without compensation, the programming transmitted by most commercial and non-commercial local television stations which have not elected retransmission consent. The FCC is now considering whether to expand these must-carry obligations, as broadcasters transition from analog to digital transmission technologies, to include both broadcasters' analog and digital signals during the transition and/or broadcasters' digital multicast services. Any decision by the FCC to adopt such expanded must-carry requirements would limit our flexibility in allocating our cable spectrum to other video and non-video services.

- HSI. The FCC has classified high-speed cable Internet service as an "interstate information service," which has historically meant that fewer regulations apply to the provision of this service. However, the FCC's decision was vacated by a federal appellate court. If this decision, which has been stayed pending a decision by the United States Supreme Court, is not overturned, it could significantly impact cable operators' regulatory obligations in providing cable HSI service, including possible pricing and resale restrictions and obligations to allow third party ISP access to our cable networks. We may also have to incur material costs to comply with such regulatory obligations. Moreover, even if the FCC's decision is upheld, the FCC is still considering whether to impose any federal regulations on high-speed cable Internet service and whether to permit LFAs to impose fees or other requirements on such service.

- VoIP. There is considerable uncertainty surrounding the regulatory treatment of VoIP service at the federal and state levels, and regulatory and related judicial proceedings on the issue may ultimately affect our VoIP plans. The FCC recently initiated a rulemaking to consider regulatory issues related to VoIP, and decisions by the FCC and the courts may affect our VoIP plans.

Increased regulation or changes in existing regulation may require us to change our business practices and may increase the costs of providing services to our customers, which could have a material adverse effect on the Company's financial condition and results of operations.

Cable operators are also subject to other requirements covering a variety of operations areas, such as technical standards and customer service requirements. In addition, many aspects of these regulations currently are the subject of judicial proceedings and administrative or legislative proposals. There also are ongoing efforts to amend or expand the state and local regulation of some cable systems, which may compound the regulatory risks we already face. We cannot predict whether in response to these efforts any of the states or localities in which we now operate will expand the regulation of our cable systems in the future or how they will do so.

In addition, we are required to obtain federal, state and local licenses and other authorizations in connection with our offering of communications services. We may not be able to obtain these licenses and authorizations in a timely manner, or at all, and conditions that are unfavorable to us could be imposed upon these licenses or authorizations. We are subject to risks associated with the regulation of our communications services by the FCC and state and/or local authorities. Furthermore, telecommunications companies generally are subject to significant regulation as well as higher fees for pole attachments.

We may not be able to pass increases in our programming costs on to our customers, which could materially adversely affect our financial condition and results of operations.

Programming costs have historically been, and are expected to continue to be, our largest single expense item. In recent years, the cable and satellite video industries have experienced a rapid escalation in the cost of programming, particularly sports programming. This escalation may continue, and we may not be able to pass programming cost increases on to our customers due to competitive constraints. In addition, as we upgrade the channel capacity of our systems and add programming to our basic, expanded basic and digital programming tiers, we may face increased programming costs. This, in conjunction with the additional market constraints on our ability to pass programming costs on to our customers, may have a material adverse effect on our financial condition and results of operations.

We are also party to retransmission consent agreements with broadcasters under which we are required to obtain the consent of the broadcasters prior to retransmitting broadcast programming to our subscribers. We expect broadcasters to increasingly make demands for financial and other concessions in order to obtain their consent, and we may not be able to reach agreements with these broadcasters to obtain retransmission consents on acceptable terms, if at all. We cannot predict the magnitude of the financial effect should we fail to obtain retransmission consents on reasonable terms and be unable to provide certain broadcast programming to our subscribers.

Competition from program distributors and other communications providers could adversely affect the future results of our operations.

The broadband communications industry in which we operate is highly competitive. Our cable systems' video services compete with a number of different sources, principally DBS providers that provide information, news and entertainment programming. DBS providers may offer a broader channel selection, better picture quality and lower prices than the video services of our cable systems and are subject to substantially less regulation than our cable systems. In addition, several of the RBOCs have recently announced plans to upgrade their networks and provide video services to consumers. Our HSI services compete with DSL services and dial-up services provided by telephone companies. To the extent our competitors are able to bundle the services they offer to consumers with other services, such as bundling video, HSI and/or wireless telephony services, it will be more difficult for us to sell our services to consumers who are purchasing these bundled services from our competitors, as well as retain current customers to whom such competing bundles are available. Many of the companies with which we compete have better financial resources, greater access to financing, more operational experience, better brand name recognition and less extensive regulatory obligations. This competition may adversely impact our ability to attract and retain subscribers, generate incremental revenue through upgrades and selling of advanced services and increase or maintain prices for our services, any of which could have a material adverse effect on our financial condition and results of operations.

Our cable systems are operated under franchises that are subject to non-renewal or termination.

Our cable systems generally operate pursuant to franchises that are typically granted by a municipality or other state or local government that controls the public rights-of-way. Many franchises establish comprehensive requirements, including as to documentation, facilities and services, and specific customer service standards, and impose monetary penalties for non-compliance. At any given time, various of our franchises may be out of compliance with such requirements. In many cases, franchises are terminable if the franchisee fails to comply with material provisions set forth in the franchise agreement. Franchises generally are granted for fixed terms and must be periodically renewed. LFAs may resist granting or deny a renewal or transfer of a franchise if either past performance or compliance or the prospective operating proposal is considered inadequate. LFAs often demand concessions or other commitments as a condition to renewal or transfer, which concessions or other commitments have been and may continue to be costly.

We have a number of franchises that are nearing expiration or have already expired. Although the majority of such franchises are entitled to the 1984 Cable Act formal renewal procedures and protections, a number of such franchises are not. As of December 31, 2003, we had approximately 230 franchises, representing approximately 710,000 basic cable subscribers that have expired, but for which notice of renewal was timely provided to the franchising authority and for which we are entitled to the renewal protections and procedures of the 1984 Cable Act. However, notice of renewal under the 1984 Cable Act was not timely provided for: (i) approximately 71 franchises representing approximately 80,000 subscribers that had expired; and (ii) approximately 100 franchises representing approximately 254,000 subscribers that had less than 30 months until expiration. If a franchise is terminated or is not renewed, it could materially adversely affect our business in the affected market, and if multiple franchises are terminated or not renewed, this could have a material adverse effect on our financial condition and results of operations.

We operate cable systems under franchises that are nonexclusive, which could lead to overdevelopment of areas where we hold franchises, reducing the potential profitability of those markets.

Our cable systems are operated under non-exclusive franchises granted by LFAs. Consequently, these LFAs can grant additional franchises to competitors in the same geographic area. As a result, competing operators may build systems in areas in which we may hold franchises. In some cases municipal utilities may legally compete with us without obtaining a franchise from the relevant LFA. These overbuilds could materially adversely affect our business in the affected market.

LFAs have the ability to impose additional regulatory constraints on our business, which can further increase our expenses.

In addition to the relevant franchise agreements, cable authorities in some jurisdictions have adopted cable regulatory ordinances that further regulate the operation of cable systems. These additional regulations have the effect of increasing our expenses in operating our business. LFAs may impose new and more restrictive requirements on us. LFAs also have the ability to reduce rates and order refunds of basic service and associated equipment rates paid in prior periods determined to be in excess of the maximum permitted rates. In 2003, the City of Los Angeles required us to recertify rate filings made under prior management. We were not in the position to do so and as a result, the city ordered rate refunds of more than $5 million as well as rate reductions. It is possible that additional franchising authorities will challenge our past and current rate filings in the future based on similar allegations of earlier financial misreporting or otherwise.

We will have substantial capital requirements, and the failure to obtain necessary financing would have a material adverse effect on the Company.

We have incurred substantial capital expenditures and are likely to continue to incur substantial capital expenditures in future years. The majority of these capital expenditures are expected to be used to acquire customer premises equipment (such as set-top boxes, cable modems and telephony equipment) and to pay for installation costs for additional video and advanced services customers. In addition, capital is expected to be used to upgrade and rebuild existing systems, to expand bandwidth capacity and to add two-way capability.

We also have commitments under certain franchise agreements with LFAs that require us to expand, upgrade or rebuild certain network systems. These commitments may require capital expenditures in order to avoid defaults and/or penalties. Such capital expenditures may divert funds from other priorities.

Our strategy and business plan may continue to require substantial financing, which we may not be able to obtain on favorable terms, or at all. The actual amount of funds necessary to implement our strategy and business plan may materially exceed management's current estimates. In addition, our ability to obtain financing may be adversely affected due to our history of net losses, our current non-compliant status under the Exchange Act reporting requirements and the effects of our bankruptcy case. A failure to obtain necessary financing would result in the delay, modification or abandonment of our development and expansion plans and would have a material adverse effect on the Company.

We may substantially increase our debt level following emergence, which could subject us to various restrictions and higher interest costs and decrease our cash flow and earnings.

We may substantially increase our debt level in the future to finance acquisitions, to fund the expansion, maintenance and upgrade of our systems and to deploy new services. Any increase in debt could subject us to various restrictions and higher interest costs and decrease our cash flow and earnings. It also may be difficult for us to obtain all of the financing we will need to fund our business and our growth strategy on desirable terms. In addition, any such financings may include restrictive covenants or other provisions that may constrain our ability to conduct our business or may impose other costs.

We are defendants in significant pending litigation.

We are defendants in significant litigation, which is described in more detail in Item 3, "Legal Proceedings." If any of these proceedings is decided against us, we could be subject to substantial damages or other penalties. These penalties and other effects of litigation, including the significant legal fees and expenses we are incurring and will continue to incur, could have a material adverse effect on our financial condition and results of operations. In addition, our participation in such proceedings require the use of a significant amount of management resources, which is likely to continue as we seek to resolve these matters. The failure to quickly resolve such litigation could have a significant adverse impact on the availability of our management resources.

The simultaneous pursuit of a potential sale of the Company and a stand-alone reorganization plan consumes a substantial portion of the time and attention of management, which may have an adverse effect on our business and results of operations.

Since April 2004, we have been simultaneously proceeding with both a potential sale of the Company and the potential emergence from bankruptcy as a stand-alone company. The requirements of this dual-track process, the Chapter 11 Cases and pending litigation consume a substantial portion of management's time and attention, and leave them with less time to devote to the operations of our business. This diversion of management's attention is expected to continue in 2005 and may have a material adverse effect on the conduct of our business, and, as a result, on our financial condition and results of operations.

We are exposed to physical and economic events outside of our control that affect the regions which we serve.

Our financial condition and results of operations can be adversely affected by physical and economic events outside of our control that affect the regions that we serve. For example, the multiple hurricanes that made landfall in or near our geographic cluster in Palm Beach, Florida in 2004 had an adverse effect on our results of operations and damaged our equipment located in this area. Similar events beyond our control may result in a material adverse effect on our financial condition and results of operations in the future.

We may experience increased levels of employee attrition due to the proposed sale of the Company.

Because we are pursuing a possible sale of the Company or one or more designated clusters of systems as an alternative to the Stand-Alone Plan, a substantial risk exists that we will experience increased levels of employee attrition. A loss of key personnel or a substantial reduction in our workforce could have a material adverse effect on our business, including but not limited to, our sales, marketing, customer care, product development and management. We have already experienced difficulty in recruiting replacement employees with appropriate qualifications in light of the dual track process and such difficulties are likely to increase in the future. If we are unable to replace employees quickly, we may be forced to hire contractors or consultants at higher rates than the salaried employees whom they replace. The failure to replace our workforce quickly or the loss of the services of any members of our senior management could impair our ability to execute our business strategy, and as a result, could have a material adverse effect on our financial condition and results of operations.

The use of net operating loss carryforwards may be limited or subject to challenge.

The Company's ability to use its net operating loss ("NOL") carryforwards and other tax attributes may be subject to certain statutory and other limitations. One such limitation is the required reduction of certain tax attributes due to the cancellation of indebtedness. The United States Treasury Department and the IRS have issued temporary regulations that provide for tax attribute reduction when the debt of a member of a consolidated group is cancelled. It is uncertain at this time how much of the NOL carryforwards or other tax attributes will survive after this reduction.

In addition, Internal Revenue Code Section 382 limits the future use of NOL carryforwards and certain other tax attributes when a prescribed ownership change occurs. These limitations are less burdensome when a company undergoes an applicable ownership change pursuant to a confirmed Chapter 11 bankruptcy plan. If the Debtors consummate a stand-alone bankruptcy reorganization plan, the Company will undergo an ownership change. We cannot reasonably ascertain at this time what the applicable limitation on our use of NOL carryforwards will be.

The amount of the Company's NOL carryforwards (which as of December 31, 2003 were $6.7 billion) may be affected by our financial restatement. We are not able at this time to determine with specificity the impact of the restatement on the amount of the NOL carryforwards.

The IRS may challenge the ability of the Company to use its NOL carryforwards or contend that such carryforwards are subject to other limitations.

We may be subject to cash payments for state and local taxes for historical periods as a result of the Company's reevaluation of its historical positions.

The Company's reevaluation of its numerous financial and legal positions, including its financial statements for historical periods, is expected to require the Company to refile over 3,000 state and local income and franchise tax returns. The Company is unable to predict at this time the nature and extent of any cash payments required for state and local income and franchise taxes, interest and penalties arising out of the amended state and local tax filings.

We may not be able to keep pace with technological developments or customers' demand for advanced services.

We may not be able to keep pace with technological developments and may not be able to successfully anticipate the demand of customers for services requiring new technology. This type of rapid technological change could materially adversely affect our plans to upgrade or expand our systems and respond to competitive pressures. For example, our cable business may be adversely affected by competition from alternate technologies for delivering video, data and voice services, such as new and emerging wireless and IP-based distribution platforms. Our inability to upgrade, maintain and expand our systems and provide advanced services in a timely manner or to anticipate the demands of the marketplace could materially adversely affect our ability to compete effectively. Likewise, our business may be adversely affected if new equipment, such as digital set-top boxes or DVRs, or new services, such as digital cable, HSI service or VOD, fail to appeal to enough consumers, are unavailable at prices consumers are willing to pay, do not function as expected, or are not delivered in a timely fashion. Finally, while we believe that providing bundled service offerings will be increasingly important as new services are provided, we currently have limited ability to provide unified customer care and billing. Consequently, our financial condition and results of operations could be materially and adversely affected.

The failure to develop future business opportunities may have a material adverse effect on our growth potential.

We intend to pursue a number of new growth opportunities beyond our core video service and HSI service, such as VOD and VoIP. The ability to deploy and deliver these services depends in certain instances on new and unproven technology. Our existing technology may not perform as expected, and we may not be able to successfully develop new technology to effectively and economically deliver these services. In addition, these opportunities require substantial capital outlays and network capacity availability to deploy on a large scale. This capital or capacity may not be available to support these services. In particular, the introduction of telephony service requires substantial expansion in billing and customer care service, which we may not be able to provide or which may prove more costly than currently anticipated.

Furthermore, these services may not be widely introduced and fully implemented in a timely fashion or at all. These services may not be successful when they are in place, and customers may not purchase the services offered. If these services are not successful or costs associated with implementation and completion of the roll-out of these services materially exceed those currently estimated, our financial condition and results of operations could be materially adversely affected.

Risk Factors Relating to the Chapter 11 Cases

The terms on which we may emerge from bankruptcy are uncertain, and we may not be able to emerge from bankruptcy.

In February 2004, we filed a proposed plan of reorganization which contemplated the emergence of Adelphia from bankruptcy as a stand-alone entity. That Stand-Alone Plan met with substantial opposition from the Debtors' constituents, both as to the valuation of the Company contained in the Stand-Alone Plan and as to the allocation of that value among the constituents. On April 22, 2004, at the request of the Debtors' constituents we announced that we would consider a sale of the Company as an alternative to a stand-alone restructuring. The process for the sale of the Company will extend at least into the first quarter of 2005 before the Company can determine whether an acceptable offer or offers for all or certain parts of the Company will be made. If such an offer is made and accepted, it could take a year or more to reach closing. During that time we will be subject to the added expense and risk of operating in Chapter 11. Consummation of such an offer would likely be subject to a number of conditions outside of our control, which could result in the sale not being consummated. We may not receive an acceptable offer for the Company, and, whether or not such an offer is received, a plan of reorganization may not be confirmed and consummated. The failure to promptly consummate a plan of reorganization would likely have a material adverse effect on the Company.

Adverse publicity and the stigma of the Chapter 11 Cases generally may negatively impact our business, financial condition and results of operations.

Adverse publicity and news coverage relating to the wrongful conduct of the Rigas Family, the criminal indictment of certain members of the Rigas Family, the guilty verdicts against John J. and Timothy J. Rigas and the other circumstances surrounding the Company's Chapter 11 filing as well as the pendency of the Chapter 11 Cases may negatively impact our efforts to maintain our existing customer base, obtain new customers, maintain our relationships with vendors, and retain employees, as well as reestablish and promote name recognition and a positive image. In addition, the effect, if any, that reorganization proceedings under Chapter 11 may have on our business, financial condition and results of operations cannot be accurately predicted or quantified. If confirmation and consummation of a plan of reorganization do not occur expeditiously, the Chapter 11 Cases could further adversely affect our relationships with our customers, employees and vendors.

If the obligation of the lenders to make loans under the Extended DIP Facility expires prior to our emergence from bankruptcy, it may have a material adverse effect on the Company.

The obligation of the lenders to make loans under the Extended DIP Facility currently expires on March 31, 2005. We will need to seek an amendment of the Extended DIP Facility to extend the maturity date. We may not be successful in obtaining such an amendment on terms that are acceptable to us, if at all, and the failure to do so would have a material adverse effect on the Company.

If the commitment of the exit lenders under the exit financing commitment expires prior to our emergence from bankruptcy, it may have a material adverse effect on the Company.

The commitment of the exit lenders under the exit financing commitment expires on June 30, 2005. If a plan of reorganization is confirmed by the Bankruptcy Court on or before 5:00 p.m., New York City time, on June 30, 2005, then Adelphia has the right to extend the exit financing commitment for up to 90 calendar days. If the exit financing commitment expires prior to the Company's emergence from bankruptcy pursuant to the Stand-Alone Plan, the Company will need to seek an amendment of the exit financing commitment letter to extend the expiration date of the exit lenders' commitments thereunder. The Company may not be successful in obtaining such an amendment on terms that are acceptable to the Company, if at all, and the failure to do so would have a material adverse effect on the Company.

The Creditors' Committee lawsuit against pre-petition banks and related financial institutions may preclude consummation of the Stand-Alone Plan and may delay our acquisition of the Managed Cable Entities.

The Creditors' Committee lawsuit against pre-petition banks and related financial institutions implicates the treatment of more than $6.8 billion of our pre-petition debt. This lawsuit has the potential to raise complicated issues of law and fact involving hundreds of separate entities which could take many months, if not years, to resolve and delay confirmation of a plan of reorganization. In addition, the pendency of the lawsuit may delay or prevent our acquisition of the Managed Cable Entities the equity of which is pledged to the lenders under the Co-Borrowing Facilities who are defendants in the Creditors' Committee lawsuit. Although the Company has retained the right to settle this litigation, any such settlement would be subject to the approval of the Bankruptcy Court.

More than $3.2 trillion in claims have been filed against the Debtors' estate in the Chapter 11 Cases.

Over 18,000 proofs of claim asserting in the aggregate approximately $3.2 trillion in claims have been filed against the Debtors' estates in the Chapter 11 Cases, including duplicative claims, but excluding any estimated amounts for unliquidated claims. The Debtors currently are in the process of reviewing, analyzing and reconciling the scheduled and filed claims, and have filed their first omnibus objections to certain of the claims. The Debtors anticipate filing additional objections in the future addressing a substantial portion of the remaining proofs of claim. At present, the allowed amounts of such claims are not determinable, and the Debtors expect that the claims resolution process will take significant time to complete. The failure to obtain disallowance of a substantial majority of these proofs of claims would substantially dilute the recoveries to the Debtors' stakeholders.

SEGMENT OPERATIONS AND CERTAIN FINANCIAL INFORMATION

Certain information concerning the Company's segments is included in Note 20, "Segments," to the accompanying consolidated financial statements. The Company does not have significant operations in foreign countries.

ITEM 2. PROPERTIES

Our principal physical assets consist of cable television operating plant and equipment, including signal receiving, encoding and decoding devices, headends and distribution systems and subscriber house drop equipment for each of our cable systems. The signal receiving apparatus typically includes a tower, antenna, ancillary electronic equipment and earth stations for reception of satellite signals. Headends, consisting of associated electronic equipment necessary for the reception, amplification and modulation of signals, are located near the receiving devices. Our distribution system consists primarily of coaxial and fiber optic cables and related electronic equipment. Subscriber devices consist of decoding set-top boxes. The physical components of cable systems require maintenance and periodic upgrading to keep pace with technological advances. Such properties do not lend themselves to description by character and location of principal units.

Our cables and related equipment are attached in certain cases, to utility poles under pole rental agreements with local public utilities or the distribution cable is buried in underground ducts or trenches. See Item 1, "Business – Regulation and Legislation."

We own or lease parcels of real property for signal reception sites (antenna towers and headends), microwave facilities and business offices in each of our market areas, and own approximately half of our service vehicles.

We believe that our properties, both owned and leased, are in good operating condition and are suitable and adequate for our business operations.

ITEM 3. LEGAL PROCEEDINGS

BANKRUPTCY PROCEEDINGS

On June 25, 2002, Adelphia and substantially all of its wholly-owned, domestic subsidiaries filed voluntary petitions to reorganize under Chapter 11 in the Bankruptcy Court. Previously, on June 10, 2002, Century filed a voluntary petition to reorganize under Chapter 11, seeking protection under the U.S. bankruptcy laws. These cases are being jointly administered under the caption "In re: Adelphia Communications Corporation, et al., Case No. 02-41729." We are currently operating as debtors in possession.

Under the Bankruptcy Code, actions to collect pre-petition indebtedness, as well as most other pending litigation, are stayed and other contractual obligations against the Company generally may not be enforced. Absent an order of the Bankruptcy Court, substantially all pre-petition contractual liabilities can only be settled under a plan of reorganization to be voted upon by holders of claims and equity interests and approved by the Bankruptcy Court.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

SEC CIVIL ACTION AND DOJ INVESTIGATION

On July 24, 2002 the SEC filed a civil enforcement action (the "SEC Civil Action") against Adelphia, certain members of the Rigas Family and others, alleging various securities fraud and improper books and records claims arising out of actions allegedly taken or directed by certain members of the Rigas Management (none of whom remain with the Company). This case is pending in the District Court and settlement discussions are in progress among Adelphia and representatives of the SEC and the DoJ. The SEC's proof of claim filed in the Chapter 11 Cases includes claims for penalties, disgorgement and prejudgment interest in an unspecified amount. The staff of the SEC has told our advisors that its asserted claims for disgorgement and civil penalties under various legal theories could amount to billions of dollars. The SEC Civil Action is stayed by order of the District Court until April 29, 2005. The SEC Civil Action is not subject to the automatic stay provisions of the Bankruptcy Code. In addition, the Company remains subject to continuing investigation and further action by the DoJ. The outcome of the SEC Civil Action and the investigation by the DoJ cannot be determined at this time. The outcome of the SEC Civil Action could include civil penalties, disgorgement, and the imposition of mandatory governance guidelines or other restrictions imposed on Adelphia. The outcome of the investigation by the DoJ could include the criminal indictment of Adelphia and/or the Managed Cable Entities, monetary remedies, including fines and restitution, criminal and/or civil forfeiture, and remedies restricting the Company's conduct. Adelphia has offered $300,000,000 in value to settle the SEC Civil Action and to resolve the DoJ's ongoing investigation of the Company, of which $125,000,000 would be funded from potential proceeds from litigation by or on behalf of Adelphia. The Creditors' Committee has filed an adversary proceeding seeking, in effect, to subordinate the SEC's claims based on the SEC Civil Action.

The Company cannot predict the ultimate resolution of the SEC Civil Action or the DoJ investigation or determine the ultimate effect on its financial condition or results of operations. Although the Company cannot estimate its total liabilities in these matters, the Company has recorded a $175,000,000 reserve in the accompanying consolidated financial statements reflecting the aforementioned offer.

Other governmental agencies, such as the FCC or LFAs might also take action against the Company in response to or based on the outcome of, or developments in, the SEC Civil Action or the investigation by the DoJ. The outcome of, or developments in, the SEC Civil Action and the investigation by the DoJ could have a material adverse effect on the Company, including possible liquidation of the Company.

SECURITIES AND DERIVATIVE LITIGATION

The Company and certain former officers, directors and advisors have been named as defendants in a number of lawsuits alleging violations of federal and state securities laws and related claims. These actions generally allege that the defendants made materially misleading statements understating the Company's liabilities and exaggerating the Company's financial results in violation of securities laws.

In particular, beginning on April 2, 2002, various groups of plaintiffs filed more than 30 class action complaints, purportedly on behalf of certain Company shareholders and bondholders or classes thereof in federal court in Pennsylvania.

Several non-class action lawsuits were brought on behalf of individuals or small groups of security holders in federal courts in Pennsylvania, New York, South Carolina and New Jersey, and in state courts in New York, Pennsylvania, California and Texas. Seven derivative suits were also filed in federal and state courts in Pennsylvania, and four derivative suits were filed in state court in Delaware. On May 6, 2002, a notice and proposed order of dismissal without prejudice was filed by the plaintiff in one of these four Delaware derivative actions. The remaining three Delaware derivative actions were consolidated on May 22, 2002. On February 10, 2004, the parties stipulated and agreed to the dismissal of these consolidated actions with prejudice.

The complaints, which named as defendants the Company, and certain former Company officers and directors, and, in some cases, the Company's former auditors, lawyers, as well as financial institutions who worked with the Company, generally allege that, among other improper statements and omissions, defendants misled investors regarding the Company's liabilities and earnings in the Company's public filings. The majority of these actions assert claims under Sections 10(b) and 20(a) of the Exchange Act and SEC Rule 10b-5. Certain bondholder actions assert claims for violation of Section 11 and/or Section 12(a) (2) of the Securities Act. Certain of the state court actions allege various state law claims.

On July 23, 2003, the Judicial Panel on Multidistrict Litigation issued an order transferring numerous civil actions to the District Court for consolidated or coordinated pretrial proceedings (the "MDL Proceedings").

On September 15, 2003, proposed lead plaintiffs and proposed co-lead counsel in the consolidated class action were appointed in the MDL Proceedings. On December 22, 2003 lead plaintiffs filed a consolidated class action complaint. Motions to dismiss have been filed by various defendants. As a result of the filing of the Chapter 11 Cases and the protections of the automatic stay, the Company is not named as a defendant in the amended complaint, but is a non-party. The consolidated class action complaint seeks monetary damages of an unspecified amount, rescission and reasonable costs and expenses and such other and future relief as the court may deem just and proper. The individual actions against the Company also seek damages of an unspecified amount.

Pursuant to Section 362 of the Bankruptcy Code, all of the securities and derivative claims that were filed against the Company before the bankruptcy filings are automatically stayed and not proceeding as to the Company.

The Company cannot predict the outcome of the pending legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

ACQUISITION ACTIONS

After the Rigas Family's alleged misconduct was publicly disclosed, three actions were filed in May and June 2002, against the Company by former shareholders of companies that the Company acquired, in whole or in part, through stock transactions. These actions allege that the Company induced these former shareholders to enter into these stock transactions through improper misrepresentations and omissions, and the plaintiffs seek monetary damages and equitable relief through rescission of the underlying acquisition transactions.

Two of these proceedings have been filed with the American Arbitration Association alleging violations of federal and state securities laws, breaches of representations and warranties and fraud in the inducement. One of these proceedings seeks rescission, compensatory damages and pre-judgment relief, and the other seeks specific performance. The third action alleges fraud and seeks rescission, damages and attorneys fees. This action was originally filed in a Colorado State Court, and subsequently was removed by the Company to the United States District Court for the District of Colorado. The Colorado State Court action was administratively closed on July 16, 2004, subject to reopening if and when the automatic bankruptcy stay is lifted or for other good cause shown. These actions have been stayed pursuant to the automatic stay provisions of Section 362 of the Bankruptcy Code.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

EQUITY COMMITTEE SHAREHOLDER LITIGATION

Adelphia is a defendant in an adversary proceeding in the Bankruptcy Court consisting of a declaratory judgment action and a motion for a preliminary injunction brought on January 9, 2003 by the Equity Committee, seeking, among other relief, a declaration as to how the shares owned by the Rigas Family and Rigas Family Entities would be voted should a consent solicitation to elect members of the Board be undertaken. Adelphia has opposed such requests for relief.

The claims of the Equity Committee are based on shareholder rights the Equity Committee claims should be recognized even in bankruptcy, coupled with continuing claims, as of the filing of the lawsuit, of historical connections between the Board and the Rigas Family. Motions to dismiss filed by Adelphia and others are fully briefed in this action, but no argument date has been set. If this action survives these motions to dismiss, resolution of disputed fact issues will occur in two phases pursuant to a schedule set by the Bankruptcy Court. Determinations regarding fact questions relating to the conduct of the Rigas Family will not occur until, at a minimum, after the resolution of the Rigas Criminal Action.

No pleadings have been filed in the adversary proceeding since September 2003, rendering the adversary proceeding inactive.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

ML MEDIA LITIGATION

The Company and ML Media, its joint venture partner in Century/ML Cable, a joint venture that owns and operates cable systems in Puerto Rico, have been involved in a longstanding dispute concerning Century/ML Cable's management, the rights of ML Media and various other matters.

State Court Litigation

In March 2000, ML Media brought suit against Adelphia and Century's immediate parent, Arahova Communications, Inc. ("Arahova") in the Supreme Court of the State of New York, seeking, among other things: (i) the dissolution of Century/ML Cable and the appointment of a receiver to sell Century/ML Cable's assets; (ii) if no receiver was appointed, an order authorizing ML Media to conduct an auction for the sale of Century/ML Cable's assets to an unrelated third party and enjoining Adelphia from interfering with or participating in that process; (iii) an order directing the defendants to comply with the Century/ML Cable joint venture agreement with respect to provisions relating to governance matters and the budget process; and (iv) compensatory and punitive damages. The parties negotiated a consent order that imposed consultative and reporting requirements on Adelphia and Century as well as restrictions on Century's ability to make capital expenditures without ML Media's approval. On April 26, 2001, ML Media obtained a court order holding Century's Century/ML Cable management board designee in contempt for violating the consent order.

In connection with the December 13, 2001 settlement of the above dispute, Adelphia, Century, Century/ML Cable, ML Media and Highland Holdings ("Highland"), a general partnership owned and controlled by members of the Rigas Family, entered into a Leveraged Recapitalization Agreement (the "Recap Agreement") pursuant to which Century/ML Cable agreed to redeem ML Media's 50% interest in Century/ML Cable (the "Redemption") on or before September 30, 2002 for a purchase price between $275 million and $279.8 million, depending on the timing of such redemption, plus interest. Among other things, the Recap Agreement provided that (i) Highland would arrange debt financing for the Redemption, (ii) Highland, Adelphia and Century would jointly and severally guarantee debt service on and after the closing, and (iii) Highland and Century would own 60% and 40% interests respectively, in the recapitalized Century/ML Cable. Under the terms of the Recap Agreement, Century's 50% interest in Century/ML Cable was pledged to ML Media as collateral for Adelphia's obligations.

Century/ML Cable Bankruptcy and Recap Agreement Rejection

On September 30, 2002, Century/ML Cable filed a voluntary petition to reorganize under Chapter 11 in the Bankruptcy Court. Century/ML Cable is operating its business as a debtor-in-possession.

By an order of the Bankruptcy Court dated September 17, 2003, Adelphia and Century rejected the Recap Agreement, effective as of such date. If the Recap Agreement is enforceable, the effect of the rejection of the Recap Agreement is the same as a prepetition breach of the Recap Agreement. Therefore, Adelphia and Century are potentially exposed to "rejection damages," which may include the revival of ML Media's claims under the state court actions described above.

Adelphia, Century, Highland Holdings, Century/ML and ML Media are engaged in litigation regarding the enforceability of the Recap Agreement. On April 15, 2004, the Bankruptcy Court indicated that it would dismiss all counts of Adelphia's challenge to the enforceability of the Recap Agreement except for its allegation that ML Media aided and abetted a breach of fiduciary duty in connection with the execution of the Recap Agreement. The Bankruptcy Court also indicated that it would allow Century/ML Cable's action to avoid the Recap Agreement as a fraudulent conveyance to proceed.

ML Media has alleged that it is entitled to elect a recovery of either: (i) up to $279.8 million plus costs and interest in exchange for its interest in Century/ML Cable; or (ii) up to the difference between $279.8 million and the fair market-value of its interest in Century/ML Cable plus costs, interest and revival of the state court claims described above. Adelphia, Century and Century/ML Cable have disputed ML Media's claims, and the Stand-Alone Plan contemplates that ML Media will receive no distribution until such dispute is resolved. The parties have from time to time engaged in settlement discussions relating to a potential settlement of their disputes, but no agreement has been reached and the parties may not be able to reach a settlement agreement.

The Company cannot predict the ultimate resolution of these legal proceedings or determine the ultimate effects on its financial condition or results of operations.

THE X CLAUSE LITIGATION

On December 29, 2003, the *Ad Hoc* Committee of holders of Adelphia's 6% and 4% subordinated notes (collectively, the "Subordinated Notes"), together with the Bank of New York, the indenture trustee for the Subordinated Notes (collectively, the "X Clause Plaintiffs"), commenced an adversary proceeding against Adelphia in the Bankruptcy Court. The X Clause Plaintiffs' complaint sought a judgment declaring that the Subordinated Notes are entitled to share *pari passu* in the distribution of any common stock issued by Adelphia under the Stand-Alone Plan and are not subordinated to Adelphia's senior classes of indebtedness with respect to such common stock distributions.

The basis for the X Clause Plaintiffs' claim is a provision in the applicable indentures, commonly known as the "X Clause," which provides that any distributions under a plan of reorganization comprised solely of "Permitted Junior Securities" are not subject to the subordination provision of the Subordinated Notes indenture. The X Clause Plaintiffs asserted that, under their interpretation of the applicable indentures, a distribution of a single class of new Adelphia common stock would meet the definition of "Permitted Junior Securities" set forth in the indentures, and therefore be exempt from subordination.

On February 6, 2004, Adelphia filed its answer to the complaint, denying all of its substantive allegations. Thereafter, both the X Clause Plaintiffs and Adelphia cross-moved for summary judgment with both parties arguing that their interpretation of the X Clause was correct as a matter of law. The indenture trustee for the Adelphia senior notes also intervened in the action and, like Adelphia, moved for summary judgment arguing that the X Clause Plaintiffs were subordinated to holders of senior notes with respect to any distributions of common stock under a plan. In addition, the Creditors' Committee also moved to intervene and, thereafter, moved to dismiss the X Clause Plaintiffs' complaint on the ground, among others, that it did not present a justiciable case or controversy and therefore was not ripe for adjudication. In a written decision, dated April 12, 2004, the Bankruptcy Court granted the Creditors' Committee's motion to dismiss without ruling on the merits of the various cross-motions for summary judgment. The Bankruptcy Court's dismissal of the action was without prejudice to the X Clause Plaintiffs' right to bring the action at a later date, if appropriate.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

NFHLP CLAIM

On January 13, 2003, the NFHLP Debtors filed voluntary petitions to reorganize under Chapter 11 in the NFHLP Bankruptcy Court seeking protection under the U.S. bankruptcy laws. Certain of the NFHLP Debtors entered into an agreement dated March 13, 2003 for the sale of certain assets, including the Buffalo Sabres National Hockey League team, and the assumption of certain liabilities. In August 2003, the NFHLP Bankruptcy Court approved the NFHLP Debtors' draft disclosure statement. On October 3, 2003, the NFHLP Bankruptcy Court approved the NFHLP joint plan of liquidation. The NFHLP Debtors filed a complaint, dated November 4, 2003, against, among others, Adelphia and the Creditors' Committee seeking to enforce certain prior stipulations and orders of the NFHLP Bankruptcy Court against Adelphia and the Creditors' Committee related to the waiver of Adelphia's right to participate in certain sale proceeds resulting from the sale of assets. Certain of the NFHLP Debtors' pre-petition lenders, which are also defendants in the adversary proceeding, have filed cross-complaints against Adelphia and the Creditors' Committee asking the NFHLP Bankruptcy Court to enjoin Adelphia and the Creditors' Committee from prosecuting their claims against those pre-petition lenders. Proceedings as to the complaint itself have been suspended. With respect to the cross-complaints, motion practice and discovery are proceeding concurrently; no hearing on dispositive motions has been scheduled.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

LITIGATION RELATING TO RIGAS FAMILY DEFENSE COSTS

In July 2003 and again in January 2004, the Rigas Family sought approval from the Bankruptcy Court to use cash from the Managed Cable Entities to fund the Rigas Family members' civil and criminal defense costs. The Rigas Family claimed they were entitled to this funding based on certain purported indemnity and other rights they said they had as officers, directors, and controlling shareholders of the Managed Cable Entities. In an order dated August 7, 2003, the Bankruptcy Court granted the Rigas Family members' request to the extent of $15 million. In a decision rendered from the bench on February 18, 2004 and entered as an order on March 9, 2004, the Bankruptcy Court amended that order to allow an additional $12.8 million to be spent on criminal defense costs and denied the Rigas Family members' request for additional funding for civil defense costs.

Adelphia and the Creditors' Committee appealed the February 18, 2004 ruling and moved for a stay pending the appeal of the Bankruptcy Court's March 9, 2004 order. A hearing on the motion for a stay pending appeal was held on March 17, 2004 in the District Court. On March 22, 2004, the District Court denied Adelphia's motion for a stay pending appeal of the Bankruptcy Court's March 9, 2004 order. On September 14, 2004, the Rigas Family members again moved to amend the August 7, 2003 and March 9, 2004 orders, seeking approximately $11 million more in cash from the Managed Cable Entities to fund civil and criminal defense costs. While that motion was pending, the District Court issued a decision on September 27, 2004, vacating the Bankruptcy Court's March 9, 2004 Order and remanding the matter back to the Bankruptcy Court for further consideration.

On November 8, 2004, a hearing occurred regarding evidentiary issues relating to the Rigas Family members' latest motion at which time the court granted Adelphia's motion to exclude certain evidence. Another evidentiary hearing was held on November 22, 2004, concerning the ability of the Rigases to obtain additional funding of attorneys fees both pursuant to the request which was granted but vacated by the District Court and the latest request for an additional $11 million. The Bankruptcy Court has not yet ruled on the Rigas Family members' motions.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

RIGAS CRIMINAL ACTION

In connection with an investigation conducted by the DoJ, on July 24, 2002, certain members of the Rigas Family and certain co-conspirators were arrested, and on September 23, 2002, were indicted by a grand jury on charges including fraud, securities fraud, bank fraud and conspiracy to commit fraud. On November 14, 2002, one of the Rigas Family's alleged co-conspirators, James Brown, pleaded guilty to one count each of conspiracy, securities fraud and bank fraud. On January 10, 2003, another of the Rigas Family's alleged co-conspirators , Timothy Werth, who had not been arrested with the others on July 24, 2002, pleaded guilty to one count each of securities fraud, conspiracy to commit securities fraud, wire fraud and bank fraud. The trial in the Rigas Criminal Action began on February 23, 2004 in the District Court. On July 8, 2004, the jury returned a partial verdict in the Rigas Criminal Action. John J. and Timothy J. Rigas were each found guilty of conspiracy (one count), bank fraud (two counts), and securities fraud (15 counts) and not guilty of wire fraud (five counts). Michael J. Mulcahey was acquitted of all 23 counts against him. The jury found Michael J. Rigas not guilty of conspiracy and wire fraud but remained undecided on the securities fraud and bank fraud charges against him. On July 9, 2004, the court declared a mistrial on the remaining charges to those charges. The bank fraud charges against Michael J. Rigas have since been dismissed with prejudice, but the DoJ has requested that a new trial date be set to retry Michael J. Rigas on the securities fraud charges. On November 1, 2004, Michael J. Rigas' post-trial motion for dismissal of all charges was denied. The post-trial motions of John J. and Timothy J. Rigas in which they sought to overturn the guilty verdicts were denied on November 15, 2004. Both have stated that they intend to appeal the guilty verdicts. A hearing is scheduled for January 5, 2005, at which time the District Court is expected to consider the DoJ's request to set a retrial date for Michael J. Rigas. The sentencing of John J. Rigas and Timothy J. Rigas is currently scheduled for February 23, 2005.

The indictment against the Rigases includes a request for entry of a money judgment in an amount exceeding $2.5 billion and for entry of an order of forfeiture. The Company believes that the DoJ may seek through such criminal forfeiture all interests of the convicted Rigas defendants in the Rigas Family Entities, or through civil forfeiture all of the assets of the Rigas Family Entities. The Government may also seek such assets through indictment of such entities. On December 10, 2004, the DoJ filed an application for a preliminary order of forfeiture finding John J. Rigas and Timothy J. Rigas jointly and severally liable for personal money judgments in the amount of $2,533 million. The Company has asserted claims against members of the Rigas Family and the Rigas Family Entities for amounts due, including their share of the borrowings under the Co-Borrowing Facilities. If the DoJ achieves the forfeiture of such assets, it will be significantly more difficult for the Company to recover on its claims with respect to the Rigas Family Entities. In addition, such forfeiture would make it significantly more difficult, if not impossible, for the Company to acquire ownership of, and maintain operational control over, the Managed Cable Entities which are highly integrated into the Company's operations.

The Company is not a defendant in the Rigas Criminal Action but remains under investigation by the DoJ regarding matters related to alleged wrongdoing by certain members of the Rigas Family. See Item 3, "Legal Proceedings — SEC Civil Action and DoJ Investigation." The Company cannot predict the outcome of this investigation or estimate the possible effects on the financial condition or results of operations of the Company.

PREFERRED SHAREHOLDER LITIGATION

On August 11, 2003, Adelphia initiated an adversary proceeding in the Bankruptcy Court against the holders of Adelphia's preferred stock (the "Preferred Stockholders"), seeking, among other things, to enjoin the Preferred Stockholders from exercising certain purported rights to elect directors to the Board due to Adelphia's failure to pay dividends and alleged breaches of debt-like covenants contained in the Certificates of Designations relating to Adelphia's Preferred Stock. On August 13, 2003, certain of the Preferred Stockholders filed an action against Adelphia in the Delaware Chancery Court seeking a declaratory judgment of their purported right to appoint two directors to the Board (the "Delaware Action"). On August 13, 2003, the Bankruptcy Court granted Adelphia a temporary restraining order, which, among other things, stayed the Delaware Action and temporarily enjoined the Preferred Stockholders from exercising their purported rights to elect directors to the Board. Thereafter, the Delaware Action was withdrawn.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

VERIZON MEDIA VENTURES

On March 27, 2002, a federal action filed by the Company on March 20, 2002 in the United States District Court for the Central District of California, against the City of Thousand Oaks, was related to an action involving the Company, Verizon Media Ventures, Inc. d/b/a Verizon Americast ("Verizon Media Ventures") and City of Thousand Oaks, California and Ventura County that was initially filed in California state court on March 25, 2002. These actions involve claims by the City of Thousand Oaks and Ventura County that Verizon Media Ventures' entry into an asset purchase agreement dated December 17, 2001 between the Company and Verizon Media Ventures, pursuant to which the Company acquired certain Verizon Media Ventures cable equipment and network system assets (the "Verizon Cable Assets") located in the City of Thousand Oaks for use in the operation of the Company's cable business in the city, constituted a breach of the anti-assignment provisions in Verizon Media Ventures' cable franchises. The city and the county further allege that the Company's participation in the transaction amounted to actionable tortious inducement of Verizon Media Ventures' breaches of those franchises. The City of Thousand Oaks and Ventura County sought injunctive relief to halt the sale and transfer of the Verizon Cable Assets pursuant to the December 17, 2001 asset purchase agreement and to compel the Company to treat the Verizon Cable Assets as a separate cable system. The Company sought, among other things, declaratory and injunctive relief precluding the city from denying permits on the grounds that Adelphia failed to seek the city's prior approval of the asset purchase agreement.

On May 14, 2002, the district court entered a final preliminary injunction order and findings of fact and conclusions of law in support thereof (the "May 14, 2002 Order"). The May 14, 2002 Order, among other things: (i) enjoined the Company from integrating the Company's and Verizon Media Ventures' system assets serving subscribers in the City of Thousand Oaks and Ventura County; (ii) required the Company to return "ownership" of the Verizon Cable Assets to Verizon Media Ventures except that the Company was permitted to continue to "manage" the assets as Verizon Media Ventures' agent to the extent necessary to avoid disruption in services until Verizon Media Ventures chose to reenter the market or sell the assets; (iii) prohibited the Company from eliminating any programming options that had previously been selected by Verizon Media Ventures or from raising the rates charged by Verizon Media Ventures; and (iv) required the Company and Verizon Media Ventures to grant the city and/or the county access to system records, contracts, personnel and facilities for the purpose of conducting an inspection of the then-current "state of the Verizon Media Ventures and Adelphia systems" in the city and the county. The Company appealed the May 14, 2002 Order and on April 1, 2003 the U.S. Court of Appeals for the Ninth Circuit reversed the May 14, 2002 Order, thus removing any restrictions that had been imposed by the district court against the Company's integration of the Verizon Cable Assets, and remanded the actions back to the district court for further proceedings.

In September 2003, the City began refusing to grant the Company's construction permit requests, claiming that the Company could not integrate the acquired Verizon Cable Assets with the Company's existing cable system assets because the City had not approved the Adelphia-Verizon transaction, as allegedly required under the City's Cable Ordinance.

Accordingly, on October 2, 2003, the Company filed a motion for a preliminary injunction in the district court seeking to enjoin the City from refusing to grant the Company's construction permit requests. On November 3, 2003, the district court granted the Company's motion for a preliminary injunction, finding that the Company had demonstrated "a strong likelihood of success on the merits." Thereafter, the parties agreed to informally stay the litigation pending negotiations between the Company and the City for the Company's renewal of its cable franchise, with the intent that such negotiations would also lead to a settlement of the pending litigation. However, on September 16, 2004, at the City's request, the district court set a trial date of July 12, 2005, which has effectively re-opened the case to active litigation. The court scheduled discovery and motion cut-off dates for March 18, 2005 and May 9, 2005, respectively, an expert witness disclosure date of April 8, 2005 and a pre-trial conference date of June 27, 2005.

The Company cannot predict the outcome of these actions or estimate the possible effects on the financial condition or results of operations of the Company.

DIBBERN ADVERSARY PROCEEDING

On or about August 30, 2002, Gerald Dibbern, individually and purportedly on behalf of a class of similarly situated subscribers nationwide, commenced an adversary proceeding in the District Court against Adelphia asserting claims for violation of the Pennsylvania Consumer Protection Law, breach of contract, fraud, unjust enrichment, constructive trust, and an accounting. This complaint alleges that Adelphia charged, and continues to charge, subscribers for cable set-top box equipment, including set-top boxes and remote controls, that is unnecessary for subscribers that receive only basic cable service and have cable-ready televisions. The complaint further alleges that Adelphia failed to adequately notify affected subscribers that they no longer needed to rent this equipment. The complaint seeks a number of remedies including treble money damages under the Pennsylvania Consumer Protection Law, declaratory and injunctive relief, imposition of a constructive trust on Adelphia's assets, and punitive damages, together with costs and attorneys' fees.

On or about December 13, 2002, Adelphia moved to dismiss the adversary proceeding on several bases, including that the complaint fails to state a claim for which relief can be granted and that the matters alleged therein should be resolved in the claims process. Adelphia's motion has been fully briefed and argued and is presently under consideration by the court.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

TELE-MEDIA EXAMINER MOTION

By motion filed in the Bankruptcy Court on August 5, 2004, TMCD and certain of its affiliates are seeking the appointment of an examiner for the following Debtors: Tele-Media Company of Tri-States, L.P., CMA Cablevision Associates VII, L.P., CMA Cablevision Associates XI, L.P., TMC Holdings Corporation, Adelphia Company of Western Connecticut, TMC Holdings, LLC, Tele-Media Investment Limited Partnership, L. P., Eastern Virginia Cablevision, L.P., Tele-Media Company of Hopewell Prince George, and Eastern Virginia Cablevision Holdings, LLC. Among other things, TMCD alleges that management and the Board breached their fiduciary obligations to the creditors and equity holders of those entities. Consequently, TMCD seeks the appointment of an examiner to investigate and make recommendations to the Bankruptcy Court regarding various issues related to such entities. The hearing on this motion has been consensually adjourned to January 28, 2005.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

CREDITORS' COMMITTEE LAWSUIT AGAINST PRE-PETITION BANKS

Pursuant to the Bankruptcy Court order approving the DIP Facility (the "Final DIP Order"), the Company made certain acknowledgments (the "Acknowledgments") with respect to the extent of its indebtedness under the credit facilities, as well as the validity and extent of the liens and claims of the lenders under such facilities. However, given the circumstances surrounding the filing of these Chapter 11 Cases, the Final DIP Order preserved the Company's right to prosecute, among other things, avoidance actions and claims against the pre-petition lenders and to bring litigation against the pre-petition lenders based on any wrongful conduct. The Final DIP Order also provided that any official committee appointed in the Chapter 11 Cases would have the right to request that it be granted standing by the Bankruptcy Court to challenge the Acknowledgments and to bring claims belonging to the Company and its estates against the pre-petition lenders.

Pursuant to a stipulation among the Company, the Creditors' Committee and the Equity Committee, which is being challenged by certain pre-petition lenders, the Bankruptcy Court granted the Creditors' Committee leave and standing to file and prosecute claims against the pre-petition lenders, on behalf of the Company, and granted the Equity Committee leave to seek to intervene in any such action. This stipulation also preserves the Company's ability to compromise and settle the claims against the pre-petition lenders. By motion dated July 6, 2003, the Creditors' Committee moved for Bankruptcy Court approval of this stipulation and simultaneously filed a complaint (the "Bank Complaint") against the agents and lenders under certain credit facilities, and related entities, asserting, among other things, that these entities knew of, and participated in, the alleged abuse of the Co-Borrowing Facilities by certain members of the Rigas Family and the Rigas Family Entities (the "Pre-petition Lender Litigation"). The Company is a nominal plaintiff in this action.

The Bank Complaint contains 52 claims for relief to redress the claimed wrongs and abuse committed by the agents, lenders and other entities. The Bank Complaint seeks to, among other things, (i) recover as fraudulent transfers the principal and interest paid by the Company to the defendants, (ii) avoid as fraudulent obligations the Company's obligations, if any, to repay the defendants, (iii) recover damages for breaches of fiduciary duties to the Company and for aiding and abetting fraud and breaches of fiduciary duties by the Rigas Family, (iv) equitably disallow, subordinate or recharacterize each of the defendants' claims in the Chapter 11 Cases, (v) avoid and recover certain allegedly preferential transfers made to certain defendants, and (vi) recover damages for violations of the Bank Holding Company Act. Numerous motions seeking to defeat the Pre-petition Lender Litigation have been filed by the defendants, but have not yet been decided by the Bankruptcy Court.

The Equity Committee has filed a motion seeking authority to bring additional claims against the pre-petition lenders pursuant to the Racketeering Influenced and Corrupt Organizations ("RICO") Act. The Bankruptcy Court has not yet ruled on the motion.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

DEVON MOBILE

Pursuant to the Agreement of Limited Partnership of Devon Mobile Communications, L.P., a Delaware limited partnership ("Devon Mobile"), dated as of November 3, 1995 (the "Devon Mobile Limited Partnership Agreement"), the Company owned a 49.9% limited partnership interest in Devon Mobile, which, through its subsidiaries, held licenses to operate regional wireless telephone businesses in several states. Devon Mobile had certain business and contractual relationships with the Company and with former subsidiaries or divisions of the Company which were spun-off as TelCove in January 2002.

In late May 2002, the Company notified Devon G.P., Inc. ("Devon G.P."), the general partner of Devon Mobile, that it would likely terminate certain discretionary operational funding to Devon Mobile. In July 2002, the Company learned that its former subsidiary, TelCove, had elected to terminate certain services it provided to Devon Mobile. On August 19, 2002, Devon Mobile and certain of its subsidiaries filed voluntary petitions under Chapter 11 of the Bankruptcy Code with the United States Bankruptcy Court for the District of Delaware (the "Devon Mobile Bankruptcy Court").

On January 17, 2003, the Company filed proofs of claim and interest against Devon Mobile and its subsidiaries for approximately $129 million in debt and equity claims, as well as an additional claim of approximately $35 million relating to the Company's guarantee of certain Devon Mobile obligations (collectively, the "Company Claims"). By order dated October 1, 2003, the Devon Mobile Bankruptcy Court confirmed Devon Mobile's First Amended Joint Plan of Liquidation (the "Devon Plan"). The Devon Plan went effective on October 17, 2003, at which time the Company's limited partnership interest in Devon Mobile was extinguished.

On or about January 8, 2004, Devon Mobile filed proofs of claim in the amount of $267 million in the Chapter 11 Cases in respect of, among other things, certain transfers alleged to be made by Devon Mobile to the Company prior to the commencement of the Chapter 11 Cases (the "Devon Claims"). On May 20, 2004, the Company and Devon Mobile filed a stipulation in the Chapter 11 Cases granting Devon Mobile limited relief from the automatic stay to (i) file a complaint against the Company based on the Devon Claims and (ii) file objections to the Company Claims in the Devon Mobile Bankruptcy Court (the "Devon Stay Stipulation"). The Devon Stay Stipulation was approved by the Bankruptcy Court on June 10, 2004. On June 21, 2004, Devon Mobile filed a complaint (the "Devon Complaint") in the Chapter 11 Cases in respect of the Devon Claims. On August 20, 2004, the Company filed an answer and counterclaim in response to the Devon Complaint denying the allegations made in the Devon Complaint and asserting various counterclaims against Devon Mobile, which encompassed the Company Claims (the "Company Answer"). On September 21, 2004, the Bankruptcy Court entered an order approving an amendment to the Devon Stay Stipulation which provides that the Company Claims will be prosecuted to final order in the Bankruptcy Court and will be given full force and effect by the Devon Mobile Bankruptcy Court taking into account the rights of set-off and/or recoupment of the parties with respect thereto. On September 30, 2004, Devon Mobile filed an answer with respect to the counterclaims asserted by the Company in the Company Answer and denying liability for the Company Claims. On October 13, 2004, the Company filed a motion for judgment on the pleadings dismissing Devon Mobile's demand for punitive damages and, by stipulation, Devon Mobile withdrew its punitive damages claims without prejudice. On November 22, 2004, the Company filed a motion for leave (the "Motion for Leave") to file a third-party complaint against Devon G.P. and Lisa-Gaye Shearing Mead, the sole owner and President of Devon G.P. As of the date hereof, the Motion for Leave remains pending before the Bankruptcy Court. Any recovery of the Company Claims is uncertain at this time.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

EPA SELF DISCLOSURE AND AUDIT

On June 2, 2004, the Company orally self-disclosed potential violations of environmental laws to the United States Environmental Protection Agency ("EPA") pursuant to EPA's Audit Policy, and notified EPA that it intended to conduct an audit of its operations to identify and correct any such violations. The potential violations concern reporting and recordkeeping requirements arising from the Company's storage and use of petroleum and batteries to provide backup power for its cable operations and the Company's management of certain electronic equipment. Under the Audit Policy, companies that self-disclose violations of environmental law discovered during environmental audits may be eligible for substantial reductions in civil penalties, including reductions of 75% or even 100% of the typical penalty. This matter is at an early stage, but based on current facts, the Company does not anticipate that this matter will have a material adverse effect on the Company's results of operations or financial condition.

ADELPHIA'S LAWSUIT AGAINST THE RIGAS FAMILY

On July 24, 2002, Adelphia filed a complaint in the Bankruptcy Court (the "Rigas Civil Action") against John J. Rigas, Michael J. Rigas, Timothy J. Rigas, James P. Rigas, James Brown, Michael C. Mulcahey, Peter L. Venetis, Doris Rigas, Ellen Rigas Venetis and the Rigas Family Entities. This action generally alleges that defendants conspired to misappropriated billions of dollars from the Company in breach of their fiduciary duties to Adelphia. On November 15, 2002, Adelphia filed an amended complaint against the defendants that expanded upon the facts alleged in the original complaint and alleged violations of the RICO Act (Counts I-IV), breach of fiduciary duty (Count V), securities fraud (Count VI), fraudulent concealment (Count VII), fraudulent misrepresentation (Count VIII), conversion (Count IX), waste of corporate assets (Count X), breach of contract (Count XI), unjust enrichment (Count XII), fraudulent conveyance (Count XIII), constructive trust (Count XIV), inducing breach of fiduciary duty (Count XV), and a request for an accounting (Count XVI) (the "Amended Complaint"). The Amended Complaint seeks relief in the form of, among other things, treble and punitive damages, disgorgement of monies and securities obtained as a consequence of the Rigases' improper conduct and attorneys' fees.

On June 7, 2003, U.S. District Court Judge George Daniels denied the defendants' motion to remove the case from the Bankruptcy Court to the District Court.

On January 16, 2003, John J., Michael J., Timothy J. and James P. Rigas, Doris Rigas and the Rigas Family Entities (collectively referred to as "Rigas Defendants"), Peter L. Venetis and Ellen Rigas Venetis each filed motions to dismiss the Amended Complaint. These motions were argued in April 2004. On June 28, 2004, the Bankruptcy Court denied the Rigas Defendants' motion to dismiss the Amended Complaint only as to the state law claims (Counts V, VII-XVI) and expressly reserved its ruling on the remaining federal law claims (RICO and securities fraud counts (Counts I-IV, VI)). The Bankruptcy Court further ruled that the Rigas Defendants will have no obligation to answer all or part of the Amended Complaint until either: (i) the Bankruptcy Court rules upon the Rigas Defendants' motion to dismiss the federal law claims asserted in the Amended Complaint; or (ii) by further Order of the Bankruptcy Court.

On August 20, 2004, Adelphia moved for partial summary judgment against John J., Timothy J., Michael J., and James P. Rigas, and the Rigas Family Entities on counts XII (unjust enrichment) and XIV (constructive trust) of the Amended Complaint. Adelphia seeks judgment in the amount of $3,232 million plus pre-judgment interest from April 30, 2002, and asks the court to impose a constructive trust on the Rigases' monies and property acquired, directly or indirectly, through the use of the Company's funds and credit, and to order the re-conveyance of all such monies and property to the Company. On October 20, 2004, the Rigas Defendants filed their response to Adelphia's motion pursuant to Rule 56(f) of the Federal Rules of Civil Procedure, claiming that the court should delay consideration of the motion until the Rigas Defendants have had the opportunity to conduct additional discovery. In a December 2, 2004 decision, the Bankruptcy Court agreed to delay consideration of the motion until the Rigas Defendants could conduct certain, but not all, of the additional discovery they had requested. On October 22, 2004, the co-borrowing facility banks moved to intervene in the Rigas Adversary Proceedings as to Counts XII (unjust enrichment) and XIV (constructive trust) of the Amended Complaint. A hearing was held on December 15, 2004, at which time the Bankruptcy Court granted the banks' motion to intervene but specified that prior to propounding any discovery the banks were to seek agreement from the parties or, in the event the parties cannot reach agreement, leave of court.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

ADELPHIA'S LAWSUIT AGAINST DELOITTE

Adelphia sued Deloitte, Adelphia's former independent auditors, on November 6, 2002, in the Court of Common Pleas for Philadelphia County seeking damages for Deloitte's role in the Rigas Family's alleged misappropriation of funds from the Company. The complaint brings causes of action for professional negligence, breach of contract, aiding and abetting breach of fiduciary duty, fraud, negligent misrepresentation and contribution. The complaint alleges, among other things, that Deloitte knew of at least aspects of the alleged misappropriation and misconduct of the Rigas Family, and other alleged acts of self-dealing and misappropriation by the Rigas Family were readily apparent to Deloitte from the books and records that Deloitte reviewed and to which it had access. The complaint alleges that, in either case, Deloitte had a duty to report the Rigas Family's alleged misconduct to those who could have acted to stop the Rigas Family, but Deloitte did not do so. The complaint seeks damages of an unspecified amount.

Deloitte filed preliminary objections to the complaint, which were overruled by the court by order dated June 11, 2003.

On September 15, 2003, Deloitte filed an Answer, New Matter, and Counterclaims in response to the complaint. In its counterclaims, Deloitte asserted causes of action against Adelphia for breach of contract, fraud, negligent misrepresentation and contribution. Also on September 15, 2003, Deloitte filed a related complaint naming as additional defendants John J., Timothy J., Michael J. and James P. Rigas. In this complaint, Deloitte alleged causes of action for fraud, negligent misrepresentation and contribution. On January 9, 2004, Adelphia answered Deloitte's counterclaims. Deloitte moved to stay discovery in this action until completion of the Rigas Criminal Action, which Adelphia opposed. Following this motion, discovery was effectively stayed for 60 days but has now commenced. Deloitte and Adelphia have exchanged documents and have begun deposition discovery. The court has indicated its desire to try the case by the end of 2005.

The Company cannot predict the outcome of these legal proceedings or estimate the possible effects on the financial condition or results of operations of the Company.

SERIES E PREFERRED STOCK MOTION

On October 29, 2004, Adelphia filed a motion to postpone the conversion of Adelphia's Series E Preferred Stock into shares of Class A Common Stock from November 15, 2004 to February 1, 2005, to the extent such conversion was not already stayed by the Debtors' bankruptcy filing, in order to protect the Debtors' NOL carryovers. The motion was heard on November 10, 2004, and on November 18, 2004, the Bankruptcy Court entered an order approving the postponement effective November 14, 2004.

OTHER

Certain litigation relating to TelCove was settled on February 21, 2004 pursuant to the Global Settlement as discussed in Item 1, "Business."

The Company is subject to various other legal proceedings and claims which arise in the ordinary course of business. Management believes, based on information currently available, that the amount of ultimate liability with respect to any of these actions will not materially affect the Company's financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the year 2003 due to the events surrounding the discovery of the alleged Rigas Family misconduct and the pendency of the Chapter 11 Cases.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Class A Common Stock was previously publicly traded on the Nasdaq Stock Market under the symbol ADLAC. The Nasdaq Stock Market changed Adelphia's symbol from ADLAC to ADLAE in April, 2002 in conjunction with Adelphia's failure to file its 2001 Annual Report in a timely manner. On June 3, 2002, the Class A Common Stock was delisted from the Nasdaq Stock Market and became eligible for trading in the over-the-counter market under the symbol ADELA. Subsequently, on June 27, 2002, the Class A Common Stock began trading under the symbol ADELQ in conjunction with the filing of the Chapter 11 Cases.

The Class B Common Stock is identical in all material respects to the Class A Common Stock except that: (i) the Class B Common Stock has ten votes per share; (ii) the Class A Common Stock, voting separately by class, has the right to elect one director; (iii) in the event a cash dividend is paid, each share of Class A Common Stock will be entitled to receive 105% of the amount payable per share for each share of Class B Common Stock; and (iv) upon the liquidation, dissolution or winding up of Adelphia, (a) first, the holders of Class A Common Stock are entitled to a preference of $1.00 per share and the amount of all unpaid declared dividends thereon from any funds available after satisfying the liquidation preferences of preferred securities, debt instruments and other senior claims on Adelphia's assets, (b) then the holders of Class B Common Stock are entitled to receive $1.00 per share and the amount of all unpaid declared dividends thereon, and (c) any remaining amount would be shared ratably by both classes. Each share of the Class B Common Stock is convertible into a share of Class A Common Stock at the option of the holder. The Class B Common Stock has no established public trading market.

As of September 30, 2004, there were 228,692,414 shares of Class A Common Stock outstanding and 25,055,365 shares of the Class B Common Stock outstanding. As of April 15, 2004, the members of the Rigas Family beneficially owned (as calculated pursuant to Rule 13d-3 under the Exchange Act): (i) 51,610,806 shares of Class A Common Stock (representing 21% of the outstanding shares of Class A Common Stock); and (ii) all of the outstanding shares of Class B Common Stock. See Item 12, "Beneficial Ownership of Securities."

The following table sets forth the high and low sale prices for the Class A Common Stock, for the periods indicated, as reported on the Nasdaq Stock Market and the Pink Sheets Electronic Quotation Service maintained by the National Quotation Bureau, Inc. The stock price information is based on published financial sources. Over-the-counter market quotations reflect inter-dealer quotations and do not include retail markups, markdowns, or commissions and may not necessarily represent actual transactions.

	Market	High	Low
2002			
First Quarter	Nasdaq	$ 33.050	$ 13.800
Second Quarter (through May 31, 2002)	Nasdaq	13.520	0.690
Second Quarter (from June 3, 2002 through June 30, 2002)	OTC	1.050	0.050
Third Quarter	OTC	0.700	0.095
Fourth Quarter	OTC	0.700	0.060
2003			
First Quarter	OTC	$ 0.395	$ 0.017
Second Quarter	OTC	0.640	0.140
Third Quarter	OTC	0.400	0.058
Fourth Quarter	OTC	0.720	0.036

As of September 30, 2004, there were approximately 1,203 record holders of the Class A Common Stock. There were seven record holders of the Class B Common Stock as of September 30, 2004, all of whom were members of the Rigas Family or Rigas Family Entities.

The Company has never paid or declared any cash dividends on the Class A Common Stock or the Class B Common Stock, nor does it anticipate paying any such dividends in the foreseeable future. Under the Stand-Alone Plan, no cash or other dividends would be paid to holders of Class A Common Stock or Class B Common Stock. The ability of Adelphia to pay cash dividends on the Class A Common Stock or Class B Common Stock is limited by the provisions of the Extended DIP Facility. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources" and Note 14, "Debt" to the accompanying consolidated financial statements.

The data regarding securities authorized for issuance under equity compensation plans of the Company are set forth in the discussion under the heading Item 12, "Beneficial Ownership of Securities— Securities Authorized for Issuance Under Equity Compensation Plans."

See Note 15, "Redeemable Preferred Stock," and Note 16, "Stockholders' Equity," to the accompanying consolidated financial statements.

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected financial data set forth below for each of the three years in the period ended December 31, 2003 from our audited consolidated financial statements and other financial information presented herein. You should refer to Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K and the notes to the accompanying consolidated financial statements for additional information regarding the financial data presented below, including matters that could cause this data not to be indicative of our future results of operations or financial condition. In addition, readers should note the following information regarding the selected financial data presented below.

- The financial statements have been prepared assuming we will continue as a going concern which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. Except as required by Statement of Position ("SOP") 90-7, "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code" ("SOP 90-7") the consolidated financial statements do not include any adjustments that might be required should we be unable to continue to operate as a going concern.

- On June 25, 2002, we and substantially all of our domestic subsidiaries filed voluntary petitions to reorganize under Chapter 11 of the Bankruptcy Code, and as such, are operating our business as debtors-in-possession. For periods subsequent to the Chapter 11 filing, we have applied the provisions of SOP 90-7. Although SOP 90-7 does not significantly change the application of generally accepted accounting principles in the United States ("GAAP"), it does require that pre-petition liabilities that are subject to compromise or other treatment under a plan of reorganization be segregated in the consolidated balance sheets as liabilities subject to compromise and that revenue, expenses, realized gains and losses, and provisions for losses resulting directly from the reorganization due to the bankruptcy be reported separately as reorganization expenses in the consolidated statements of operations. We have reported liabilities subject to compromise at the amounts expected to be allowed, even if they may be settled for lesser amounts. For periods subsequent to the Petition Date, interest expense has been reported only to the extent that it will be paid during Chapter 11 proceedings or will be an allowed priority, secured or unsecured claim. In addition, no preferred stock dividends have been accrued subsequent to the Petition Date. Upon our emergence from bankruptcy, we anticipate that material adjustments will be recorded to our consolidated balance sheet to reflect the restructuring of assets and liabilities as a result of a plan of reorganization and the application of fresh-start reporting as provided by SOP 90-7. Under fresh-start reporting, the reorganization value will be allocated to our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" ("SFAS No. 141"). As such, we do not expect our financial statements for periods subsequent to the fresh-start reporting date to be comparable with those of prior periods. No assurance can be given that the Debtors will emerge from bankruptcy. For additional information, see Note 2, "Bankruptcy," to the accompanying consolidated financial statements.

- The financial data below includes the accounts of Adelphia and all of its subsidiaries that were directly or indirectly controlled by Adelphia prior to the bankruptcy petition. Following the petition for bankruptcy, we can no longer control the activities and operations of our subsidiaries. However, because the bankruptcy proceedings for us and our previously consolidated subsidiaries are consolidated for administrative purposes in the same Bankruptcy Court and will be overseen by the same judge, the financial statements of the Company and our subsidiaries have been presented on a combined basis, which is consistent with consolidated financial statements.

- Beginning in March 2002 and continuing over the next several months, improper actions that allegedly had been taken by members of the Rigas Family and certain other members of the Company's then existing management were disclosed. As a result of actions taken in response to such disclosures, we have identified a number of accounting and bookkeeping errors that required the restatement of our opening consolidated balance sheet as of January 1, 2001. We had previously announced and disclosed in our filings with the SEC that we intended to prepare restated consolidated financial statements for the years ended December 31, 2000 and 1999 and to have these restated financial statements audited by PricewaterhouseCoopers LLP ("PwC"), our independent registered public accounting firm. However, we cannot locate appropriate supporting documentation with respect to certain amounts or account balances reflected in our consolidated balance sheets for the years ended December 31, 2000 and 1999. Therefore, we have written-off these unsupported amounts or balances to the consolidated statements of operations for the years ended December 31, 2000 and 1999. We have determined that we are unable to include restated consolidated financial statements with respect to the years ended December 31, 2000 and 1999 in this report because we cannot conclude that the restated consolidated financial statements would present, in all material respects, our financial position as of December 31, 1999 and our results of operations and cash flows for the years ended December 31, 2000 and 1999, in each case in accordance with GAAP, consistently applied. Therefore, the selected financial data included below does not contain data with respect to the years ended December 31, 2000 and 1999. For additional information, see Note 4, "Restatement of Consolidated Financial Statements," to the accompanying consolidated financials statements.

- On January 11, 2002, we completed the TelCove Spin-off. The information below does not include TelCove's results of operations or financial position subsequent to December 31, 2001. For additional information, see Note 9, "TelCove," to the accompanying consolidated financial statements.

- We completed a number of acquisitions during 2001. We issued Class A Common Stock and entered into significant new financing arrangements in connection with these acquisitions. The effects of these acquisitions have been included in our accompanying consolidated financial statements effective with the purchase date. For additional information concerning acquisitions, please refer to Item 1, "Certain Significant Business Developments Occurring Since 1999—Acquisitions and Financings" and Note 8, "Acquisitions," to the accompanying consolidated financial statements.

	Year ended December 31,		
	2003	2002	2001
	(amounts in thousands except share and per share data)		
Statement of Operations Data:			
Revenue	$ 3,606,043	$ 3,268,457	$ 3,325,063
Costs and Expenses:			
Direct operating and programming	2,419,778	2,318,815	2,510,807
Selling, general and administrative:			
Third party and Rigas Family Entities	249,400	239,418	252,862
Investigation and re-audit related fees (a)	52,039	56,519	—
Compensation expense (benefit) on equity security transactions with the Rigas Family and Rigas Family Entities (b)	—	(101,000)	101,000
Depreciation	856,562	984,213	906,800
Amortization	162,839	168,894	522,746
Impairment of long-lived assets (c)	17,641	2,031,757	4,657,643
Provision for uncollectible amounts due from TelCove and cost of TelCove settlement (d)	97,902	549,407	—
Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities (e)	5,497	1,762,241	222,931
(Gains) losses on dispositions of long-lived assets and cable systems exchanges, net (f)	—	6,747	(541,994)
Operating loss	$ (255,615)	$ (4,748,554)	$ (5,307,732)
Interest expense, net of amounts capitalized (contractual interest was $953,091 and $1,048,965 during 2003 and 2002, respectively) (g)	$ (382,274)	$ (758,479)	$ (1,282,363)
Reorganization expenses due to bankruptcy (h)	$ (98,871)	$ (48,684)	$ —
Loss before cumulative effects of accounting changes	$ (832,612)	$ (5,782,522)	$ (6,112,427)
Cumulative effects of accounting changes, net of income tax benefit of $2,739 in 2001 (i)	$ —	$ (1,406,306)	$ (4,074)
Net loss	$ (832,612)	$ (7,188,828)	$ (6,116,501)
Net loss applicable to common shareholders	$ (839,929)	$ (7,247,891)	$ (6,170,860)
Per weighted average share of common stock:			
Basic and diluted loss before cumulative effects of accounting changes	$ (3.31)	$ (23.27)	$ (35.05)
Basic and diluted net loss applicable to common stockholders	$ (3.31)	$ (28.87)	$ (35.07)
Basic and diluted weighted average shares of common stock outstanding	253,747,638	251,030,834	175,947,671
Balance Sheet Data (end of period):			
Cash and cash equivalents	$ 252,661	$ 223,630	$ 121,474
Total assets	$ 13,196,741	$ 13,602,406	$ 17,508,979
Debt, current	$ 347,119	$ 298,797	$ 17,417,044
Liabilities subject to compromise (j)	$ 18,184,226	$ 18,020,124	$ —
Redeemable preferred stock (k)	$ —	$ 148,794	$ 486,813
Stockholders' deficit	$ (7,074,674)	$ (6,284,062)	$ (3,088,682)
Cash Flow Data:			
Net cash provided by (used in):			
Operating activities	$ 506,604	$ 651,295	$ (391,156)
Investing activities	$ (525,895)	$ (1,643,902)	$ (3,975,074)
Financing activities	$ 48,322	$ 1,094,763	$ 4,432,503

(a) Represents investigation and re-audit related fees that, although not directly related to the Chapter 11 filing, relate to the investigation of the alleged actions of Rigas Management and related efforts to comply with applicable laws and regulations.

(b) In 2001, the Other Rigas Entities entered into certain agreements whereby the Other Rigas Entities agreed to purchase Class B Common Stock and Series E Preferred Stock from us at a future date. As the equity securities were issued to entities controlled by the Rigas Family, the majority of whom were employees of the Company, we recognized compensation expense (benefit) for these equity securities under APB Opinion No. 25. Accordingly, the difference between the purchase price of the securities and their market price has been reflected as adjustments to compensation expense (benefit). See Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

(c) Based upon our evaluation of the recoverability of the long-lived assets associated with our cable business, TelCove's CLEC business and the CLEC markets retained by us, we recorded impairment charges during 2003, 2002 and 2001. For additional information, see Note 12, "Impairment of Long-Lived Assets," to the accompanying consolidated financial statements.

(d) During 2002, we fully reserved for the amounts due to us from TelCove. In addition, we reserved for the costs of a Global Settlement with TelCove during 2003. For additional information, see Note 9, "TelCove," to the accompanying consolidated financial statements.

(e) These amounts represent our provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities. For additional information, see Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

(f) In 2002, we recorded a loss on disposition related to the sale of land and timber rights. In 2001, we exchanged certain cable systems for cable systems held by other cable operators and we recognized a gain equal to the difference between the historical cost of the systems given up and the fair value of the systems acquired. For additional information, see Note 6, "Transactions with the Rigas Family and Rigas Family Entities," and Note 8, "Acquisitions," to the accompanying consolidated financial statements.

(g) Represents interest paid or accrued on debt. For periods subsequent to the petition date, interest expense has been reported only to the extent that it will be paid during Chapter 11 proceedings or will be an allowed priority, secured or unsecured claim. For additional information, see Note 2, "Bankruptcy," and Note 14, "Debt," to the accompanying consolidated financial statements.

(h) For periods subsequent to the Petition Date, we have applied the provisions of SOP 90-7. SOP 90-7 requires that revenue, expenses, realized gains and losses, and provisions for losses resulting directly from the reorganization due to bankruptcy be reported separately as reorganization expenses in the consolidated statements of operations.

(i) Effective January 1, 2002, we adopted SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), and as a result, were required to test all intangible assets acquired for impairment. The resulting transitional impairment loss was measured as of January 1, 2002 and has been recognized as a cumulative effect of accounting change. SFAS No. 142 also required that goodwill and indefinite lived intangible assets no longer be amortized effective January 1, 2002. For additional information, see Note 5, "Recent Accounting Pronouncements," to the accompanying consolidated financial statements. On January 1, 2001, we adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No. 133," by SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," ("SFAS No. 138") and by SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS No. 149"). As a result of our adoption of SFAS No. 133, we began carrying certain warrants at fair value. For additional information, see Note 5, "Recent Accounting Pronouncements," and Note 11, "Cost and Other Investments," to the accompanying consolidated financial statements.

(j) In accordance with SOP 90-7, all pre-petition liabilities subject to compromise have been segregated in the consolidated balance sheet and classified as liabilities subject to compromise at the estimated amount of allowed claims.

(k) As a result of the adoption of SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("SFAS No. 150"), we have classified our redeemable preferred stock as a liability subject to compromise in the accompanying December 31, 2003 consolidated balance sheet.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the accompanying consolidated financial statements of the Company. Reference is also made to "Cautionary Statements" in Part I of this report for a description of important factors that could cause actual results to differ from expected results. See also Item 1, "Business—Risk Factors."

OVERVIEW

General

We are the fifth largest operator of cable television systems in the United States. Our operations primarily consist of providing analog and digital cable services, HSI services and other advanced services over our cable systems. These services are generally provided to residential subscribers. As of December 31, 2003, our consolidated cable operations served approximately 5,085,000 basic cable subscribers, of which approximately 1,802,000 also received digital cable service. Our consolidated cable systems also provided HSI services to approximately 954,000 subscribers as of December 31, 2003. With the exception of approximately 47,000 basic cable subscribers that were located in Brazil, all of our consolidated basic cable subscribers at December 31, 2003 were located in the United States. Our domestic consolidated cable operations are located in 31 states, with large clusters in Los Angeles, Western Pennsylvania, Cleveland, Western New York, New England, West Palm Beach, Northern Virginia and Colorado Springs.

Our only reportable operating segment is our "cable" segment. The cable segment includes our cable system operations (including consolidated subsidiaries and equity method investments) that provide video services, HSI services and media services. Operating segments that are not included in the cable segment are aggregated together in the "corporate and other" segment. For additional information, see Note 20, "Segments" to the accompanying consolidated financial statements.

Alleged Actions of Rigas Management

Beginning in March 2002 and continuing over the next several months, certain improper actions that allegedly had been taken by members of the Rigas Family and certain other members of the Company's then existing management were disclosed. Among other things, the improprieties allegedly committed by members of the Rigas Family included:

- failing to apply the proper accounting or provide required disclosures with respect to a variety of related party and other issues and transactions, including (i) co-borrowing agreements pursuant to which certain subsidiaries of Adelphia and the Rigas Co-Borrowing Entities were jointly and severally liable, and (ii) purchases of Adelphia securities by the Rigas Family Entities;

- engaging in sham transactions and record keeping and other financial manipulations in order to (i) overstate revenue and other measures of operating results, (ii) artificially reduce reported debt and increase reported equity, and (iii) meet financial covenants of debt facilities;

- otherwise misappropriating and improperly using corporate assets; and

- covering up such misappropriations.

The March 2002 disclosure of more than $2 billion in off-balance sheet liabilities led to the disclosure of numerous alleged improprieties of the Rigas Family. As the alleged improprieties of the Rigas Family continued to come to light, we (i) authorized a Special Committee to conduct an investigation into certain transactions involving the Company and the Rigas Family Entities and certain related matters, and (ii) announced that we expected to restate certain of our consolidated financial statements. Deloitte, our former independent auditor, subsequently suspended its audit work on our consolidated financial statements for the year ended December 31, 2001 and withdrew the audit report it had issued with respect to the Company's previously issued financial statements. On June 9, 2002, we dismissed Deloitte. On June 13, 2002, we retained PwC as our independent registered public accounting firm.

Also in May 2002, the Special Committee obtained the agreement of John J. Rigas and certain other members of the Rigas Family to resign from their positions as officers and directors of the Company. Subsequently, certain other Adelphia officers and employees who were alleged to have been complicit in the alleged wrongdoings were dismissed. Our Board has been reconstituted, and we have since retained new senior management, including a new CEO, President and COO, CFO, General Counsel and CAO, and implemented improved corporate governance policies and procedures, with one objective being the improvement of our control environment. Our current Board is comprised of seven members, including six that are independent of the Company. All of our directors have joined the Board subsequent to the time that the Rigas Family members resigned from their positions as executive officers and directors of the Company. For additional information, see Item 1, Business – Certain Significant Business Developments Occurring Since 1999" and Note 4, "Restatement of Consolidated Financial Statements," to the accompanying consolidated financial statements.

Current Business Strategy

Since the current management team was hired in early 2003, we have implemented a strategy designed to increase revenue, profitability and competitiveness, reduce costs and improve the overall efficiency of our business. Our objective is to maintain and leverage our position as a leading provider of analog and digital cable and HSI services. Key elements of our strategy are to own and operate an upgraded high-bandwidth two-way network, offer bundled services and deliver a quality customer experience. For additional information see Item 1, "Business — Business Strategy."

Bankruptcy Proceedings

In June 2002, the Debtors filed voluntary petitions to reorganize under Chapter 11 of the Bankruptcy Code. The Debtors are operating their business as debtors-in-possession under Chapter 11. The rights and claims of the Debtors' various creditors and security holders will be determined by a plan of reorganization that must be approved by the Bankruptcy Court. On February 25, 2004, the Debtors filed a Stand-Alone Plan and related draft disclosure statement with the Bankruptcy Court.

The Debtors believe that there is substantial opposition to the terms of the Stand-Alone Plan as filed on February 25, 2004 from many of their constituents. The Debtors are in the process of amending the Stand-Alone Plan to address the opposition of certain constituents. If the Stand-Alone Plan is rejected by certain classes of claims or equity interests, the Bankruptcy Court may decide not to confirm it.

On April 22, 2004, Adelphia announced that it intended to pursue a sale of the Company while simultaneously continuing to prepare to emerge as a stand-alone company pursuant to the proposed Stand-Alone Plan. We are pursuing the dual track process to determine which alternative is in the best interest of the Debtors' constituents in the Chapter 11 Cases.

In order to provide liquidity, we entered into the DIP Facility with a group of lenders on August 26, 2002. On May 10, 2004, we entered into the Extended DIP Facility. For additional information, see Note 14, "Debt," to the accompanying consolidated financial statements.

We have received commitments from a syndicate of financial institutions for up to $8,800 million in exit financing that will be used to finance cash payments to be made under our proposed Stand-Alone Plan, to pay transaction costs associated with the reorganization of the Debtors and to fund working capital requirements. The proposed Exit Financing Facility is comprised of (i) $5,500 million of senior secured credit facilities, which includes $4,750 million of term loans and a $750 million revolving credit line that would be available following our emergence from bankruptcy, and (ii) a $3,300 million bridge facility. The commitments were approved by the Bankruptcy Court on June 30, 2004. Funding under the commitments is subject to certain other conditions.

For additional information, see Item 1, "Business – Certain Significant Business Developments Occurring Since 1999—Events Occurring During the Pendency of the Chapter 11 Cases under Interim Management and Current Management" and Note 2, "Bankruptcy," to the accompanying consolidated financial statements.

Restatement of Consolidated Financial Statements

Beginning in the first quarter of 2003 and under the direction of the new senior management team, the Company's accounting personnel initiated an analysis, review, and in certain cases, reconstruction of our historical books and records. These efforts identified a number of accounting and bookkeeping errors that required adjustment. In general, the accounting errors arose in connection with prior management's misinterpretation or misapplication of GAAP and its failure to maintain adequate internal controls and appropriate books and records.

For additional information, see Note 4, "Restatement of Consolidated Financial Statements," to the accompanying consolidated financial statements.

Acquisitions and Dispositions

Commencing in 1999, the Company, under the direction of Rigas Management, undertook a series of acquisition and financing transactions that dramatically increased the size of the Company and its indebtedness. Adelphia issued Class A Common Stock and entered into significant new financing arrangements in connection with these acquisitions. The effects of these acquisitions have been included in our accompanying consolidated financial statements effective with the purchase dates. For additional information concerning acquisitions, see Item 1, "Business—Certain Significant Business Developments Occurring Since 1999—Acquisitions and Financings" and Note 8, "Acquisitions," to the accompanying consolidated financial statements.

On January 11, 2002, we completed the TelCove Spin-off whereby all of the shares of common stock of TelCove owned by Adelphia were distributed in the form of a dividend to holders of Class A Common Stock and Class B Common Stock. For additional information, see Note 9, "TelCove," to the accompanying consolidated financial statements.

Due to our acquisition activity during 2001 and the TelCove Spin-off in January 2002, direct comparisons of our results of operations during such periods are not meaningful without taking into account the effects of the acquisitions. Accordingly, the impacts of acquisitions and the TelCove Spin-off are identified where material in the "Results of Operations" discussion appearing below. In this context, our comparisons of our results of operations exclusive of the effects of acquisitions will include all cable systems which were owned by us at both the beginning and end of the periods compared.

Trends

We use ARPU as a measure of performance for our business. ARPU represents total annual revenue, divided by twelve months, divided by an average of the number of monthly subscribers for the twelve month period.

The following table summarizes ARPU for selected revenue components.

	Year ended December 31,		
	2003	**2002**	**2001**
ARPU:			
Cable video revenue (including digital cable and media services), per basic subscriber	$ 51.56	$ 47.60	$ 44.79
HSI revenue, per HSI subscriber	$ 39.36	$ 34.95	$ 43.94
Total revenue, per basic subscriber	$ 58.40	$ 51.92	$ 54.00

ARPU for cable video revenue increased $3.96, or 8%, in 2003 and $2.81, or 6%, in 2002 when compared to the respective prior year. Historically, cable video ARPU has been increasing and we expect this trend to continue. ARPU for HSI revenue increased $4.41, or 13%, in 2003 and decreased $8.99, or 20%, in 2002 when compared to the prior year. ARPU for HSI revenue decreased in 2002 primarily due to sales promotions for a free introductory period or discounted service. ARPU for total revenue increased $6.48 in 2003, or 12%, when compared to 2002 and decreased $2.08, or 4%, in 2002 when compared to 2001. The $2.08 decrease in 2002 was primarily due to the TelCove Spin-off.

We face increasing competition for our video services primarily from DBS operators and for our HSI services from local telephone companies. Competition has put downward pressure on the number of basic subscribers and pricing for certain services. Basic cable subscribers decreased 2% in 2003 when compared to 2002 and have continued to decrease in 2004. In an effort to reverse the video subscriber trend, we are increasing our subscriber retention efforts and our emphasis on enhancing and differentiating our video products and services with VOD, HDTV and DVRs.

Digital cable subscribers increased 6% in 2003 when compared to 2002. We expect our digital cable business to continue to grow but at a lesser rate than was experienced in 2003.

HSI subscribers increased 54% in 2003 when compared to 2002. Historically, HSI subscribers have been increasing. We expect our HSI business to continue to grow and anticipate continued demand for our HSI service.

Programming costs increased 10% in 2003 and 15% in 2002 when compared to the respective prior year. Programming costs are expected to continue to rise during the next several years, primarily due to the expansion of service offerings and industry-wide programming cost increases (particularly with respect to sports programming), reflecting both inflation indexed and negotiated license fee increases. To offset these increased rates, we expect to continue to review and adjust as necessary the pricing for our services and create efficiencies in our operations. By way of example, these efficiencies include a reduction in the number of customer care call center operations and the introduction of IVR technology, both of which are designed to improve operating efficiencies, provide a higher level of service to subscribers and reduce the overall cost of serving subscribers.

RESULTS OF OPERATIONS

2003 Compared to 2002

Revenue. Revenue increased $338 million, or 10%, during 2003, as compared to 2002. The following table summarizes revenue for the indicated periods (dollars in thousands, except ARPU amounts):

	Year ended December 31,		2003 over 2002		% of Revenue	
	2003	2002	$ Increase (decrease)	% Increase (decrease)	2003	2002
Cable						
Video (including digital)	$ 2,942,602	$ 2,779,861	$ 162,741	6%	82%	85%
High speed Internet (HSI)	371,549	196,383	175,166	89	10	6
Media services	209,837	191,399	18,438	10	6	6
Total cable	3,523,988	3,167,643	356,345	11	98	97
Corporate and other						
CLEC	38,053	54,911	(16,858)	(31)	1	2
Other	44,002	45,903	(1,901)	(4)	1	1
Total corporate and other	82,055	100,814	(18,759)	(19)	2	3
Total revenue	$ 3,606,043	$ 3,268,457	$ 337,586	10%	100%	100%
ARPU	$ 58.40	$ 51.92	$ 6.48	12%		

Cable revenue increased $356 million, or 11%, during 2003, as compared to 2002. The increase in cable revenue is primarily attributable to increased revenue from HSI, higher rates for basic and expanded basic service tiers, increased revenue from digital cable and higher media services revenue. The positive impact of higher rates for basic and expanded basic service tiers was partially offset by a decrease in our basic subscriber base. Significant increases in the subscriber bases for HSI service and digital cable tiers accounted for most of the increase in revenue from these services. The $18 million increase in media services revenue is attributable to our ability to increase both the average rate received and the volume of advertising sold as a result of an industry wide trend of viewers switching from broadcast to cable, thereby increasing viewership and the advertising population. Subscribers increased 54% for HSI services and 6% for digital cable and decreased by 2% for basic cable when comparing 2003 to 2002.

Through April 2004, when we transferred substantially all of our CLEC assets to TelCove in connection with the Global Settlement, we operated CLEC businesses in certain geographical markets. CLEC revenue decreased $17 million primarily as a result of the closure of certain CLEC markets in 2003. For additional information, see Note 9, "TelCove," to the accompanying consolidated financial statements.

Other revenue during 2003 and 2002 includes revenue from our security monitoring business, our sports programming network (Empire Sports Network) and our long-distance telephone resale business. Other revenue declined primarily as a result of our decision to no longer actively promote the long-distance telephone resale line of business.

Direct operating and programming costs. Direct operating and programming costs increased $101 million, or 4%, during 2003, as compared to 2002. The following table summarizes direct operating and programming costs for the periods indicated (dollars in thousands):

	Year ended December 31,		2003 over 2002		% of Revenue	
	2003	2002	$ Increase (decrease)	% Increase (decrease)	2003	2002
Cable						
Programming costs	$ 1,056,820	$ 958,485	$ 98,335	10%	29%	29%
Other cable	1,297,713	1,254,375	43,338	3	36	39
Total cable	2,354,533	2,212,860	141,673	6	65	68
Corporate and other						
CLEC	35,236	68,091	(32,855)	(48)	1	2
Other	30,009	37,864	(7,855)	(21)	1	1

Total corporate and other	65,245	105,955	(40,710)	(38)	2	3
Total direct operating and programming costs	$ 2,419,778	$ 2,318,815	$ 100,963	4%	67%	71%

Programming costs consist primarily of costs paid to programmers for the provision of analog, premium and digital channels and pay-per-view programs. Programming costs increased $98 million, or 10%, primarily due to an increase in the rates paid to programming providers, partially offset by a decrease in basic subscribers. An increase in the number of programming services offered also contributed to the increase.

Programming costs are expected to continue to rise during the next several years, primarily due to the expansion of service offerings and industry-wide programming cost increases (particularly with respect to sports programming), reflecting both inflation-indexed and negotiated license fee increases. Any cost increases that we are not able to pass on to our subscribers through service rate increases would reduce our operating margins unless offset by improved operational efficiencies.

Other cable operating costs consist of labor and other costs associated with the provision of cable services to subscribers and the operation and maintenance of the cable systems. The increase in other cable operating costs of $43 million is attributable to increases in employee benefit costs due to rising medical benefit costs and increases in customer call center costs primarily related to the increased focus by new management on quality customer care. These increases were partially offset by a decrease in contract labor costs.

CLEC direct operating costs decreased $33 million primarily as a result of the closure of certain CLEC markets in 2003.

Our other operating costs for 2003 and 2002 include costs associated with our sports programming network, our security monitoring business and long-distance telephone resale business. Other costs declined $8 million primarily as a result of our decision to no longer actively promote the long-distance telephone resale line of business.

Total direct operating and programming costs, expressed as a percentage of revenue, decreased to 67% in 2003 from 71% in 2002. This decrease reflects increased cable revenue from higher rates, as explained above, and improving operating efficiencies. In addition, the closure of certain CLEC markets in 2003 and the decision to no longer actively promote the long-distance telephone resale business, contributed to the percentage decrease in total direct operating and programming costs when expressed as a percentage of revenue.

Selling, general and administrative expenses ("SG&A")

Third party and Rigas Family Entities. Third party and Rigas Family Entities SG&A expenses increased $10 million, or 4%, during 2003, as compared to 2002. The following table summarizes certain components of third party and Rigas Family Entities SG&A expenses for the indicated periods (dollars in thousands):

	Year ended December 31, 2003	Year ended December 31, 2002	2003 over 2002 $ Increase (decrease)	2003 over 2002 % Increase (decrease)	% of Revenue 2003	% of Revenue 2002
Cable	$ 101,990	$ 86,568	$ 15,422	18%	3%	3%
Corporate and other						
CLEC	1,309	1,180	129	11	—	—
Other	146,101	151,670	(5,569)	(4)	4	4
Total selling, general and administrative expenses	$ 249,400	$ 239,418	$ 9,982	4%	7%	7%

Third party and Rigas Family Entities SG&A expenses for the cable business increased $15 million, or 18%, primarily due to higher marketing expenses. The higher marketing expenses are associated with costs to develop and launch new packaging and pricing plans for digital cable and HSI during 2003.

Corporate and other third party and Rigas Family Entities SG&A expenses include those expenses associated with our CLEC operations, as well as corporate functions, our sports programming network, our security monitoring business and our long-distance telephone resale business. Other third party and Rigas Family Entities SG&A expenses decreased $5 million primarily due to a decrease in contracted professional fees, state capital-based tax expense and administrative overhead expenses partially offset by an increase in employee expenses when compared to the 2002 period.

Investigation and re-audit related fees. We are incurring certain investigation and re-audit related fees that, although not directly related to the Chapter 11 filing, relate to the investigation of the alleged actions of Rigas Management and related efforts to comply with applicable laws and regulations. These expenses include the re-audit, legal, special investigation and forensic consultant fees of the Company and the Special Committee and have been included in investigation and re-audit related fees in the accompanying consolidated statements of operations. Such expenses were $52 million and $57 million during 2003 and 2002, respectively.

Compensation expense (benefit) on equity security transactions with the Rigas Family and Rigas Family Entities. In 2001, the Other Rigas Entities entered into certain agreements whereby the Other Rigas Entities agreed to purchase Class B Common Stock and Series E Preferred Stock from the Company at a future date. As the equity securities were issued to entities controlled by the Rigas Family, the majority of whom were employees of the Company, the Company recognized compensation expense (benefit) for these equity securities under APB Opinion No. 25. Accordingly, the difference between the purchase price of the securities and their market price has been reflected as adjustments to compensation expense (benefit). Compensation expense (benefit) of ($101 million) was recorded during 2002. See Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

Depreciation. Depreciation expense decreased by $128 million, or 13%, during 2003, as compared to 2002. The following table summarizes certain components of depreciation expense for the indicated periods (dollars in thousands):

	Year ended December 31, 2003	Year ended December 31, 2002	2003 over 2002 $ Increase (decrease)	2003 over 2002 % Increase (decrease)	% of Revenue 2003	% of Revenue 2002
Cable	$ 823,909	$ 926,661	$ (102,752)	(11)%	23%	28%
Corporate and other						
CLEC	11,732	25,962	(14,230)	(55)	—	1
Other	20,921	31,590	(10,669)	(34)	1	1
Total depreciation expense	$ 856,562	$ 984,213	$ (127,651)	(13)%	24%	30%

The decrease in cable depreciation expense during 2003, as compared to 2002, is attributable to the net effect of (i) a decrease in depreciation expense associated with property and equipment that has become fully depreciated or was retired and (ii) an increase in depreciation expense due to capital expenditures. Associated with the rebuild and upgrade of our cable systems, the useful lives used to depreciate cable plant have been adjusted such that the cable plant will be fully depreciated by the time the rebuild has been completed. Such adjusted depreciation declined by $54 million in 2003 as compared to 2002. The remaining decrease of $188 million in depreciation expense in 2003 as compared to 2002 is primarily attributable to other cable property and equipment becoming fully depreciated or was retired. Offsetting this decrease is an increase in depreciation expense of $139 million due to capital expenditures in 2003 and the full year effect of capital expenditures from 2002.

Corporate and other depreciation expense decreased $25 million primarily as a result of the closure of certain CLEC markets in 2003 and other non-cable property and equipment which became fully depreciated or was retired.

Amortization. Amortization expense remained consistent at $163 million in 2003 as compared to $169 million in 2002.

Impairments of long-lived assets. Impairment charges were $18 million in 2003 as compared to $2,032 million in 2002. During 2003, we evaluated the recoverability of our long-lived assets in Brazil and recognized impairment charges of $17 million. In addition, impairment charges of $1 million were recognized in 2003 related to our franchise rights. During 2002, we evaluated the recoverability of our long-lived assets and recognized impairment charges totaling $2,032 million related to the impairment of certain tangible and intangible assets. This amount primarily relates to impairments of cable franchise rights and goodwill recorded as a result of the decline in the fair value of our cable franchise rights and goodwill driven by the Debtors' Chapter 11 filing. Impairments were also recognized in 2002 from the discontinuance of a call center and billing system that we had been developing internally since 1998 and our decision to cease construction of a golf course. For additional information, see Note 12, "Impairment of Long-Lived Assets," to the accompanying consolidated financial statements.

Provision for uncollectible amounts due from TelCove and cost of TelCove settlement. Expense for TelCove bad debt provisions and settlements was $98 million in 2003 as compared to $549 million in 2002. During the fourth quarter of 2003, we recorded a $98 million charge related to the Global Settlement with TelCove. During 2002, we recorded an aggregate $549 million provision for uncollectible amounts due from TelCove, representing the full amount that had been advanced to TelCove. For additional information, see Note 9, "TelCove," to the accompanying consolidated financial statements.

Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities. We recorded provisions for amounts due from the Rigas Family and Rigas Family Entities of $5 million in 2003 and $1,762 million in 2002. Prior to the Petition Date, we adjusted the allowance for uncollectible amounts based on increases or decreases in the values of the underlying net assets available to the Rigas Family and each of the Rigas Family Entities for repayment of amounts advanced. Therefore, changes in the provision are a result of changes in the fair value of the underlying net assets of the Rigas Family and Rigas Family Entities, as well as changes in amounts due from the Rigas Family and Rigas Family Entities. Our assessment of collectibility was based on an orderly sale of the Rigas Family's and Rigas Family Entities' underlying assets and did not apply current circumstances to prior periods. Subsequent to the Petition Date, we ceased the recognition of increases in values of the underlying assets of the Rigas Family Entities. The 2002 change was primarily due to decreases in the value of the underlying net assets available to the Rigas Family and each of the Rigas Family Entities for repayment of amounts advanced driven by the Debtors' Chapter 11 filing. For additional information, see Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

Gains (losses) on disposition of long-lived assets and cable systems exchanges. In 2002, we sold certain timber rights which had been acquired by Rigas Management, recognizing a loss of $7 million. For additional information, see Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

Interest expense, net of amounts capitalized. Interest expense, net of amounts capitalized, was $382 million in 2003 as compared to $758 million in 2002. Interest expense, net of amounts capitalized, decreased $376 million, or 50%, during 2003, as compared to 2002. The decrease in interest expense, net of amounts capitalized, principally reflects interest that was not paid or accrued on certain debt that is subject to compromise as a result of our Chapter 11 filing. During 2003, the average monthly debt balance on which we paid or accrued interest was $7,233 million, as compared to $11,302 million in 2002. Since the Petition Date, we have been paying or accruing interest only on amounts outstanding under the DIP Facility and the pre-petition credit agreements, including the entire principal balance outstanding under the co-borrowing agreements. A decrease in average interest rates to 5.6% in 2003 from 7.0% in 2002 also contributed to the decrease. This decrease in interest expense, net of amounts capitalized, was partially offset by a $15 million decrease in capitalized interest during 2003, as compared to 2002.

Reorganization expenses due to bankruptcy. Certain expenses directly related to the Chapter 11 filing are expensed and included in reorganization expenses due to bankruptcy. Such expenses aggregated $99 million and $49 million during 2003 and 2002, respectively. The increase is primarily due to a $34 million increase in professional fees due to a full year of