activity in 2003 and a $16 million increase in contract and lease rejection costs. We will continue to incur significant reorganization expenses until we emerge from bankruptcy. For additional information, see Note 2, "Bankruptcy," to the accompanying consolidated financial statements.

*Other income (expense), net.* Other income (expense) was $7 million and ($143 million) during 2003 and 2002, respectively. During 2003, other income (expense) included $3 million of interest income and a $4 million gain on the sale of an investment. During 2002, we recorded a ($175 million) reserve related to the Company's offer to settle the SEC Civil Action and to resolve the DoJ's ongoing investigation of Adelphia. This reserve was partially offset by the recognition of approximately $37 million of previously deferred income upon the termination of agreements with certain providers of interactive programming. For additional information, see Note 21, "Commitments and Contingencies," and Note 11, "Cost and Other Investments," to the accompanying consolidated financial statements.

*Income tax (expense) benefit.* We had an income tax expense of ($117 million) and ($77 million) during 2003 and 2002, respectively. Such amounts differ from the amounts that would have resulted from the application of statutory tax rates due primarily to increases in the valuation allowances provided against our net operating loss carryforwards and other deferred tax assets during 2003 and 2002. Such valuation allowances do not take into account the net operating loss carryforwards that could be utilized to offset the income that might result from the discharge of liabilities if the Debtors were to emerge from bankruptcy. In addition, a statutory ownership change, as defined in Section 382 of the Internal Revenue Code, will occur upon issuance of new common stock to claimholders. Any such ownership change will likely limit the annual usage of any remaining net operating loss carryforwards that were generated prior to the change of ownership. For additional information, see Note 18, "Income Taxes," to the accompanying consolidated financial statements.

*Share of earnings (losses) of equity affiliates, net.* Our share of losses of our equity affiliates was ($3 million) and ($120 million) during 2003 and 2002, respectively. The 2002 amount primarily includes ($123 million) of the losses of Devon Mobile. The Devon Mobile losses include ($114 million) of charges that were recognized by us in connection with Devon Mobile's Chapter 11 filing. As a result of the separate Chapter 11 filings of Devon Mobile and Century/ML Cable, we suspended the use of the equity method of accounting effective August 19, 2002 for Devon Mobile and effective September 30, 2002 for Century/ML Cable. Subsequent to the respective effective dates of such Chapter 11 filings, we have carried each of these investments at cost. In addition, in connection with the Devon Mobile bankruptcy filing, the receivables from Devon Mobile have been fully reserved and the investment has been fully impaired. For additional information, see Note 10, "Investments in Equity Affiliates and Related Receivables," to the accompanying consolidated financial statements.

*Minority's interest in losses of subsidiaries, net.* Minority's interest in losses of subsidiaries, net was $25 million in 2003 as compared to $119 million in 2002. Minority's interest in losses of subsidiaries represents the minority interest owner's share of the losses of our majority-owned subsidiaries. For 2003 and 2002, the minority's interest share of losses of subsidiaries relates entirely to Century-TCI. The decrease is attributable primarily to impairment charges of $333 million relating to goodwill and franchise intangible assets in 2002. In 2002, the minority's interest share of such impairment charges was $83 million.

*Cumulative effects of accounting changes.* In connection with our January 1, 2002 adoption of SFAS No. 142, we recognized a $1,406 million transitional impairment loss as a cumulative effect of an accounting change. For additional information, see Note 5, "Recent Accounting Pronouncements," to the accompanying consolidated financial statements.

*Net loss.* Our net loss was $833 million during 2003, as compared to $7,189 million during 2002. During 2003, we recorded $121 million of impairment charges and provisions for uncollectible amounts from TelCove and the Rigas Family and Rigas Family Entities, compared to $4,343 million in 2002. Additionally, in 2002 we recognized a $1,406 million impairment loss as a cumulative effect of an accounting change from the adoption of SFAS No. 142. We are attempting to improve our operating results by increasing revenue while containing, and wherever possible, reducing expenses and capital expenditures. Future increases in revenue are dependent on our ability to (i) increase the penetration of our digital and HSI services, (ii) launch new service offerings, (iii) implement rate increases and (iv) maintain or increase the number of basic cable subscribers. We initiated cost reduction and containment efforts in 2003 and 2002 and we expect to focus on available opportunities to reduce or contain costs for the foreseeable future. Our ability to increase revenue and reduce or contain expenses and capital expenditures may be adversely affected by unfavorable developments in the Chapter 11 proceedings and by competitive, regulatory, technological and other factors outside of our control. Accordingly, no assurance can be given that we will be able to improve our operating results in future periods.

*2002 Compared to 2001*

As discussed previously, the comparability of the 2002 and 2001 results is affected by acquisition activity and the TelCove Spin-off. In 2002 as compared to 2001, the effect of acquired cable systems accounted for a $95 million increase in revenue, a $45 million increase in direct operating and programming costs, a $3 million increase in selling, general and administrative expenses and a $57 million increase in depreciation expense. The TelCove Spin-off accounted for a $397 million decrease in revenue, a $448 million decrease in direct operating costs, a $21 million decrease in selling, general and administrative expenses and a $203 million decrease in depreciation and amortization expense. For additional information, see Note 8, "Acquisitions," and Note 9, "TelCove," to the accompanying consolidated financial statements.

*Revenue.* Total revenue decreased $57 million, or 2%, during 2002, as compared to 2001. The following table summarizes revenue for the indicated periods (dollars in thousands, except ARPU amounts):

| | Year ended December 31, | | 2002 over 2001 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | $ Increase (decrease) | % Increase (decrease) | 2002 | 2001 |
| Cable | | | | | | |
| Video (including digital) | $ 2,779,861 | $ 2,576,012 | $ 203,849 | 8% | 85% | 77% |
| HSI | 196,383 | 105,349 | 91,034 | 86 | 6 | 3 |
| Media services | 191,399 | 162,461 | 28,938 | 18 | 6 | 6 |
| Total cable | 3,167,643 | 2,843,822 | 323,821 | 11 | 97 | 86 |
| Corporate and other | | | | | | |
| CLEC | 54,911 | 431,320 | (376,409) | (87) | 2 | 13 |
| Other | 45,903 | 49,921 | (4,018) | (8) | 1 | 1 |
| Total corporate and other | 100,814 | 481,241 | (380,427) | (79) | 3 | 14 |
| Total revenue | $ 3,268,457 | $ 3,325,063 | (56,606) | (2)% | 100% | 100% |
| ARPU | $ 51.92 | $ 54.00 | $ (2.08) | (4)% | | |

Cable revenue increased $324 million, or 11%, during 2002, as compared to 2001. The effect of acquired cable systems accounted for a $95 million, or a 3%, increase in cable revenue. The remaining increase in cable revenue is primarily attributable to higher rates for basic and expanded basic service tiers, increased revenue from HSI services and 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 2% decrease in our basic subscriber base, excluding the effect of acquired cable systems. Significant increases in the subscriber bases for HSI service and digital cable tiers accounted for most of the increase in revenue from these services. Excluding the effect of acquired cable systems, HSI and digital cable subscribers increased 101% and 32%, respectively, when compared to 2001. Media services revenue increased $29 million, or 18%, due to our ability to increase both the average rate received and the volume of services sold.

CLEC revenue decreased $376 million primarily as a result of the TelCove Spin-off. This decrease was slightly offset by an increase in the existing CLEC markets retained by us.

*Direct operating and programming costs.* Direct operating and programming costs decreased $192 million, or 8%, during 2002, as compared to 2001. During 2002, the effect of acquired cable systems accounted for a $45 million, or a 2%, increase in direct operating and programming costs. Also during 2002, the TelCove Spin-off accounted for an approximate $448 million, or 18%, reduction of direct operating costs compared to costs in 2001. As a result of the TelCove Spin-off, percentage of revenue calculations between 2002 and 2001 may not be comparable. The following table summarizes direct operating and programming costs for the periods indicated (dollars in thousands):

| | Year ended December 31, | | 2002 over 2001 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | $ Increase (decrease) | % Increase (decrease) | 2002 | 2001 |
| Cable | | | | | | |
| Programming costs | $ 958,485 | $ 832,923 | $ 125,562 | 15% | 29% | 25% |
| Other | 1,254,375 | 1,180,491 | 73,884 | 6 | 39 | 36 |
| Total cable | 2,212,860 | 2,013,414 | 199,446 | 10 | 68 | 61 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Corporate and other | | | | | | |
| CLEC | 68,091 | 460,091 | (392,000) | (85) | 2 | 14 |
| Other | 37,864 | 37,302 | 562 | 2 | 1 | 1 |
| Total corporate and other | 105,955 | 497,393 | (391,438) | (79) | 3 | 15 |
| Total direct operating and programming costs | $ 2,318,815 | $ 2,510,807 | $ (191,992) | (8)% | 71% | 76% |

Programming costs increased $126 million, or 15%, primarily due to an increase in the rates paid to programming providers, partially offset by a decrease in basic subscribers. The effect of acquired cable systems accounted for a $39 million, or a 5%, increase in programming costs.

Other cable operating costs increased $74 million, or 6%, and were primarily attributable to higher employee expenses associated with the expansion of call center operations, data network expansion and franchise fees paid to municipalities. The effect of acquired cable systems accounted for $6 million of the increase in other cable operating costs.

CLEC direct operating expenses decreased $392 million primarily as a result of the TelCove Spin-off. This decrease was partially offset by increases in operating costs in the existing CLEC markets retained by us.

Total direct operating and programming costs, expressed as a percentage of revenue, decreased to 71% in 2002 from 76% in 2001. This decrease was due to the TelCove Spin-off which was partially offset by increased programming costs and other cable operating costs, as discussed above, which increased at a faster pace than cable revenue.

*Selling, general and administrative expenses*

*Third party and Rigas Family Entities.* Third party and Rigas Family Entities SG&A expenses decreased $13 million, or 5%, during 2002, as compared to 2001. As a result of the TelCove Spin-off, percentage of revenue calculations between 2002 and 2001 may not be comparable. The following table summarizes selling, general and administrative expenses for the indicated periods (dollars in thousands):

| | Year ended December 31, | | 2002 over 2001 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | $ Increase (decrease) | % Increase (decrease) | 2002 | 2001 |
| Cable | $ 86,568 | $ 85,081 | $ 1,487 | 2% | 3% | 3% |
| Corporate and other | | | | | | |
| CLEC | 1,180 | 22,353 | (21,173) | (95) | — | 1 |
| Other | 151,670 | 145,428 | 6,242 | 4 | 4 | 4 |
| Total selling, general and administrative expenses | $ 239,418 | $ 252,862 | $ (13,444) | (5)% | 7% | 8% |

Cable third party and Rigas Family Entities SG&A expenses increased $1 million, or 2%, primarily due to the effect of acquired cable systems.

CLEC third party and Rigas Family Entities SG&A expenses decreased $21 million primarily as a result of the TelCove Spin-off.

Other expenses include third party and Rigas Family Entities SG&A expenses associated with our corporate functions, as well as our security monitoring business, our sports programming network and long-distance telephone resale business. Other third party and Rigas Family Entities SG&A expenses increased $6 million, or 4%, primarily due to increased employee costs and professional fees partially offset by a decrease in various corporate overhead expenses in 2002 as compared to 2001.

*Investigation and re-audit related fees.* During 2002, we started incurring certain investigation and re-audit related fees that, although not directly related to the Chapter 11 filing, related 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 $57 million during 2002.

*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) and $101 million was recorded during 2002 and 2001, respectively. See Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

*Depreciation.* Depreciation expense increased by $77 million during 2002, as compared to 2001. The following table summarizes certain components of depreciation expense for the indicated periods (dollars in thousands):

| | Year ended December 31, | | 2002 over 2001 | | % of Revenue | |
|---|---|---|---|---|---|---|
| | 2002 | 2001 | $ Increase (decrease) | % Increase (decrease) | 2002 | 2001 |
| Cable | $ 926,661 | $ 702,335 | $ 224,326 | 32% | 28% | 21% |
| Corporate and other | | | | | | |
| CLEC | 25,962 | 157,187 | (131,225) | (83) | 1 | 5 |
| Other | 31,590 | 47,278 | (15,688) | (33) | 1 | 1 |
| Total depreciation expense | $ 984,213 | $ 906,800 | $ 77,413 | 9% | 30% | 27% |

The increase in cable depreciation expense during 2002, as compared to 2001, is attributable to the net effect of (i) an increase in depreciation expense due to capital expenditures and the effect of acquired cable systems, (ii) an increase in depreciation due to a shortening of the useful lives for set-top boxes, remotes and modems and (iii) a decrease in depreciation expense associated with property and equipment that has become fully depreciated or was retired. During 2002, capital expenditures and property and equipment acquired through acquisitions accounted for approximately $198 million of the change in depreciation expense (approximately $57 million due to the effect of acquired cable systems). The capital expenditures are associated with the rebuild and upgrade of our cable systems. Effective January 1, 2002, we began calculating depreciation using useful lives that were shorter than those used prior to that date for set-top boxes, remotes and modems. The impact of changing these useful lives during 2002 was a $95 million increase in depreciation expense, as compared to 2001. For additional information, see Note 3, "Summary of Significant Accounting Policies," to the accompanying consolidated financial statements. 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 approximately $27 million in 2002 as compared to 2001. The remaining decrease of $42 million in cable depreciation expense in 2002 as compared to 2001 is primarily attributable to other cable property and equipment becoming fully depreciated or retired.

Corporate and other depreciation expense decreased by $147 million primarily as a result of the TelCove Spin-off. Offsetting these decreases is an increase in depreciation expense due to corporate and CLEC capital expenditures in 2002 and the full year effect of capital expenditures from 2001. Other property and equipment which became fully depreciated or was retired also contributed to the decrease in depreciation expense.

*Amortization.* Amortization expense was $169 million during 2002 and $523 million during 2001 resulting in a decrease of $354 million, or 68%, during 2002, as compared to 2001. Amortization expense decreased $354 million during 2002 primarily as a result of the adoption of SFAS No. 142, which required us to cease the amortization of goodwill and franchise rights effective January 1, 2002 and the effect of the TelCove Spin-off. The impact of adopting SFAS No. 142 and the effect of the TelCove Spin-off is partially offset by increases in the amortizable balance of other intangible assets due to the full year effect of 2001 acquisitions.

*Impairment of long-lived assets.* During 2002 and 2001, we evaluated the recoverability of our long-lived assets and recognized impairment charges totaling $2,032 million and $4,658 million, respectively, related to the impairment of certain of these assets. During 2002, this amount primarily related to impairments 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 an internal operations call center and billing system that we had been developing since 1998 and our decision to cease construction of a golf course. During 2001, the majority of our impairments related to goodwill and franchise rights associated with our cable business and goodwill and property and equipment associated with our CLEC operations. 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.* During 2002, we recorded an aggregate $549 million provision in 2002 for uncollectible amounts due from TelCove, representing the full amount that had been advanced to TelCove, including a $15 million loan by us to TelCove under the TelCove DIP Credit Agreement. 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 the amounts due from the Rigas Family and Rigas Family Entities of $1,762 million in 2002 and $223 million in 2001. Prior to the Petition Date, we adjusted the allowance for uncollectible amounts due from the Rigas Family and Rigas Family Entities 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 the 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 significant increase in the provision for 2002 was due to the substantial decline, as a result of the Company's Chapter 11 filing, in the value of the Company's securities, which comprised a large portion of the assets held by 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.

*Gains (losses) on dispositions of long-lived assets and cable systems exchanges.* In 2002, we sold certain timber rights that had been acquired by Rigas Management, recognizing a loss of ($7 million). In 2001, we recorded a $542 million pre-tax gain related to an exchange of cable systems assets with Comcast. 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.

*Interest expense, net of amounts capitalized.* Interest expense, net of amounts capitalized, was $758 million in 2002 as compared to $1,282 million in 2001. Interest expense, net of amounts capitalized, decreased $524 million, or 41%, during 2002, as compared to 2001. The decrease in interest expense, net of amounts capitalized, principally reflects interest that was not paid or accrued on debt that is subject to compromise as a result of our Chapter 11 filing. During 2002, the average monthly debt balance on which we paid or accrued interest was $11,302 million, as compared to $15,986 million in 2001. 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. The average monthly balance of our bank debt was approximately $6,817 million during the last half of 2002. A decrease in average interest rates to 7.0% in 2002 from 8.4% in 2001, also contributed to the decrease.

*Reorganization expenses due to bankruptcy.* Certain fees directly related to the Chapter 11 filing are expensed and included in reorganization expenses due to bankruptcy. Such expenses were $49 million during 2002 and represented primarily professional fees. For additional information, see Note 2, "Bankruptcy," to the accompanying consolidated financial statements.

*Impairment of cost and available-for-sale investments.* We recorded impairments of our cost and available-for-sale investments of $7 million and $56 million during 2002 and 2001, respectively. The 2002 amount primarily includes $5 million related to the write-off of our investment in TV Gateway. The 2001 amount includes $26 million related to the write-off of our investment in Commerce.TV, Inc., $11 million related to the write-down of our investment in UnitedGlobalCom, Inc. preferred stock, $6 million related to the write down of our investment in Wink Communications, Inc. and $13 million related to the write-off or write-down of other investments. For additional information, see Note 11, "Cost and Other Investments," to the accompanying consolidated financial statements.

*Other income (expense), net.* Other income (expense) was ($143 million) and $30 million during 2002 and 2001, respectively. During 2002, we recorded a ($175 million) reserve related to the Company's offer to settle the SEC Civil Action and to resolve the DoJ's ongoing investigation of Adelphia. This reserve was partially offset by the recognition of approximately $37 million of previously deferred income upon the termination of agreements with certain providers of interactive programming. In 2001, we recognized $49 million of previously deferred income related to At Home and offset by a ($19 million) loss from changes in fair value of warrants. For additional information, see Note 11, "Cost and Other Investments," to the accompanying consolidated financial statements.

*Income tax (expense) benefit.* Income tax expense was ($77 million) and income tax benefit was $171 million during 2002 and 2001, respectively. Such amounts differ from the amounts that would have resulted from the application of statutory tax rates due primarily to increases in the valuation allowances provided against our net operating loss carryforwards and other deferred tax assets during 2002 and 2001. As discussed under *"2003 Compared to 2002 – Income tax expense"* above, such loss carryforwards and the related valuation allowances may be significantly impacted in the event the Debtors emerge from bankruptcy. For additional information, see Note 18, "Income Taxes," to the accompanying consolidated financial statements.

*Share of earnings (losses) of equity affiliates, net.* Our share of earnings (losses) of equity affiliates was ($120 million) and $25 million during 2002 and 2001, respectively. The 2002 amount primarily includes ($123 million) of losses from Devon Mobile. The Devon Mobile losses include ($114 million) of charges that were recognized by us in connection with Devon Mobile's Chapter 11 filing. As a result of the separate Chapter 11 filings of Devon Mobile and Century/ML Cable, we suspended the use of the equity method of accounting effective August 19, 2002 for Devon Mobile and effective September 30, 2002 for Century/ML Cable. Subsequent to the respective effective dates of such Chapter 11 filings, we have carried each of these investments at cost. In addition, in connection with the Devon Mobile bankruptcy filing, the receivables from Devon Mobile have been fully reserved and the investment has been fully impaired. The 2001 earnings include $36 million and $8 million representing our share of the earnings of Devon Mobile and TelCove's equity affiliates, respectively, as well as $5 million of other net equity earnings. These earnings were partially offset by equity losses of ($24 million) associated with our investment in Across Media Networks, LLC ("Across Media"). The Company fully impaired its investment in and receivable from Across Media in 2001 as a result of Across Media's bankruptcy filing. Devon Mobile's earnings during 2001 are attributable primarily to the recognition of a gain in connection with the sale of certain Federal Communications Commission licenses in Florida. TelCove's equity affiliates were included with the TelCove Spin-off. For additional information, see Note 10, "Investments in Equity Affiliates and Related Receivables," to the accompanying consolidated financial statements.

*Minority's interest in losses of subsidiaries, net.* Minority's interest in losses of subsidiaries was $119 million during 2002, as compared to $349 million during 2001. Such decrease is primarily attributable to a decrease of $172 million in the minority's interest share of Century-TCI's net loss and a decrease of $58 million relating to the effect of the TelCove Spin-off in 2002. The decrease in Century-TCI's net loss is primarily attributable to impairment charges of $333 million and $986 million in 2002 and 2001 respectively, relating to goodwill and franchise intangible assets. In 2002, the minority's interest share of such impairment charges was $83 million compared to $246 million in 2001.

*Cumulative effects of accounting changes.* In connection with our January 1, 2002 adoption of SFAS No. 142, we recognized a $1,406 million transitional impairment loss as a cumulative effect of accounting changes. In connection with our January 1, 2001 adoption of SFAS No. 133, we recognized a $4 million loss, net of the related tax benefit of $3 million, in connection with the SFAS No. 133 requirement to carry certain warrants at fair value. Such loss has been reported as a cumulative effect of accounting changes in accordance with SFAS No. 133. For additional information, see Note 5, "Recent Accounting Pronouncements," to the accompanying consolidated financial statements.

*Net loss.* Our net loss was $7,189 million during 2002, as compared to $6,117 million during 2001. Both periods' results were significantly affected by impairment charges and provisions for uncollectible amounts. As noted above, in 2002 we recorded $2,311 million of provisions for uncollectible amounts from TelCove and the Rigas Family Entities compared to $223 million in the previous year. Additionally, in 2002 we recognized a $1,406 million impairment loss as a cumulative effect of an accounting change from the adoption of SFAS No. 142. These losses were partially offset by a decrease in impairments of long-lived assets to $2,032 million in 2002 from $4,658 million in 2001. See "2003 compared to 2002 - Net Loss" above for a discussion of our plans to improve operating results.

*Quarterly Data*

The following table presents unaudited consolidated statement of operations quarterly data for the periods indicated (in thousands, except share and per share amounts):

| | Three months ended | | | |
|---|---|---|---|---|
| | December 31, 2003 | September 30, 2003 | June 30, 2003 | March 31, 2003 |
| | (unaudited) | | | |
| Revenue | $ 947,843 | $ 909,606 | $ 896,818 | $ 851,776 |
| Operating loss | $ (173,677) | $ (23,843) | $ (13,005) | $ (45,090) |
| Net loss | $ (334,959) | $ (177,170) | $ (141,358) | $ (179,125) |
| Basic and diluted loss per weighted average share of common stock | $ (1.33) | $ (0.71) | $ (0.56) | $ (0.71) |
| Weighted average shares of common stock outstanding | 253,747,739 | 253,747,604 | 253,747,604 | 253,747,604 |

In light of the substantial time, effort, and expense incurred since January 2003 to complete our audited consolidated financial statements for 2001, 2002 and 2003, we have determined that extensive additional efforts would be required to prepare quarterly financial statements for periods prior to 2003. In addition, we would be required to make certain additional assumptions to produce these quarterly financial statements due to the fact that Rigas Management did not maintain certain financial data on a quarter-by-quarter basis prior to 2003. Therefore, we believe that such information, based on these assumptions, would not materially add to the mix of information available to the public. Accordingly, we have not undertaken to prepare such quarterly information.

## LIQUIDITY AND CAPITAL RESOURCES

*Going Concern and Bankruptcy*

The accompanying consolidated financial statements have been prepared assuming that Adelphia will continue as a going concern, which contemplates continuity of our operations and realization of our assets and payments of our liabilities in the ordinary course of business. As described above under "Overview," we have filed voluntary petitions to reorganize under Chapter 11. No assurance can be given that we will emerge from bankruptcy. The matters discussed under this section that relate to future events or expectations may be significantly affected by the outcome of the Chapter 11 proceedings. The Chapter 11 proceedings will involve, or may result in, various restrictions on our activities, limitations on financing, the need to obtain Bankruptcy Court, Creditors' Committee and Equity Committee approval for various matters and uncertainty as to relationships with vendors, suppliers, investors, employees, subscribers and others with whom we may conduct or seek to conduct business. Continuation of Adelphia as a going concern is contingent upon, among other things, the confirmation of a plan of reorganization and our ability to generate sufficient net cash provided by operating activities and financing activities to meet our future obligations. If no reorganization plan is approved, it is possible that our assets may be liquidated. Moreover, we are considering selling all or a portion of our assets as an alternative to emerging from bankruptcy. These matters raise significant doubt about our ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of the uncertainties.

*Rigas Co-Borrowing Entities*

We are in the process of evaluating whether the Company is the primary beneficiary for each of the Rigas Co-Borrowing Entities, as contemplated by the Financial Accounting Standards Board ("FASB") Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), and as subsequently revised in December 2003 ("FIN 46-R"). Due to the significant amounts owed to us by the Rigas Co-Borrowing Entities, we believe that we will have access to the positive cash flows, if any, of the Rigas Co-Borrowing Entities for the foreseeable future. Conversely, due to the inability of the Rigas Family to provide funding to the Rigas Co-Borrowing Entities, we believe that we will be required to provide or otherwise arrange for the funding of the cash requirements of the Rigas Co-Borrowing Entities for the foreseeable future. Nevertheless, until such time as we own controlling interests in the Rigas Co-Borrowing Entities, we will not be able to use the Managed Cable Entities' cable television assets and related cash flows to secure or otherwise support external financing, including the Extended DIP Facility and any external financing we obtain if we emerge from bankruptcy. Although we are seeking to obtain controlling interests in the Rigas Co-Borrowing Entities, we cannot predict whether we will be able to obtain such controlling interests on terms acceptable to us. For additional information, see Note 5, "Recent Accounting Pronouncements," to the accompanying consolidated financial statements.

## LIQUIDITY

### *Historical Sources and Uses of Cash*

The following table summarizes net cash provided by (used in) operating activities, net cash used in investing activities and net cash provided by financing activities during the indicated periods (amounts in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Operating activities | $ 506,604 | $ 651,295 | $ (391,156) |
| Investing activities: | | | |
| Capital expenditures | $ (723,521) | $ (1,235,884) | $(2,403,989) |
| Acquisitions | — | (2,101) | (1,132,245) |
| Other investing activities | 197,626 | (405,917) | (438,840) |
| Total investing activities | $ (525,895) | $ (1,643,902) | $(3,975,074) |
| Financing activities | $ 48,322 | $ 1,094,763 | $ 4,432,503 |

*Operating Activities.* Net cash provided by (used in) operating activities for the years ended December 31, 2003, 2002 and 2001 was $507 million, $651 million and ($391 million), respectively. The increase in net cash provided by operating activities during 2002 as compared to 2001 is primarily attributable to our inability, prior to the Debtors' Chapter 11 filing, to timely pay our vendors and the decrease in interest payments as a result of our Chapter 11 filing. 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 arrangements.

*Investing Activities.* Fluctuations in the amount of cash used in investing activities are primarily a function of the timing of acquisitions and capital expenditures. The decrease in cash used in investing activities in 2003 and 2002 is primarily attributable to (i) a retrenchment in capital spending that was implemented around the time of the Chapter 11 filing and which continued into 2003 and (ii) the suspension of acquisition activity in 2002. During 2001 we used net cash of $1,236 million to complete acquisitions. The higher level of capital expenditures during 2001 is primarily attributable to our efforts to upgrade and rebuild our cable systems, much of which was acquired pursuant to acquisitions that were consummated in 2001, 2000 and 1999. For additional information, see Note 8, "Acquisitions," to the accompanying consolidated financial statements.

*Financing Activities.* Cash provided by financing activities is primarily comprised of borrowings, net of repayments, and proceeds received in connection with the issuance of equity securities. The lower levels of cash provided by financing activities during 2003 and 2002 are primarily a function of a decrease in cash used in investing activities in response to the reduction in our financial flexibility that resulted from the Debtors' Chapter 11 filing. The higher level of cash provided by financing activities during 2001 is primarily attributable to the capital raised to meet the higher cash requirements of our investing and operating activities during those periods.

## CURRENT AND FUTURE SOURCES OF LIQUIDITY

### *General*

Since the Petition Date, we have utilized cash provided by operating activities and borrowings under (i) the DIP Facility and (ii) the Extended DIP Facility to fund capital expenditures and other liquidity requirements. As discussed in greater detail below, our restricted cash balances do not represent sources of short-term liquidity.

### *DIP Facility*

In connection with the Chapter 11 filings, the Loan Parties entered into the $1,500 million DIP Facility, which was subsequently superceded and replaced by the Extended DIP Facility, which is described below. On August 23, 2002, the Bankruptcy Court approved the DIP Facility, and on September 3, 2002, the Loan Parties closed on the DIP Facility. As part of the closing, the proceeds from the loan made pursuant to the DIP Facility (the "Tranche B Loan") in the amount of $200 million were funded and transferred into certain investment accounts maintained with the administrative agent. Prior to the extension of the DIP Facility, which is described below, the DIP Facility was scheduled to expire on the earlier of June 25, 2004 or upon the occurrence of certain other events as described in the DIP Facility. Subject to certain cash management restrictions, borrowings under the DIP Facility could be used for general corporate purposes and investments, as defined in the agreement. The DIP Facility was secured by a first priority lien on all of our unencumbered assets, a super priority lien on all of our assets securing our pre-petition bank debt, and a junior lien on all other assets subject to valid pre-existing liens. The DIP Facility consisted of a $1,300 million revolving credit facility (the "Tranche A Loan") and the $200 million Tranche B Loan. Loans under the DIP Facility accrued interest either (i) at the Alternate Base Rate (which was the greatest of the Prime Rate, the Base CD Rate plus 1% per annum or the Federal Funds Effective Rate plus 0.5% per annum) plus 2.5% per annum or, (ii) in the case of Eurodollar loans, at the Adjusted London interbank offered rate ("LIBOR"), as defined in the DIP Facility, plus 3.5% per annum. At December 31, 2003 and 2002, the weighted average effective borrowing rate on the outstanding borrowings under the DIP Facility was 4.60% and 3.42% per annum, respectively. In addition to the effective borrowing rate, a commitment fee ranging from 0.5% to 1.0% per annum was charged on the unused portion of the Tranche A Loan.

The terms of the DIP Facility contained certain restrictive covenants, which included limitations on the ability of the Loan Parties to (i) incur additional guarantees, liens and indebtedness, (ii) sell or otherwise dispose of certain assets and (iii) pay dividends or make other distributions, loans or payments with respect to any shares of capital stock, subject to certain exceptions set forth in the DIP Facility. The DIP Facility also required compliance with certain financial covenants with respect to operating results and capital expenditures. These financial covenants became effective for periods beginning May 1, 2003. From time to time, the Loan Parties and the DIP lenders entered into certain amendments to the terms of the DIP Facility. In addition, from time to time, we received waivers to prevent or cure certain defaults under the DIP Facility. These waivers and amendments are effective through the maturity date of the Extended DIP Facility.

The Loan Parties made mandatory prepayments of principal on the DIP Facility in connection with the consummation of certain asset sales, which prepayments reduced the total commitment under the Tranche B Loan to $199 million as of December 31, 2003. Including $17 million of letters of credit that were issued under the Tranche A Loan, the availability under the Tranche A Loan was $1,206 million at December 31, 2003. There was no availability under the Tranche B Loan at December 31, 2003.

*Extended DIP Facility*

On May 10, 2004, the Loan Parties entered into the $1,000 million Extended DIP Facility, which superceded and replaced in its entirety the DIP Facility. The Extended DIP Facility was approved by the Bankruptcy Court on May 6, 2004 and closed on May 10, 2004. Except as set forth below, the material terms and conditions of the Extended DIP Facility are substantially identical to the material terms and conditions of the DIP Facility described above, including with respect to the covenants and collateral securing the Extended DIP Facility.

The Extended DIP Facility matures upon the earlier of March 31, 2005 or upon the occurrence of certain other events, as described in the Extended DIP Facility. Upon the closing of the Extended DIP Facility, we borrowed an aggregate of $391 million under the Extended DIP Facility, and used all such proceeds to repay all of the then outstanding principal, accrued interest and certain related fees and expenses under the DIP Facility. The Extended DIP Facility is comprised of an $800 million Tranche A Loan and a $200 million Tranche B Loan. The applicable margin on loans extended under the Extended DIP Facility was reduced (when compared to the DIP Facility) to 1.50% per annum in the case of Alternate Base Rate loans and 2.50% per annum in the case of Adjusted LIBOR Rate loans. In addition, under the Extended DIP Facility, the commitment fee with respect to the unused portion of the Tranche A Loan was reduced (when compared to the DIP Facility) to a range of 0.50% to 0.75%, depending upon the amount of the unused portion of the Tranche A Loan. The Extended DIP Facility also provides for, among other things, (i) a decrease in the commitment and primary letter of credit fee rates, (ii) a change to certain letter of credit provisions to enable certain letters of credit to remain outstanding following the maturity date of the Extended DIP Facility, (iii) a change to certain borrowing limits of the designated subsidiary borrowing groups and (iv) an extension of the financial covenant levels of each designated subsidiary borrowing group through the maturity date of the Extended DIP Facility.

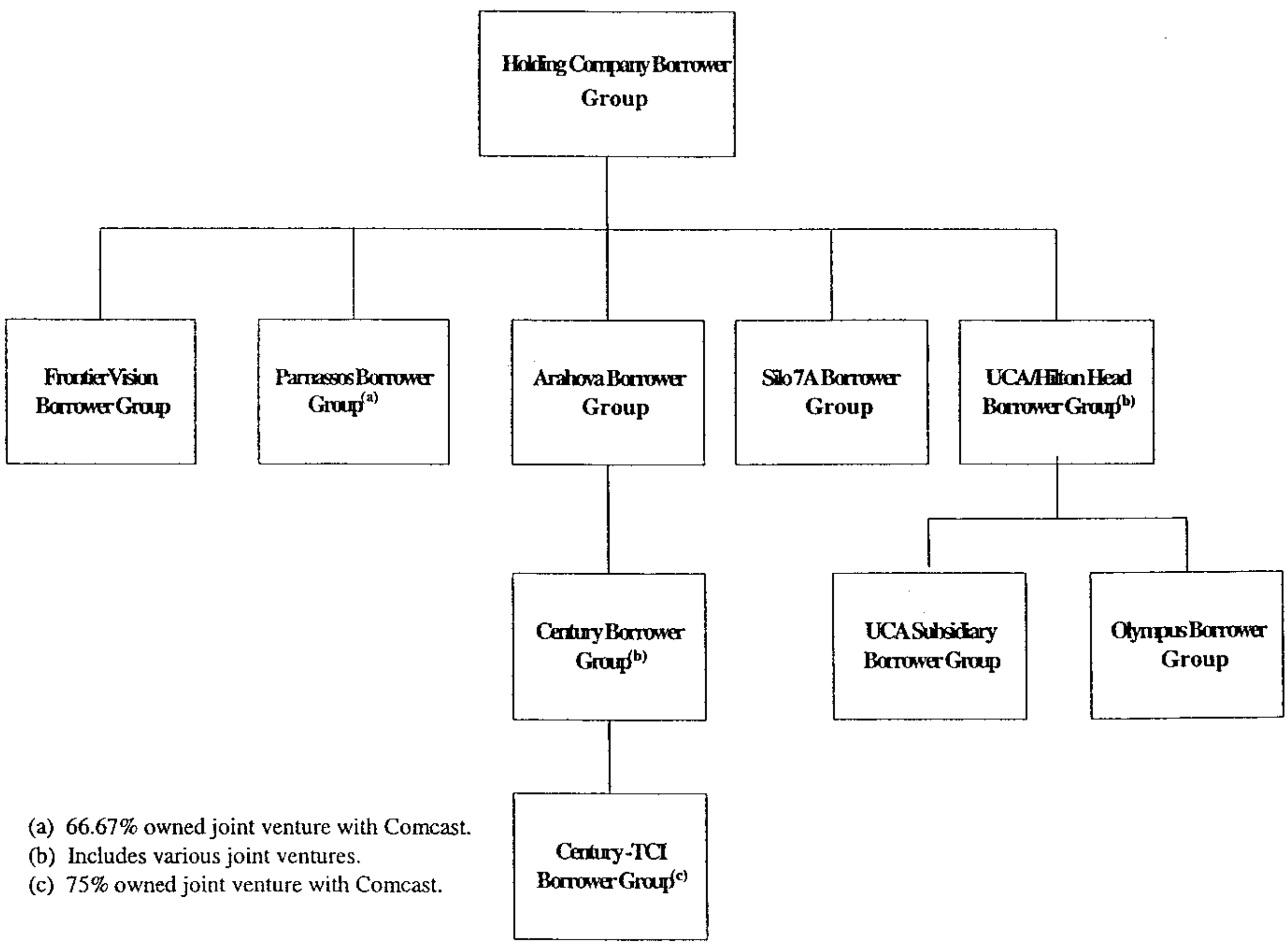
From time to time, the Loan Parties and the DIP lenders entered into certain amendments to the terms of the Extended DIP Facility. In addition, from time to time, we received waivers to prevent or cure certain defaults under the Extended DIP Facility. These waivers and amendments are effective through the maturity date of the Extended DIP Facility. In addition, on June 29, 2004 and July 30, 2004, certain Loan Parties made mandatory prepayments of principal on the Extended DIP Facility in connection with the consummation of certain asset sales. As a result, the total commitment for the entire Extended DIP Facility was reduced to $996 million, with the total commitment of the Tranche A Loan being reduced to $797 million and the total commitment of the Tranche B Loan being reduced to slightly less than $200 million. As of

September 30, 2004, $407 million under the Tranche A Loan has been drawn and letters of credit totaling $116 million have been issued under the Tranche A Loan, leaving availability of $274 million under the Tranche A Loan. Furthermore, as of September 30, 2004, the entire Tranche B Loan has been drawn.

Borrowings under the Extended DIP Facility are permitted to be used by each subsidiary borrower group ("Extended Borrower Group") only by such Extended Borrower Group and only for general corporate purposes and investments, as defined in the agreement. See "Summary of Corporate Structure for DIP Facility" below. However, a member of an Extended Borrower Group may make advances or loans to Adelphia, and indirectly to members of other Extended Borrower Groups, subject to certain limitations and to a requirement that the loans or advances be repaid on a monthly basis, except for $62.5 million of loans to Adelphia and $37.5 million of loans to the Silo 7A Borrower Group (defined below). At December 31, 2003, the aggregate amount of cash and cash equivalents held by the Extended Borrower Groups that is not available to be transferred or loaned to Adelphia was $207 million.

*Summary of Corporate Structure for DIP Facility*

Adelphia owns all of the issued and outstanding shares of capital stock of ACC Investment Holdings, Inc., U.S. Tele-Media Investment Company and ACC Operations, Inc. ("ACC Operations"). All of the Company's remaining subsidiaries are wholly or partly owned subsidiaries of ACC Operations. Prior to the commencement of the Chapter 11 Cases, certain of Adelphia's subsidiaries were parties to one of six separate credit facilities. In connection with the DIP Facility, Adelphia and its subsidiaries were divided into nine borrowing groups, with certain other entities in the structure acting as guarantors for the entire DIP Facility. Each of these borrowing groups is referred to in this Annual Report as a "Borrower Group." Generally, the Adelphia subsidiaries that were party to the six credit facilities were grouped in separate Borrower Groups named for such facility, and the Adelphia subsidiaries that were unencumbered prior to the Petition Date were grouped in the Silo 7A Borrower Group, the Arahova Borrower Group, the UCA Subsidiary Borrower Group and the Parent/Guarantor Borrower Group. The Borrower Groups are as follows: (1) the Century Borrower Group; (2) the Century-TCI Borrower Group; (3) the FrontierVision Borrower Group; (4) the Parnassos Borrower Group; (5) the Olympus Borrower Group; (6) the UCA/Hilton Head Borrower Group; (7) the Silo 7A Borrower Group; (8) the Arahova Borrower Group; (9) the UCA Subsidiary Borrower Group; and (10) the Holding Company Borrower Group. The following chart depicts a summary of the corporate structure of Adelphia and its subsidiaries as of December 31, 2003.



*Cash Provided by Operations*

Consistent with our historical experience, we expect that cash provided by operations will continue to represent an important source of liquidity for us in future periods. We consider both traditional GAAP and alternative measures of cash generated by our operations when evaluating this source of liquidity. Free cash flow is an important alternative indicator we use to measure our ability to service debt. Free cash flow, which is defined by us as cash provided by operating activities less capital expenditures, is used by us as a measure of liquidity. Our definition of free cash flow may differ from similar cash flow measurements used by other public companies, including other public companies with which we compete. We believe that free cash flow provides a useful means of evaluating our liquidity by enabling us to focus on our ability to service debt and make strategic investments, after giving effect to capital expenditures, which is a significant and ongoing obligation for us. See "Current and Future Uses of Liquidity — Capital Expenditures" below. However, free cash flow is not intended to replace or supercede any information presented in accordance with GAAP. The following table presents the non-GAAP measure, free cash flow (deficit), together with a reconciliation of such alternative measure to the corresponding GAAP measure, cash provided by (used in) operating activities, for the indicated periods (amounts in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Free cash flow (deficit) | $ (216,917) | $ (584,589) | $(2,795,145) |
| Adjustments to reconcile free cash flow to cash provided by operating activities: | | | |
| Capital expenditures | 723,521 | 1,235,884 | 2,403,989 |
| Cash provided by (used in) operating activities | $ 506,604 | $ 651,295 | $ (391,156) |

Cash provided by (used in) operating activities is largely a function of the revenue generated and cash expenses incurred during the period. Accordingly, the future reliability of cash provided by (used in) operating activities is dependent on our ability to maintain or increase our revenue while controlling the corresponding cash expenses. Future increases in revenue are dependent on the continued growth of revenue from digital cable, HSI, and other new service offerings in the future, and our ability to maintain or increase the revenue derived from traditional analog cable services. Our ability to continue to achieve growth in digital cable, HSI, and other new service offerings is in part dependent on our ability to economically rebuild and upgrade our cable systems. Although we believe that we can continue to increase our revenue and control our cash expenses, factors outside of our control such as adverse changes in the competitive, regulatory, economic, technological, or political environment, or in consumer trends and/or demographics could adversely affect our ability to do so. Although we have generated free cash flow deficits in recent years, we plan to manage our operations, debt structure and capital expenditures with the objective of achieving positive free cash flow in future periods. However, due to uncertainties relating to the timing of our emergence from bankruptcy and other matters, we cannot predict when we will achieve positive free cash flow. For additional information concerning our planned capital expenditures, see "Current and Future Uses of Liquidity — Capital Expenditures" below.

*Restricted Cash Balances*

We do not consider our restricted cash balances to represent sources of short-term liquidity. At December 31, 2003, restricted cash included (i) proceeds received from the $200 million Tranche B Loan that were subject to letter of credit agreements or other restrictions pursuant to the DIP Facility, (ii) cash receipts from customers that were placed in trust as a result of a dispute arising from the acquisition of a cable system and (iii) amounts that are required to be used to pay franchise fees pursuant to an agreement with an insurance provider. The following table sets forth the details of our restricted cash balances at December 31, 2003 (amounts in thousands):

| | |
|---|---|
| Current restricted cash: | |
| Dispute related to acquisition | $ 13,215 |
| Other | 1,112 |
| Total | $ 14,327 |

| | |
|---|---|
| Long-term restricted cash: | |
| Tranche B Loan | $ 45,000 |
| Agreement with insurance provider | 28,662 |
| Other | 1,148 |
| Total | $ 74,810 |

*Adequacy of Current Sources of Liquidity*

Although no assurance can be given, we believe that cash provided by operating activities, along with the financing provided by the Extended DIP Facility, should provide us with sufficient liquidity to fund our operations through the expiration date of the Extended DIP Facility. As noted above, the Extended DIP Facility expires on March 31, 2005 or earlier upon the occurrence of certain events. If it appears likely that the Extended DIP Facility will expire prior to the effective date of a plan of reorganization, we expect to request an amendment of the Extended DIP Facility to postpone the expiration thereof to a date that would allow sufficient time for a reorganization plan to become effective. It is uncertain whether the Extended DIP Facility lenders would agree to such an amendment and what terms might be imposed by such lenders in connection with such an amendment. If we were not successful in postponing the expiration of the Extended DIP Facility, we would seek alternative debtor-in-possession financing. No assurance can be given that alternative debtor-in-possession financing would be available on terms acceptable to us, if at all.

Our ability to obtain sufficient liquidity to fund our operations during the term of the Extended DIP Facility is dependent upon our ability to maintain compliance with the covenants under the Extended DIP Facility and upon our ability to generate sufficient cash provided by operating activities and financing activities to meet our obligations as they become due. In the event a Chapter 11 plan of reorganization is confirmed by the Bankruptcy Court and becomes effective, continuation of our business thereafter will be dependent on our ability to achieve positive operating results and maintain satisfactory capital and liquidity. Until a plan of reorganization is confirmed by the Bankruptcy Court and becomes effective, no assurance can be given that the Debtors will emerge from the bankruptcy proceedings.

*Future Sources of Liquidity—Exit Financing*

On February 25, 2004, we executed a commitment letter and certain related documents pursuant to which, and subject to the terms and conditions set forth therein, a syndicate of financial institutions committed to provide to the Debtors up to $8,800 million in exit financing which amounts will be used by the Debtors to make the cash payments contemplated by the Debtors' Stand-Alone Plan and to pay related transaction costs associated with the reorganization of the Debtors and provide short-term liquidity in the event that a plan of reorganization is confirmed by the Bankruptcy Court and becomes effective. The commitment letter and the related documents were amended on several occasions during the first and second quarters of 2004 to give effect to certain developments in the bankruptcy cases of the Debtors, including in response to the April 22, 2004 announcement by the Debtors of their intention to pursue a possible sale of the Company or its assets. Although no assurance can be given, we believe that the Exit Financing Facility should provide us with sufficient liquidity to fund our short-term operations in the period following emergence from bankruptcy proceedings. However, until a plan of reorganization is confirmed by the Bankruptcy Court and becomes effective, no assurances can be given that the Debtors will emerge from the bankruptcy proceedings.

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, and (ii) a $3,300 million bridge facility. The revolving credit line would generally not be used on the closing date to finance the cash payments to be made under the Debtors' Stand-Alone Plan or to pay transaction costs associated with the reorganization of the Debtors. Rather, the revolving credit line would be used following the completion of the Debtors' reorganization to fund the working capital requirements of the Debtors. The aggregate commitment of the exit lenders under the terms of the Exit Financing Facility is subject to reduction under certain circumstances, which are described in the commitment letter, as amended. In addition, we have the right to terminate the commitment of the exit lenders after the execution of a definitive sale agreement that has been approved by the Board providing for the sale of all or substantially all of the assets of the Debtors or all or substantially all of the equity of Adelphia. The obligation of the exit lenders to fund the Exit Financing Facility is subject to certain conditions which are enumerated in the commitment letter and the attachments thereto, each as amended. No assurance can be given that such conditions will be satisfied. In addition, the exit financing commitment expires on June 30, 2005. However, if a plan of reorganization is confirmed by the Bankruptcy Court on or before June 30, 2005, then Adelphia has the unilateral right to extend the commitment for 90 calendar days.

On June 30, 2004, and after the Debtors and the exit lenders agreed on certain modifications to the terms of the Exit Financing Facility, the Bankruptcy Court entered an order approving the Exit Financing Facility. Following the Bankruptcy Court's approval of the Exit Financing Facility, we paid the exit lenders a nonrefundable fee of $10 million and reimbursed the exit lenders for certain expenses they had incurred through the date of such approval, including certain legal expenses incurred by them through such date. Additional fees will be payable by us under the terms of the Exit Financing Facility irrespective of whether the Exit Financing Facility is utilized. A fee of $10 million will be payable if the exit financing facilities are not utilized. Certain other fees will only become payable if the Exit Financing Facility is funded.

*Current and Future Uses of Liquidity*

*Contractual Obligations.* The following table summarizes the timing of our required payments due under various contractual obligations as of December 31, 2003. The amounts reflected in the table include significant contractual payments due under the Debtors' pre-petition obligations that are included in liabilities subject to compromise in the accompanying consolidated balance sheets. For additional information, see Note 2, "Bankruptcy," to the accompanying consolidated financial statements. The actual amounts to be paid are subject to adjustment depending on Bankruptcy Court actions, completion of the reconciliation process with respect to disputed claims, determinations of the secured status of certain claims, the value of any collateral securing such claims, or other events. Such adjustments may be material relative to the amounts reported in the table. Accordingly, the contractual obligations detailed in the following table may vary significantly from actual cash outlays in future periods. With respect to the contracts and leases that have been rejected by the Debtors, the contractual obligations set forth in the table include (i) the estimated damage claims relating to those rejected leases and contracts for which rejection was approved by the Bankruptcy Court on or before December 31, 2003 and (ii) the remaining contractual payments due at December 31, 2003 for those rejected leases and contracts for which rejection was approved by the Bankruptcy Court subsequent to December 31, 2003 (amounts in thousands):

| | Payments due by period | | | | |
|---|---|---|---|---|---|
| | **2004** | **2005-2006** | **2007-2008** | **After 2008** | **Total** |
| Debt (a) | $2,611,998 | $4,511,445 | $3,747,882 | $5,988,228 | $16,859,553 |
| Capital lease obligations (a) | 26,593 | 40,137 | 3,128 | 301 | 70,159 |
| Operating leases | 19,779 | 25,970 | 15,483 | 47,265 | 108,497 |
| Purchase obligations (b) | 99 | — | — | — | 99 |
| Series B 13% Cumulative Exchangeable Preferred Stock due July 15, 2009 ("Series B Preferred Stock") (c) | — | — | — | 150,000 | 150,000 |
| Other firm commitments (d) | 141,062 | 16,562 | 42,592 | 323 | 200,539 |
| Total contractual obligations | $2,799,531 | $4,594,114 | $3,809,085 | $6,186,117 | $17,388,847 |

(a) Represents the contractual maturities, without consideration for default provisions, of principal due under the Debtors' pre-petition and post-petition debt and capital lease obligations. Such amounts do not include interest payments. For additional information, see Note 2, "Bankruptcy," and Note 14, "Debt," to the accompanying consolidated financial statements.

(b) Purchase obligations consist of obligations associated with agreements to purchase goods and services that are enforceable and legally binding on us, and that specify all significant terms including fixed or minimum quantities to be purchased, fixed, minimum or variable price provisions and the approximate timing of the transaction. Future payments under programming agreements have not been included in the table because our obligations under these agreements are contingent upon the provision of cable service to subscribers. Accordingly, in the event we were to terminate cable service to a portion of our subscribers or dispose of a portion of our cable systems, none of our programming contracts at December 31, 2003 would require us to make minimum or guaranteed payments to our programming vendors with respect to any such reduction in our subscribers. Notwithstanding the foregoing, payments to programming vendors have in the past represented, and are expected to continue to represent, a significant portion of our operating costs. During 2003, 2002 and 2001, our programming costs were $1,057 million, $958 million and $833 million, respectively. In general, we expect that existing programming contracts will be renewed or replaced such that the annual amounts paid to our programming vendors in future years will be equal to or greater than our 2003 programming expense.

(c) Represents future payments to stockholders with respect to the original liquidation value of the pre-petition mandatorily redeemable Series B Preferred Stock. The amounts reflected in the table do not include dividends on the Series B Preferred Stock. Our annual contractual dividends with respect to the Series B Preferred Stock are $19.5 million. No preferred stock dividends have been paid or accrued since the Petition Date. For additional information, see Note 2, "Bankruptcy," and Note 15, "Redeemable Preferred Stock," to the accompanying consolidated financial statements.

(d) Includes commitments to rebuild or upgrade cable systems and to extend the cable network to new developments and other fixed minimum contractual commitments associated with our agreements with franchise authorities. The amount and timing of the payments included in the table with respect to our rebuild, upgrade and network extension commitments are based on the requirements of the applicable franchise agreement. In this regard, each rebuild, upgrade and network extension obligation was calculated by estimating the remaining capital required as of December 31, 2003 to bring the cable distribution system into compliance with the specifications stipulated in the relevant franchise agreements. In addition to the amounts set forth in the table, we are also obligated to make variable payments for franchise fees and public education governmental access channels to franchise authorities that are dependent on the amount of revenue generated or the number of subscribers served within the applicable franchise area. Such variable payments aggregated $115 million, $107 million and $102 million during 2003, 2002, and 2001, respectively.

*Off-Balance Sheet Arrangements.* We have issued standby letters of credit for the benefit of franchise authorities and other parties, most of which have been issued to an intermediary surety bonding company. As all of such letters of credit will expire when the Extended DIP Facility expires unless adequately collateralized, we expect to collateralize existing letters of credit or issue replacement letters of credit upon the Debtors' emergence from bankruptcy. Unless otherwise amended or extended, the Extended DIP Facility will expire no later than March 31, 2005. At December 31, 2003, the aggregate principal amount of letters of credit issued by us was $63 million. These letters of credit reduce the amount that may be borrowed under the Extended DIP Facility. We do not have any other off-balance sheet arrangements.

*Capital Expenditures.* The cable industry is capital intensive and our ability to offer new services and increase revenue in future periods is largely dependent on our ability to upgrade the capacity and other technical capabilities of our cable systems. In addition, we deploy capital to (i) support the launch of new services, (ii) extend our services to new and existing residential developments and (iii) improve or maintain the quality of our cable distribution systems in order to retain subscribers and reduce the costs associated with service calls and maintenance activities. In general, our deployment of capital is designed to maximize the return on capital while taking into account relevant factors such as (i) available sources of liquidity, (ii) debt covenants, (iii) franchise requirements and (iv) availability of skilled labor.

We expect that our total capital expenditures for 2004 will range from $850 million to $950 million. In recent years, we have devoted significant capital to the rebuild and upgrade of our cable systems and we expect that substantially all of our cable networks will be rebuilt to a bandwidth of 550-MHz or greater with two-way capability by December 31, 2004. Nevertheless, subject to the availability of sufficient financial resources and to possible future changes in our business plan in response to competitive, technological, regulatory and other external developments, capital expenditures during the next several years following 2004 are not expected to decrease significantly from the 2004 level as we migrate our expenditures from the rebuild program to customer premise equipment and scaleable infrastructure associated with new services and technologies such as VoIP and VOD.

*Liquidation of Debt and Other Liabilities.* At December 31, 2003, our liabilities totaled $20,162 million including $18,184 million representing pre-petition liabilities that are subject to compromise. We currently cannot predict the amount of cash that will be required to settle pre-petition liabilities subject to compromise, as the rights and claims of the Debtors' various creditors will be determined by a plan of reorganization that is ultimately subject to confirmation by the Bankruptcy Court. As discussed above, we are exploring the possible sale of the Company as an alternative to the Stand-Alone Plan to emerge from bankruptcy as an independent company. Due to the inherent uncertainties involved in bankruptcy related matters and our decision to explore the sale of the Company, we cannot predict with certainty when a plan of reorganization will be confirmed, if at all. As discussed above, the Debtors will be required to refinance or extend the Extended DIP Facility no later than March 31, 2005.

## CRITICAL ACCOUNTING POLICIES

We believe the following accounting policies are critical in that they are important to the determination of our results of operations and/or financial condition and they require significant judgment and estimates. For additional information, see Note 3, "Summary of Significant Accounting Policies," to the accompanying consolidated financial statements.

*Impairment of Property and Equipment, Intangible Assets and Goodwill*

Pursuant to SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which we adopted on January 1, 2002, we evaluate property and equipment and amortizable intangible assets for impairment whenever current events and circumstances indicate the carrying amounts may not be recoverable. If the carrying amount is greater than the expected future undiscounted cash flows to be generated, we recognize an impairment loss equal to the excess, if any, of the carrying value over the fair value of the asset. We generally measured fair value based upon the present value of estimated future net cash flows of an asset group over its remaining useful life. We utilized an independent third party valuation firm to assist in the determination of fair value for the cable assets. With respect to long-lived assets associated with cable systems, we group systems at a level which represents the lowest level of cash flows that are largely independent of other assets and liabilities. Our asset groups under this methodology consist of seven major metropolitan markets and numerous other asset groups in our geographically dispersed operations.

Pursuant to SFAS No. 142, we evaluate our goodwill and franchise rights for impairment, at least annually on July 1, and whenever other facts and circumstances indicate that the carrying amounts of goodwill and franchise rights may not be recoverable. We evaluate the recoverability of the carrying amount of goodwill at our operating regions. These operating regions make up our cable operating segment determined pursuant to SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information", as further discussed in Note 20, "Segments," in the accompanying consolidated financial statements. For purposes of this evaluation, we compare the fair value of the assets of each of our operating regions to their respective carrying amounts. If the carrying value of an operating region were to exceed its fair value, we would then compare the implied fair value of the operating region's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. The fair value of goodwill represents the excess of the operating region's fair value over the fair value of its identifiable net assets. We evaluate the recoverability of the carrying amount of our franchise rights based on the same asset groupings used to evaluate our long-lived assets under SFAS No. 144 because the franchise rights are inseparable from the other assets in the asset group. These groupings are consistent with the guidance in Emerging Issues Task Force ("EITF") Issue No. 02-7, "Unit of Measure for Testing Impairment of Indefinite-Lived Intangible Asset." Any excess of the carrying value over the fair value for franchise rights is charged to operations as an impairment loss.

Prior to the adoption of SFAS No. 144 and SFAS No. 142, we evaluated impairment of the carrying amounts of our property and equipment and intangible assets including goodwill under SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of " ("SFAS No. 121"). In addition, we evaluated impairment of goodwill under Accounting Principles Board ("APB") Opinion No. 17, "Intangible Assets" ("APB No. 17"). We evaluated our assets for impairment whenever current events and circumstances indicated that such carrying amounts may not be recoverable. Under SFAS No. 121, if the carrying amounts of the assets were greater than the expected undiscounted cash flows to be generated by such assets, an impairment loss was recognized when the carrying values of such assets exceeded their estimated fair value. We generally measured fair value based upon the present value of estimated future net cash flows of an asset group over its remaining useful life. We utilized an independent third party valuation firm to assist in our determination of fair value. Under APB No. 17, we evaluated goodwill for impairment after consideration of any impairments measured under SFAS No. 121 on an undiscounted cash flow basis.

The evaluation of long-lived assets for impairment requires a high degree of judgment and involves the use of significant estimates and assumptions. For additional information, see Note 12, "Impairment of Long-Lived Assets," to the accompanying consolidated financial statements.

*Capitalization of Construction and Installation Costs*

In accordance with SFAS No. 51, "Financial Reporting by Cable Television Companies," we capitalize costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and applicable indirect costs. We use standard costing models based on actual costs to capitalize labor and indirect costs related to construction and installation activities and materials costs related to installation activities. Indirect costs are capitalized if we determine that such costs are clearly related to our construction or installation functions. Periodically, we review and adjust, if necessary, the amount of costs capitalized using standard costing models based on comparisons to actual costs incurred. Significant judgment is involved in the development of costing models and in the determination of the nature and amount of indirect costs to be capitalized.

Costs associated with disconnecting and reconnecting existing cable subscribers are expensed as incurred. Improvements that extend asset lives are capitalized and other repairs and maintenance expenditures are expensed as incurred.

*Provision for Uncollectible Amounts due from the Rigas Family and Rigas Family Entities*

We have separately assessed the collectibility of the amounts due from the Rigas Family and each of the Rigas Family Entities at the end of each reporting period. Prior to the Petition Date, we considered these amounts to be collateral dependent loans under SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," and SFAS No. 118, "Accounting by Creditors for Impairment of a Loan — Income Recognition and Disclosures," and we adjusted the allowance for uncollectible amounts based on increases or decreases in the estimated values of the underlying net assets available to the Rigas Family and each Rigas Family Entity for repayment of amounts advanced. Subsequent to the Petition Date, we ceased the recognition of increases in the values of the underlying assets of the Rigas Family Entities. Once an allowance has been established against all or part of the amount owed to us by a Rigas Family Entity, we adopted the cost recovery method for purposes of recognizing co-borrowing interest. Under this method, the full amount of interest is reserved until such time as the underlying principal is fully recovered. For additional information, see Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

Among other items, the Rigas Family Entities own cable systems and debt and equity securities issued by Adelphia. The determination of the fair values of cable systems is an inherently subjective process that involves the estimation of future cash flows, and the assessment of such cash flow estimates and other relevant qualitative and quantitative factors in light of current market conditions.

*Business Combinations*

We have accounted for business combinations using the purchase method of accounting in accordance with the provisions of SFAS No. 141. Prior to the July 1, 2001 adoption of SFAS No. 141, we accounted for business combinations in accordance with the provisions of APB Opinion No. 16, "Business Combinations." The results of operations of the acquired business are included in our consolidated results from the date of the acquisition. The cost to acquire companies, including transaction costs, has been allocated to the underlying net assets of the acquired company based on their respective fair values. Any excess of the purchase price over estimated fair values of the identifiable net assets acquired has been recorded as goodwill. The value assigned to Class A Common Stock issued by Adelphia as consideration for acquisitions is generally based on the average market price for a period of a few days before and after the date that the respective terms were agreed to and announced. Gains or losses on exchanges of cable systems are calculated as the difference between the historical cost basis of the net assets of the surrendered cable systems and the fair value of the net assets of the acquired cable systems, as adjusted for any additional consideration that is received or paid. The application of purchase accounting requires a high degree of judgment and involves the use of significant estimates and assumptions.

Although we generally use third party valuation firms to determine the fair values of acquired assets and assumed liabilities for purposes of performing purchase price allocations, such valuations are based in large part on management estimates and assumptions that we believe to be reasonable, but which are inherently uncertain. The most significant of these assumptions involves the estimation of future cash flows of acquired cable television operations and the discounting of such cash flows to estimate the fair value of acquired intangible assets such as goodwill, franchise rights and customer relationships. Through the restatement efforts, new appraisals were obtained for certain acquisitions and adjustments were made to reflect the new appraisal amounts.

Other significant estimates and assumptions are required to value acquired property and equipment, other assets and various assumed liabilities. The fair values reflected in our purchase price allocations impact depreciation, amortization, impairment charges and other components of our ongoing operating results. Accordingly, variations in the estimates and assumptions from the amounts reflected in our final purchase price allocations would result in changes to our operating results. In this regard, different classes of assets have varying impacts on our operating results. For example, we no longer amortize franchise rights or goodwill. For additional information, see Note 8, "Acquisitions," to the accompanying consolidated financial statements.

*Variable Interest Entities*

The determination of whether or not an entity is a variable interest entity is detailed and complex and requires significant judgment in the application of the rules set out in FIN 46-R. In determining if an entity is a variable interest entity, FIN 46-R requires an evaluation as to whether the equity of the entity is sufficient to absorb the expected losses of that entity. This evaluation requires the consideration of qualitative factors and various assumptions, including expected future cash flows and funding needs. Even if the entity's equity is determined to be sufficient to absorb expected losses, FIN 46-R provides that in certain circumstances there needs to be a qualitative assessment as to whether "substantially all" the benefits of the entity are for the benefit of one of the variable interest holders. In such circumstances the entity would be deemed to be a variable interest entity.

Similarly, identifying the primary beneficiary requires the application of judgment and the evaluation of various assumptions as to the fair value of all variable interests. Specifically, the identification of variable interests requires (i) an economic analysis of the rights and obligations of an entity's assets, liabilities, equity, and other contracts and (ii) the determination of who holds the majority of the variable interests.

We are in the process of evaluating whether we are the primary beneficiary for each of the Rigas Co-Borrowing Entities as contemplated by FIN 46-R. As discussed further in Note 14, "Debt," to the accompanying consolidated financial statements, certain subsidiaries of Adelphia and the Rigas Co-Borrowing Entities are jointly and severally liable for all amounts borrowed pursuant to the Co-Borrowing Facilities. As such, the full amounts outstanding under such Co-Borrowing Facilities are reflected as debt in the balance sheets of both Adelphia and the Rigas Co-Borrowing Entities without regard to the attribution of such co-borrowings between Adelphia and the Rigas Co-Borrowing Entities. In light of the fact that the full amount of the co-borrowing obligations is reflected as debt in our consolidated financial statements, we believe our maximum exposure to future statement of operations loss as a result of our involvement with the Rigas Co-Borrowing Entities is equal to the carrying value of our net advances to the Rigas Co-Borrowing Entities ($771 million at December 31, 2003). The net carrying value at December 31, 2003 represents a $929 million affiliate receivable less an allowance for losses of $158 million. For additional information, see Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements.

In addition to the Rigas Co-Borrowing Entities, the Rigas Family owns at least 16 additional entities that could be considered to be variable interest entities. We have not applied the provisions of FIN 46-R to these Rigas entities due to the fact that we cannot verify that the information we possess with respect to these Rigas entities is complete and/or accurate. We have requested, but were not provided financial statements of these Rigas entities. Although these Rigas entities own a variety of assets, the most significant of these assets are the Adelphia securities that were purchased from Adelphia. The most significant liabilities of these Rigas entities, that we are aware of, are the amounts owed to us with respect to the purchase of such Adelphia securities and other transactions, as described in greater detail in Note 6, "Transactions with the Rigas Family and Rigas Family Entities," to the accompanying consolidated financial statements. We believe our maximum exposure to future statement of operations loss as a result of our involvement with these Rigas entities is equal to the carrying value of our net advances to these Rigas entities (approximately $47 million at December 31, 2003, which represents the application of the market price to the Adelphia securities held by such entities and does not give effect to the terms of the Stand-Alone Plan). The net carrying value at December 31, 2003 represents a $2,074 million affiliate receivable less an allowance for losses of $2,027 million.

*Accounting and Reporting While in Bankruptcy*

The consolidated financial statements include 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 on longer control the activities and operations of our subsidiaries. However, because the bankruptcy proceedings for the Company 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. As with consolidated financial statements, all inter-entity transactions between the Company and our subsidiaries are eliminated.

The accompanying consolidated financial statements have been prepared assuming we will continue as a going concern which contemplates continuity of Adelphia's operations and realization of its assets and payments of its liabilities in the ordinary course of business, and in accordance with SOP 90-7. Except as required by 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. 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 allowable claims. Amortization of deferred financing fees related to pre-petition debt was terminated effective on the Petition Date and the unamortized portion has been included as an offset to liabilities subject to compromise at the Petition Date. Similarly, amortization of issuance costs related to our redeemable preferred stock was also terminated at the Petition Date. Interest expense related to pre-petition liabilities subject to compromise 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. Liabilities not subject to compromise are separately classified as current or noncurrent. Revenue, expenses, realized gains and losses and provisions for losses resulting from reorganization are reported separately as reorganization expenses due to bankruptcy. Cash used for reorganization items is disclosed in the consolidated statements of cash flows.

*Carrying Amounts of Liabilities Subject to Compromise*

The ultimate amount of the Debtors' liabilities will be determined during the Debtors' claims resolution process. 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. However, under certain limited circumstances, claimants may file proofs of claims after the bar date. The aggregate amount of claims filed with the Bankruptcy Court far exceeds the Debtors' estimate of ultimate liability. The Debtors currently are in the process of reviewing, analyzing and reconciling the scheduled and filed claims and have filed their first omnibus objection to certain of the claims. The Debtors anticipate filing additional objections in the future addressing a substantial portion of the remaining proofs of claims. 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. Accordingly, the amounts presented as liabilities subject to compromise may be subject to future adjustments depending on Bankruptcy Court actions, completion of the reconciliation process with respect to disputed claims, determinations of the secured status of certain claims, the values of any collateral securing such claims or other events. Such adjustments may be material to the amounts reported as liabilities subject to compromise.

*Accounting and Reporting Upon Emergence from Bankruptcy*

Upon the Debtors' emergence from bankruptcy, we anticipate that material adjustments will be recorded to our consolidated balance sheet to reflect the restructuring of our assets and liabilities as a result of the plan of reorganization and the application of fresh-start reporting as provided by SOP 90-7. Under fresh-start reporting, the reorganization value of the Company will be allocated to our assets and liabilities on a basis substantially consistent with purchase accounting in accordance with SFAS No. 141. As such, our consolidated financial statements for periods subsequent to the fresh-start reporting date are not expected to be comparable with those of prior periods. As discussed in greater detail under "Business Combinations" above, the application of purchase accounting involves significant estimates and assumptions. For additional information, see Note 2, "Bankruptcy," to the accompanying consolidated financial statements.

*Evaluation of the Carrying Amount of Investments*

On a quarterly basis, we review our investments to determine whether a decline in fair value below the cost basis is other-than-temporary. We consider a number of factors in our determination including (i) the financial condition, operating performance and near term prospects of the investee, (ii) the reason for the decline in fair value, be it general market, industry specific or investee specific conditions, (iii) the length of time that the fair value of the investment is below our carrying value, and (iv) changes in value subsequent to the balance sheet date. If the decline in estimated fair value is deemed to be other-than-temporary, a new cost basis is established at the then estimated fair value. In situations where the fair value of an asset is not evident due to a lack of public market price or other factors, we use our best estimates and assumptions to arrive at the estimated fair value of such an investment. Our assessment of the foregoing factors involves a high degree of judgment and the use of significant estimates and assumptions. For additional information, see Note 10, "Investments in Equity Affiliates and Related Receivables," and Note 11, "Cost and Other Investments," to the accompanying consolidated financial statements.

*Assessment of Loss Contingencies*

We have legal and other contingencies that could result in significant losses upon the ultimate resolution of such contingencies. We have provided for losses in situations where we have concluded that it is probable that a loss has been or will be incurred and the amount of the loss is reasonably estimable. A significant amount of judgment is involved in determining whether a loss is probable and reasonably estimable due to the uncertainty involved in determining the likelihood of future events and estimating the financial statement impact of such events. Accordingly, it is possible that upon the further development or resolution of a contingent matter, a significant charge could be recorded in a future period related to an existing contingent matter. For additional information, see Note 21, "Commitments and Contingencies," to the accompanying consolidated financial statements.

*Income Taxes*

We account for income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, deferred tax assets are also recorded with respect to net operating losses and other tax attribute carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when realization of the benefit of deferred tax assets is not deemed to be more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. For additional information, see Note 18, "Income Taxes," to the accompanying consolidated financial statements.

Certain of our deferred tax assets are comprised of NOL carryforwards for federal and state income tax filing purposes for which recovery is dependent on the amount and timing of taxable income that we will ultimately generate in the future and other factors. We have provided valuation allowances aggregating $4,276 million against such NOL carryforwards based on our current assessment of future operating results and other factors without giving any effect to the taxable income that might result from the discharge of liabilities if the Debtors were to emerge from bankruptcy. In the event that the Debtors emerge from bankruptcy, (i) our NOL carryforwards are expected to be reduced or completely eliminated by debt cancellation income that might result under the bankruptcy proceedings, (ii) other tax attributes, including our tax basis in our property and equipment, could be reduced and (iii) a statutory ownership change, as defined in Section 382 of the Internal Revenue Code, would occur upon issuance of new common stock to claimholders pursuant to any approved plan of reorganization. This ownership change may limit the annual usage of any remaining tax attributes that were generated prior to the change of ownership. The amount of the limitation will be determinable at the time of the ownership change. Based on our assessment of the possible tax impacts of bankruptcy emergence, we believe that in the event the Debtors were to emerge from bankruptcy that (i) all or a portion of the currently recorded valuation allowance related to NOL carryforwards could be reversed and (ii) our deferred tax liability with respect to our property and equipment could be increased.

A high degree of judgment is required to determine the extent that valuation allowances should be provided against deferred tax assets.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk associated with changes in interest rates relates primarily to our debt obligations. As all of our outstanding debt and preferred securities, other than the DIP Facility, are subject to compromise, we do not believe that these instruments subject us to significant market risk. We do continue to pay or accrue interest on our DIP Facility and pre-petition bank debt, all of which bears interest at variable rates and subjects us to interest rate risk. We had $7,093 million and $7,017 million outstanding variable rate debt at December 31, 2003 and 2002, respectively. Assuming a hypothetical 100 basis point increase (or decrease) in interest rates, there would have been an increase or decrease in our interest expense and cash provided by operating activities of approximately $71 million for the year ended December 31, 2003 and $68 million for the year ended December 31, 2002.

As of December 31, 2003, we have three derivative financial instruments. The liability associated with the derivative financial instruments of approximately $3 million is included in our liabilities subject to compromise and, therefore, we do not believe there is any market risk associated with this instrument.

As of December 31, 2003, our short-term investments consist of money market funds and U.S. Government obligations with maturities of three months or less. Therefore, we do not believe there is significant market risk related to interest rates or credit risk associated with non-performance. The carrying value of cash and cash equivalents of $253 million approximates the fair value as of December 31, 2003.

We are exposed to the market risk of changes in the equity prices of certain of our investments in available-for-sale securities. As of December 31, 2003, the carrying value of these investments was approximately $2 million.

## ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Adelphia Communications Corporation

In our opinion, the consolidated financial statements listed in the accompanying index, present fairly, in all material respects, the financial position of Adelphia Communications Corporation ("Adelphia") and its subsidiaries (collectively, the "Company") (Debtors-in-Possession from June 25, 2002) at December 31, 2003, 2002, and 2001 and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These consolidated financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates continuity of the Company's operations and realization of its assets and payment of its liabilities in the ordinary course of business. As more fully described in Note 2 to the accompanying consolidated financial statements, on June 25, 2002, Adelphia and substantially all of its domestic subsidiaries filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. On September 30, 2002, Century/ML Cable Venture, a 50% owned equity method investment of the Company, filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code. In addition, the Company is party to significant litigation, subject to civil claims filed by the Securities and Exchange Commission and ongoing investigations by the Department of Justice. The uncertainties inherent in the bankruptcy and litigation processes, the Company's net capital deficiency and its recurring losses from operations raise substantial doubt about the Company's ability to continue as a going concern. The Company is currently operating its business as a Debtor-in-Possession under the supervision of the Bankruptcy Court and continuation of the Company as a going concern is contingent upon, among other things, the confirmation of a Plan of Reorganization, settlement of claims and litigation, and the Company's ability to generate sufficient cash from operations and to obtain financing sources to meet its future obligations. If no reorganization plan is approved, it is possible that the Company's assets may be liquidated. Moreover, the Company is considering selling all or portions of its assets either as an alternative to, or in conjunction with, emerging from bankruptcy. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from the outcome of these uncertainties.

As discussed in Note 4 to the accompanying consolidated financial statements, the Company has restated its consolidated balance sheet as of December 31, 2000 (not separately presented herein) including its consolidated stockholders' equity (deficit) as of January 1, 2001. Such consolidated financial statement, before the restatement referred to above, was reported on by another independent auditor that has subsequently withdrawn its opinion on this consolidated financial statement.

The Company has not presented the selected quarterly financial data for 2002 as specified by Item 302(a) of Regulation S-K that the Securities and Exchange Commission requires as supplementary information to the basic financial statements.

As discussed in Note 5 to the accompanying consolidated financial statements, effective July 1, 2003, the Company adopted Statement of Financial Accounting Standards No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." As discussed in Notes 3 and 5 to the accompanying consolidated financial statements, effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", and Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." As discussed in Notes 3 and 5 to the accompanying consolidated financial statements, effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative

Instruments and Hedging Activities", as amended by Statement of Financial Accounting Standards No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an amendment of FASB Statement No. 133."

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

McLean, VA
December 23, 2004

# ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
## (Debtors-In-Possession)

## CONSOLIDATED BALANCE SHEETS

## (amounts in thousands, except share data)

| | December 31, 2003 | December 31, 2002 | December 31, 2001 |
|---|---|---|---|
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 252,661 | $ 223,630 | $ 121,474 |
| Restricted cash (Note 3) | 14,327 | 9,244 | — |
| Accounts receivable, net (Note 3) | 139,007 | 136,567 | 200,126 |
| Other current assets | 126,042 | 118,059 | 121,304 |
| Total current assets | 532,037 | 487,500 | 442,904 |
| Noncurrent assets: | | | |
| Restricted cash (Note 3) | 74,810 | 228,238 | 21,211 |
| Investments in equity affiliates and related receivables (Note 10) | 256,577 | 253,050 | 340,735 |
| Property and equipment, net (Note 3) | 4,534,386 | 4,660,339 | 4,970,899 |
| Intangible assets, net | | | |
| Franchise rights | 5,193,739 | 5,188,071 | 6,891,942 |
| Goodwill | 1,511,875 | 1,507,684 | 3,142,692 |
| Customer relationships and other | 962,182 | 1,109,485 | 1,310,634 |
| Other noncurrent assets, net | 131,135 | 168,039 | 387,962 |
| Total assets | $ 13,196,741 | $ 13,602,406 | $ 17,508,979 |
| LIABILITIES AND STOCKHOLDERS' DEFICIT | | | |
| Current liabilities: | | | |
| Accounts payable | $ 198,208 | $ 137,451 | $ 774,910 |
| Subscriber advance payments and deposits | 28,913 | 26,553 | 28,515 |
| Accrued liabilities (Note 13) | 412,071 | 245,866 | 751,675 |
| Deferred revenue | 29,281 | 28,983 | 25,770 |
| Current portion of parent and subsidiary debt (Note 14) | 347,119 | 298,797 | 17,417,044 |
| Total current liabilities | 1,015,592 | 737,650 | 18,997,914 |
| Noncurrent liabilities: | | | |
| Other liabilities | 129,141 | 116,394 | 109,349 |
| Deferred revenue | 110,163 | 131,836 | 223,825 |
| Deferred income taxes (Notes 3 and 18) | 722,644 | 596,591 | 525,977 |
| Total noncurrent liabilities | 961,948 | 844,821 | 859,151 |
| Liabilities subject to compromise (Note 2) | 18,184,226 | 18,020,124 | — |
| Total liabilities | 20,161,766 | 19,602,595 | 19,857,065 |
| Commitments and contingencies (Notes 2 and 21) | | | |
| Minority's interest in equity of subsidiaries | 109,649 | 135,079 | 253,783 |
| TelCove Preferred Stock (Note 15) | — | — | 338,105 |
| Series B Preferred Stock (Note 15) | — | 148,794 | 148,708 |
| Stockholders' deficit (Note 16): | | | |
| Series preferred stock | 397 | 397 | 167 |
| Class A Common Stock, $.01 par value, 1,200,000,000 shares authorized, 229,787,271, 229,787,096 and 187,774,691 shares issued, respectively, 228,692,414, 228,692,239 and 186,679,834 shares outstanding, respectively | 2,297 | 2,297 | 1,877 |
| Class B Common Stock, $.01 par value, 300,000,000 shares authorized, 25,055,365, 25,055,365 and 25,055,365 shares issued and outstanding, respectively | 251 | 251 | 251 |
| Additional paid-in capital | 12,071,165 | 12,071,165 | 9,267,860 |
| Accumulated other comprehensive loss, net (Note 19) | (9,680) | (18,754) | (8,695) |
| Accumulated deficit | (18,310,818) | (17,478,206) | (10,289,378) |
| Treasury stock, at cost (Note 16) | (27,937) | (27,937) | (27,937) |
| | (6,274,325) | (5,450,787) | (1,055,855) |
| Amounts due from the Rigas Family and Rigas Family Entities, net (Note 6) | (800,349) | (833,275) | (2,032,827) |
| Total stockholders' deficit | (7,074,674) | (6,284,062) | (3,088,682) |
| Total liabilities and stockholders' equity (deficit) | $ 13,196,741 | $ 13,602,406 | $ 17,508,979 |

The accompanying notes are an integral part of the consolidated financial statements.

# ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
**(Debtors-In-Possession)**

## CONSOLIDATED STATEMENTS OF OPERATIONS

**(amounts in thousands, except share data and per share amounts)**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Revenue: | | | |
| Third party | $ 3,606,043 | $ 3,267,306 | $ 3,323,717 |
| Rigas Family Entities (Note 6) | — | 1,151 | 1,346 |
| Total revenue | 3,606,043 | 3,268,457 | 3,325,063 |
| Costs and expenses: | | | |
| Direct operating and programming: | | | |
| Third party | 2,419,778 | 2,309,260 | 2,505,654 |
| Rigas Family Entities (Note 6) | — | 9,555 | 5,153 |
| Selling, general and administrative: | | | |
| Third party | 270,642 | 254,591 | 261,352 |
| Rigas Family Entities (Note 6) | (21,242) | (15,173) | (8,490) |
| Investigation and re-audit related fees | 52,039 | 56,519 | — |
| Compensation expense (benefit) on equity security transactions with the Rigas Family and Rigas Family Entities | — | (101,000) | 101,000 |
| Depreciation | 856,562 | 984,213 | 906,800 |
| Amortization | 162,839 | 168,894 | 522,746 |
| Impairment of long-lived assets (Note 12) | 17,641 | 2,031,757 | 4,657,643 |
| Provision for uncollectible amounts due from TelCove and cost of TelCove settlement (Note 9) | 97,902 | 549,407 | — |
| Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities (Note 6) | 5,497 | 1,762,241 | 222,931 |
| (Gains) losses on dispositions of long-lived assets and cable system exchanges, net (Notes 6 and 8) | — | 6,747 | (541,994) |
| Total costs and expenses | 3,861,658 | 8,017,011 | 8,632,795 |
| Operating loss | (255,615) | (4,748,554) | (5,307,732) |
| Other income (expense): | | | |
| Interest expense, net of amounts capitalized (contractual interest was $930,048 and $1,025,922 during 2003 and 2002, respectively) (Notes 2 and 3) | (382,274) | (748,136) | (1,268,466) |
| Interest expense on debt securities held by the Rigas Family Entities (contractual interest was $23,043 during 2003 and 2002) (Note 6) | — | (10,343) | (13,897) |
| Impairment of cost and available-for-sale investments (Note 11) | (8,544) | (6,531) | (56,428) |
| Other income (expense), net (2002 includes $175,000 provision for SEC litigation) | 7,466 | (142,594) | 30,123 |
| Total other expense, net | (383,352) | (907,604) | (1,308,668) |
| Loss before reorganization expenses, income taxes, share of earnings (losses) of equity affiliates, minority's interest, TelCove preferred stock dividends and cumulative effects of accounting changes | (638,967) | (5,656,158) | (6,616,400) |
| Reorganization expenses due to bankruptcy | (98,871) | (48,684) | — |
| Loss before income taxes, share of earnings (losses) of equity affiliates, minority's interest, TelCove preferred stock dividends and cumulative effects of accounting changes | (737,838) | (5,704,842) | (6,616,400) |
| Income tax (expense) benefit (Note 18) | (117,378) | (76,620) | 171,308 |
| Share of earnings (losses) of equity affiliates, net | (2,826) | (119,764) | 24,781 |
| Minority's interest in losses of subsidiaries, net | 25,430 | 118,704 | 348,922 |
| TelCove Preferred Stock dividends (Note 15) | — | — | (41,038) |
| 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 (Note 5) | — | (1,406,306) | (4,074) |
| Net loss | (832,612) | (7,188,828) | (6,116,501) |
| Dividend requirements applicable to preferred stock (contractual dividends were $120,125 and $117,279 during 2003 and 2002, respectively (Note 16)): | | | |
| Third party | — | (55,551) | (54,359) |
| Beneficial conversion feature (Note 16) | (7,317) | (3,512) | — |
| Net loss applicable to common stockholders | $ (839,929) | $ (7,247,891) | $ (6,170,860) |
| Basic and diluted loss per weighted average share of common stock: | | | |
| Before cumulative effects of accounting changes | $ (3.31) | $ (23.27) | $ (35.05) |
| Cumulative effects of accounting changes | — | (5.60) | (.02) |
| 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 |

The accompanying notes are an integral part of the consolidated financial statements.

**ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**(Debtors-In-Possession)**

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

**(amounts in thousands)**

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net loss | $ (832,612) | $ (7,188,828) | $ (6,116,501) |
| Other comprehensive loss, before tax | | | |
| Foreign currency translation adjustment | 8,193 | (10,310) | (5,920) |
| Unrealized gains (losses) on securities: | | | |
| Unrealized holding gains (losses) arising during the period | 1,483 | (1,410) | (2,228) |
| Less: reclassification adjustments for losses (gains) included in net loss | (10) | 1,829 | 936 |
| Other comprehensive income (loss), before tax | 9,666 | (9,891) | (7,212) |
| Income tax (expense) benefit related to each item of other comprehensive income: | | | |
| Unrealized holding gains (losses) arising during the period | (596) | 564 | 893 |
| Reclassification adjustments for losses (gains) included in net loss | 4 | (732) | (374) |
| Other comprehensive income (loss), net of tax | 9,074 | (10,059) | (6,693) |
| Comprehensive loss, net of tax | $ (823,538) | $ (7,198,887) | $ (6,123,194) |

The accompanying notes are an integral part of the consolidated financial statements.

# ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
## (Debtors-In-Possession)

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

### (amounts in thousands)

| | Series preferred stock | Common stock | Additional paid-in capital | Accumulated other comprehensive income (loss) | Accumulated deficit | Treasury stock | Amounts due from the Rigas Family and Rigas Family Entities, net | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2001*** | $ 29 | $ 1,530 | $ 6,995,869 | $ (2,002) | $ (4,172,877) | $ (33,344) | $ (1,401,760) | $ 1,387,445 |
| Net loss | — | — | — | — | (6,116,501) | — | — | (6,116,501) |
| Other comprehensive loss | — | — | — | (6,693) | — | — | — | (6,693) |
| Change in amounts due from the Rigas Family and Rigas Family Entities, net (Note 6) | — | — | — | — | — | — | (631,067) | (631,067) |
| Net proceeds from issuance of Class A Common Stock | — | 484 | 1,403,671 | — | — | — | — | 1,404,155 |
| Issuance of Class B Common Stock (Note 6) | — | 58 | 249,942 | — | — | — | — | 250,000 |
| Issuance of Class A Common Stock in connection with acquisitions (Note 8) | — | 56 | 184,238 | — | — | — | — | 184,294 |
| Net proceeds from issuance of Series E Preferred Stock | 138 | — | 334,620 | — | — | — | — | 334,758 |
| Exercise of stock options | — | | 93 | — | — | — | — | 93 |
| Preferred stock dividend requirements | — | — | (54,359) | — | — | — | — | (54,359) |
| Increase due to issuance of TelCove Common Stock to minority stockholders (Note 9) | — | — | 42,693 | — | — | — | — | 42,693 |
| Compensation expense (benefit) on equity security transactions with the Rigas Family and Rigas Family Entities | — | — | 101,000 | — | — | — | — | 101,000 |
| Interest from Rigas Family Entities related to purchase of Adelphia Securities (Note 6) | — | — | 8,942 | — | — | — | — | 8,942 |
| Excess of fees charged to Rigas Family Entities over costs incurred (Note 6) | — | — | 5,706 | — | — | — | — | 5,706 |
| Issuance of treasury shares on behalf of NFHLP (Note 6) | — | — | (2,782) | — | — | 5,407 | — | 2,625 |
| Adjustment for mark-up on long-lived assets purchased from Rigas Family Entities (Note 6) | — | — | (1,600) | — | — | — | — | (1,600) |
| Accretion of Series B Preferred Stock | — | — | (173) | — | — | — | — | (173) |
| **Balance, December 31, 2001** | $ 167 | $ 2,128 | $ 9,267,860 | $ (8,695) | $ (10,289,378) | $ (27,937) | $ (2,032,827) | $ (3,088,682) |

* Restated. See Note 4.

The accompanying notes are an integral part of the consolidated financial statements.

# ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
## (Debtors-In-Possession)

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

### (amounts in thousands)

| | Series preferred stock | Common stock | Additional paid-in capital | Accumulated other comprehensive income (loss) | Accumulated deficit | Treasury stock | Amounts due from the Rigas Family and Rigas Family Entities, Net | Total |
|---|---|---|---|---|---|---|---|---|
| **Balance, December 31, 2001** | $ 167 | $ 2,128 | $ 9,267,860 | $ (8,695) | $ (10,289,378) | $(27,937) | $ (2,032,827) | $ (3,088,682) |
| Net loss | — | — | — | — | (7,188,828) | — | — | (7,188,828) |
| Other comprehensive loss | — | — | — | (10,059) | — | — | — | (10,059) |
| Change in amounts due from the Rigas Family and Rigas Family Entities, net (Note 6) | — | — | — | — | — | — | 1,199,552 | 1,199,552 |
| Net proceeds from issuance of Class A Common Stock | — | 400 | 1,007,007 | — | — | — | — | 1,007,407 |
| Issuance of Class A Common Stock in connection with acquisitions (Note 8) | — | 20 | 46,450 | — | — | — | — | 46,470 |
| Net proceeds from issuance of Series F Preferred Stock | 230 | — | 557,618 | — | — | — | — | 557,848 |
| Preferred stock dividend requirements | — | — | (55,551) | — | — | — | — | (55,551) |
| Spin-off of TelCove (Note 9) | — | — | 1,346,500 | — | — | — | — | 1,346,500 |
| Compensation expense (benefit) on equity security transactions with the Rigas Family and Rigas Family Entities | — | — | (101,000) | — | — | — | — | (101,000) |
| Interest from Rigas Family Entities related to purchase of Adelphia securities (Note 6) | — | — | 2,569 | — | — | — | — | 2,569 |
| Options exercised | — | — | 3 | — | — | — | — | 3 |
| Adjustment for mark-up on long-lived assets purchased from Rigas Family Entities (Note 6) | — | — | (205) | — | — | — | — | (205) |
| Accretion of Series B Preferred Stock | — | — | (86) | — | — | — | — | (86) |
| **Balance, December 31, 2002** | 397 | 2,548 | 12,071,165 | (18,754) | (17,478,206) | (27,937) | (833,275) | (6,284,062) |
| Net loss | — | — | — | — | (832,612) | — | — | (832,612) |
| Other comprehensive income | — | — | — | 9,074 | — | — | — | 9,074 |
| Change in amounts due from the Rigas Family and Rigas Family Entities, net (Note 6) | — | — | — | — | — | — | 32,926 | 32,926 |
| **Balance, December 31, 2003** | $ 397 | $ 2,548 | $12,071,165 | $ (9,680) | $ (18,310,818) | $(27,937) | $ (800,349) | $ (7,074,674) |

The accompanying notes are an integral part of the consolidated financial statements.

# ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
## (Debtors-In-Possession)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### (amounts in thousands)

| | Year ended December 31, 2003 | 2002 | 2001 |
|---|---|---|---|
| **Operating Activities:** | | | |
| Net loss | $ (832,612) | $ (7,188,828) | $ (6,116,501) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | | |
| Compensation expense (benefit) on equity security transactions with the Rigas Family and Rigas Family Entities | — | (101,000) | 101,000 |
| Depreciation | 856,562 | 984,213 | 906,800 |
| Amortization | 162,839 | 168,894 | 522,746 |
| Impairment of long-lived assets | 17,641 | 2,031,757 | 4,657,643 |
| Provision for uncollectible amounts due from TelCove and cost of TelCove settlement | 97,902 | 549,407 | — |
| Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities | 5,497 | 1,762,241 | 222,931 |
| (Gains) losses on dispositions of long-lived assets and cable systems exchanges | — | 6,747 | (541,994) |
| Amortization of debt financing costs | 24,386 | 60,747 | 146,336 |
| Impairment of cost and available-for-sale investments | 8,544 | 6,531 | 56,428 |
| Noncash charges to Rigas Family Entities, net | (30,986) | (34,084) | (45,793) |
| Provision for SEC litigation | — | 175,000 | — |
| Other noncash gains | (1,931) | (32,045) | (32,454) |
| Reorganization expenses due to bankruptcy | 98,871 | 48,684 | — |
| Deferred tax expense (benefit) | 125,254 | 79,994 | (182,600) |
| Share of losses (earnings) of equity affiliates, net | 2,826 | 119,764 | (24,781) |
| Minority's interest in losses of subsidiaries, net | (25,430) | (118,704) | (348,922) |
| Noncash dividends on TelCove Preferred Stock | — | — | 41,038 |
| Cumulative effects of accounting changes, net | — | 1,406,306 | 4,074 |
| Change in operating assets and liabilities, net of effects of acquisitions and divestitures: | | | |
| Accounts receivable | (2,440) | (8,163) | 655 |
| Other current and other noncurrent assets | (14,057) | (10,897) | (31,377) |
| Accounts payable | 33,821 | 618,758 | 2,019 |
| Subscriber advance payments and deposits | 2,360 | (1,962) | 3,686 |
| Accrued liabilities | 95,847 | 216,645 | 149,372 |
| Deferred revenue | (21,375) | (52,067) | 118,538 |
| Net cash provided by (used in) operating activities before payment of reorganization expenses | 603,519 | 687,938 | (391,156) |
| Reorganization expenses paid during the period | (96,915) | (36,643) | — |
| Net cash provided by (used in) operating activities | 506,604 | 651,295 | (391,156) |
| **Investing Activities:** | | | |
| Expenditures for property and equipment | (723,521) | (1,235,884) | (2,403,989) |
| Acquisitions, net of cash acquired | — | (2,101) | (1,132,245) |
| Acquisition of other intangibles | (7,830) | (5,797) | (20,523) |
| Investment in and advances to affiliates | (8,034) | (84,725) | (65,963) |
| Cash advances from (to) the Rigas Family and Rigas Family Entities, net | 61,433 | (114,313) | (386,028) |
| Proceeds from sale of investments | 3,712 | 35,659 | — |
| Change in restricted cash | 148,345 | (236,741) | 33,674 |
| Net cash used in investing activities | (525,895) | (1,643,902) | (3,975,074) |
| **Financing Activities:** | | | |
| Proceeds from debt, net of issuance costs | — | 2,323,267 | 13,799,124 |
| Repayments of debt | (28,678) | (2,949,991) | (11,054,502) |
| Proceeds from DIP Facility | 77,000 | 200,000 | — |
| Issuance of Class A Common Stock, net of issuance costs | — | 1,007,410 | 1,404,248 |
| Issuance of convertible preferred stock | — | 557,848 | 334,758 |
| Preferred stock dividends paid | — | (43,771) | (51,125) |
| Net cash provided by financing activities | 48,322 | 1,094,763 | 4,432,503 |
| Increase in cash and cash equivalents | 29,031 | 102,156 | 66,273 |
| Cash and cash equivalents at beginning of year | 223,630 | 121,474 | 55,201 |
| Cash and cash equivalents at end of year | $ 252,661 | $ 223,630 | $ 121,474 |

The accompanying notes are an integral part of the consolidated financial statements.

# ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(Debtors-In-Possession)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### Note 1: Background and Basis of Presentation

Adelphia Communications Corporation ("Adelphia") and its consolidated subsidiaries (collectively, the "Company") are engaged primarily in the cable television business. The cable systems owned by the Company are located in 31 states and Brazil. In June 2002, Adelphia and substantially all of its domestic subsidiaries (the "Debtors") filed voluntary petitions to reorganize (the "Chapter 11 Cases") under Chapter 11 of Title 11 ("Chapter 11") of the United States Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of New York (the "Bankruptcy Court"). For additional information, see Note 2.

These consolidated financial statements (i) have been prepared on a going concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business, and (ii) do not purport to show, reflect or provide for the consequences of the Debtors' Chapter 11 reorganization proceedings. In particular, these consolidated financial statements do not purport to show: (i) as to assets, the amount that may be realized upon their sale or their availability to satisfy liabilities, (ii) as to pre-petition liabilities, the amounts that may be allowed for claims or contingencies, or the status and priority thereof, (iii) as to stockholder's equity accounts, the effect of any changes that may be made in the capitalization of the Company, or (iv) as to operations, the effect of any changes that may be made in its business.

Through May 2002, John J. Rigas, his sons and members of his immediate family served as directors and executive officers of the Company. In May 2002, such Rigas family members resigned from their positions as directors and executive officers of the Company. In addition, although members of John J. Rigas' family (collectively, the "Rigas Family") continue to own common stock with a majority of the voting power in Adelphia, the Rigas Family has not been able to exercise such voting power since the Debtors filed for protection under the Bankruptcy Code in June 2002. Prior to May 2002, the Company engaged in numerous transactions that directly or indirectly involved members of the Rigas Family and entities in which members of the Rigas Family directly or indirectly held controlling interests (collectively, the "Rigas Family Entities"). For additional information, see Note 6.

These consolidated financial statements include 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, the Company can no longer control the activities and operations of its subsidiaries. However, because the bankruptcy proceedings for the Company and its 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 its subsidiaries have been presented on a combined basis, which is consistent with consolidated financial statements (see Note 2). As with consolidated financial statements, all inter-entity transactions between the Company and its subsidiaries are eliminated.

These consolidated financial statements do not include the accounts of any of the Rigas Family Entities. The Company believes that under the guidelines which existed for the periods covered by these financial statements the Company did not have a controlling financial interest, including majority voting interest, control by contract or otherwise of any of the Rigas Family Entities. Accordingly, the Company did not meet the criteria for consolidation of any of the Rigas Family Entities.

Adelphia Business Solutions, Inc., now known as TelCove ("TelCove"), was a majority-owned subsidiary of the Company through January 11, 2002 (the "TelCove Spin-off Date"). On the TelCove Spin-off Date, the Company distributed, in the form of a dividend, all of the shares of common stock of TelCove owned by Adelphia (the "TelCove Spin-off") to holders of Adelphia $0.01 par value Class A common stock ("Class A Common Stock") and Adelphia $0.01 par value Class B common stock ("Class B Common Stock," and together with the Class A Common Stock, the "Adelphia Common Stock"). TelCove owns, operates and manages entities that provide competitive local exchange carrier ("CLEC") telecommunications services. On the TelCove Spin-off Date, the Company held a majority of the total voting power of the TelCove common stock. On March 27, 2002, TelCove and its direct subsidiaries commenced cases under Chapter 11 of the Bankruptcy Code. Subsequently, on June 18, 2002, certain indirect subsidiaries of TelCove also commenced cases under Chapter 11 of the Bankruptcy Code. TelCove emerged from Chapter 11 on April 7, 2004. For additional information, see Note 9.

**Note 2: Bankruptcy**

*General*

On June 25, 2002 ("Petition Date"), the Debtors filed voluntary petitions to reorganize under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. On June 10, 2002, Century Communications Corporation ("Century"), an indirect wholly-owned subsidiary of Adelphia, filed a voluntary petition to reorganize under Chapter 11, seeking protection under the U.S. bankruptcy laws. The Debtors, which include Century, are currently operating their business as debtors-in-possession under Chapter 11. Included in the accompanying consolidated financial statements are subsidiaries that did not file voluntary petitions under the Bankruptcy Code. The assets and liabilities of such non-filing subsidiaries are not considered material to the consolidated financial statements.

On July 11, 2002, a statutory committee of unsecured creditors (the "Creditors' Committee") was appointed, and on July 31, 2002, a statutory committee of equity holders (the "Equity Committee" and, together with the Creditors' Committee, the "Committees") was appointed. The Committees have the right to, among other things, review and object to certain business transactions and may participate in the formulation of the Debtors' plan of reorganization. Under the Bankruptcy Code, the Debtors were provided with specified periods during which only the Debtors could propose and file a plan of reorganization (the "Exclusive Period") and solicit acceptances thereto (the "Solicitation Period"). The Debtors received several extensions of the Exclusive Period and the Solicitation Period from the Bankruptcy Court with the latest extension of the Exclusive Period and the Solicitation Period being through February 17, 2004 and April 20, 2004, respectively. The Debtors filed a motion requesting an additional extension of the Exclusive Period and the Solicitation Period. However, the Equity Committee filed a motion to terminate the Exclusive Period and the Solicitation Period and other objections were filed regarding this request. The Bankruptcy Court has extended the Exclusive Period and the Solicitation Period until the hearing on the motions is held and a determination by the Bankruptcy Court is made. Until such hearing, the Exclusive Period and the Solicitation Period are continuing. No hearing has been scheduled.

On February 25, 2004, the Debtors filed their proposed joint plan of reorganization (the "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 revising 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 decide not to confirm it.

As a result of the Company's filing of the bankruptcy petition and the other matters described in the following paragraphs, there is substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which assumes continuity of operations and realization of assets and satisfaction of liabilities in the ordinary course of business, and in accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* ("SOP 90-7"). Except as required by SOP 90-7, the consolidated financial statements do not include any adjustments that might be required should the Company be unable to continue to operate as a going concern. In accordance with SOP 90-7, all pre-petition liabilities subject to compromise have been segregated in the consolidated balance sheets and classified as liabilities subject to compromise, at the estimated amount of allowable claims. Interest expense related to pre-petition liabilities subject to compromise has been reported only to the extent that it will be paid during the 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. Liabilities not subject to compromise are separately classified as current or noncurrent. Revenue, expenses, realized gains and losses, and provisions for losses resulting from reorganization are reported separately as reorganization expenses due to bankruptcy. Cash used for reorganization items is disclosed in the consolidated statements of cash flows.

**ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**(Debtors-In-Possession)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

The ability of the Debtors to continue as a going concern is predicated upon numerous matters, including the following:

- having a plan of reorganization confirmed by the Bankruptcy Court;
- being able to successfully implement the Company's business plans and otherwise offsetting the negative effects that the Chapter 11 filing has had on the Company's business, including the impairment of vendor relationships;
- obtaining substantial financing, including working capital financing, which the Company may not be able to obtain on favorable terms, or at all. A failure to obtain necessary financing would result in the delay, modification or abandonment of the Company's development and expansion plans and would have a material adverse effect on the Company;
- resolving a number of legal matters; the Company is party to material litigation, a Securities and Exchange Commission ("SEC") action and a United States Department of Justice ("DoJ") investigation, any of which could subject it to substantial damages or other penalties, including possible liquidation of the Company;
- renewing franchises; failure to do so will result in reduced operating results and potential impairment of assets;
- obtaining consideration sufficient to settle pre-petition liabilities subject to compromise, the amount of which is not known at this time because the rights and claims of the Debtors' various creditors will not be known until the Bankruptcy Court confirms a plan of reorganization;
- being able to operate, pending emergence from bankruptcy, within the terms and conditions of the Company's Extended DIP Facility (defined below) and/or the Exit Financing Facility (defined below), including its limitations on capital expenditures and its financial covenants;
- achieving positive operating results, increasing net cash provided by operating activities and maintaining satisfactory levels of capital and liquidity considering its history of net losses and capital expenditure requirements and the expected near-term continuation thereof; and
- attracting, motivating and retaining key executives and employees.

These issues are in addition to those operational and competitive challenges faced by the Company in the normal course of its business.

Until a plan of reorganization is confirmed by the Bankruptcy Court and becomes effective, no assurance can be given that the Debtors will emerge from bankruptcy.

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 a hearing 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 the plan of reorganization would resolve, among other things, the Debtors' pre-petition obligations, determine the revised capital structure of the newly reorganized Debtors and provide for the Company's corporate governance following emergence from bankruptcy.

On April 22, 2004, Adelphia announced that it intends to pursue a sale of the Company while simultaneously pursuing the Stand-Alone Plan. On September 21, 2004, Adelphia formally launched its sale process in which potential bidders were invited to submit preliminary indications of interest in the Company and its subsidiaries or one or more Company-designated clusters of cable systems. On November 1, 2004, Adelphia, based on the non-binding indications of interest, invited qualified bidders to further participate in the sale process and to submit final legally binding bids in accordance with the bidding procedures approved by the Bankruptcy Court. The Company is pursuing the dual track process to determine which alternative is in the best interests of the Debtors' constituents. Certain fees are due upon successful completion of a sale, which are calculated as a percentage (0.11% to 0.20%) of the sale value. Additional fees may be payable depending on the outcome of the sale process.

Pre-petition and post-petition obligations of the Debtors are treated differently under the Bankruptcy Code. Due to the commencement of the Chapter 11 Cases and the Debtors' failure to comply with certain financial covenants, the Debtors are in default on substantially all of their pre-petition debt obligations. As a result of the Chapter 11 filing, all actions to collect the payment of pre-petition indebtedness are subject to compromise or other treatment under a plan of reorganization. Generally, actions to enforce or otherwise effect payment of pre-petition liabilities are stayed. However, the Bankruptcy Court has approved the Debtors' motions to pay certain pre-petition obligations including, but not limited to, employee wages, salaries, commissions, incentive compensation and other related benefits. The Debtors have been paying and intend to continue to pay undisputed post-petition claims in the ordinary course of business. In addition, the Debtors may assume or reject pre-petition executory contracts and unexpired leases with the approval of the Bankruptcy Court. Any damages resulting from the rejection of executory contracts and unexpired leases are treated as general unsecured claims and will be classified as liabilities subject to compromise. For additional information concerning liabilities subject to compromise, see below.

The ultimate amount of the Debtors' liabilities will be determined during the Debtors' claims resolution process. 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. However, under certain limited circumstances, claimants may file proofs of claims after the bar date. The aggregate amount of claims filed with the Bankruptcy Court far exceeds the Debtors' estimate of ultimate liability. Over 18,000 proofs of claim asserting in the aggregate $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 objection to certain of the claims. The Debtors anticipate filing additional objections in the future addressing a substantial portion of the remaining proofs of claims. 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.

In order to provide liquidity, the Debtors entered into an Amended and Restated Credit and Guaranty Agreement dated as of August 26, 2002, with a group of lenders for a debtor-in-possession credit facility (as amended, the "DIP Facility"). On May 10, 2004, the Debtors entered into a Second Amended and Restated Credit and Guaranty Agreement, which amended and restated the DIP Facility in its entirety (as amended, the "Extended DIP Facility"). For additional information, see Note 14.

## ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
## (Debtors-In-Possession)

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

*Exit Financing Commitment*

On February 25, 2004, the Company executed a commitment letter and certain related documents pursuant to which, and subject to the terms and conditions set forth therein, a syndicate of financial institutions committed to provide to the Debtors up to $8,800,000,000 in exit financing (the "Exit Financing Facility"), which amounts will be used by the Debtors to make the cash payments contemplated by the Debtors' Stand-Alone Plan and to pay related transaction costs associated with the reorganization of the Debtors. The commitment letter and the related documents were amended on several occasions during the first and second quarters of 2004 to give effect to certain developments in the bankruptcy cases of the Debtors, including in response to the April 22, 2004 announcement by the Debtors of their intention to pursue a possible sale of the Company or its assets.

The proposed Exit Financing Facility is comprised of (i) $5,500,000,000 of senior secured credit facilities, which includes $4,750,000,000 of term loans and a $750,000,000 revolving credit line, and (ii) a $3,300,000,000 bridge facility. The revolving credit line would generally not be used on the closing date to finance the cash payments to be made under the Debtors' Stand-Alone Plan or to pay transaction costs associated with the reorganization of the Debtors. Rather, the revolving credit line would be used following the completion of the Debtors' reorganization to fund the working capital requirements of the Debtors. The aggregate commitment of the exit lenders under the terms of the Exit Financing Facility is subject to reduction under certain circumstances, which are described in the commitment letter, as amended. In addition, the Company has the right to terminate the commitment of the exit lenders after the execution of a definitive sale agreement that has been approved by the board of directors of Adelphia (the "Board") providing for the sale of all or substantially all of the assets of the Debtors or all or substantially all of the equity of Adelphia. The obligation of the exit lenders to fund the Exit Financing Facility is subject to certain conditions which are enumerated in the commitment letter and the attachments thereto, each as amended. There can be no assurance that such conditions will be satisfied.

On June 30, 2004, and after the Debtors and the exit lenders agreed on certain modifications to the terms of the Exit Financing Facility, the Bankruptcy Court entered an order approving the Exit Financing Facility. Following the Bankruptcy Court's approval of the Exit Financing Facility, the Company paid the exit lenders a nonrefundable fee of $10,000,000 and reimbursed the exit lenders for certain expenses they had incurred through the date of such approval, including certain legal expenses incurred by them through such date. Additional fees will be payable by the Company under the terms of the Exit Financing Facility irrespective of whether the exit financing facilities are utilized. A fee of $10,000,000 will be payable if the exit financing facilities are not utilized. Certain other fees will only become payable if the Exit Financing Facility is funded.

*Presentation*

For periods subsequent to the Petition Date, the Company has applied the provisions of SOP 90-7. SOP 90-7 requires that pre-petition liabilities that are subject to compromise be segregated in the consolidated balance sheet 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. Liabilities subject to compromise are reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. Liabilities subject to compromise consist of the following (amounts in thousands):

| | December 31, 2003 | December 31, 2002 |
|---|---|---|
| Parent and subsidiary debt | $ 13,290,903 | $ 13,290,903 |
| Parent and subsidiary debt under co-borrowing credit facilities attributable to Rigas Family Entities. | 2,846,156 | 2,846,156 |
| Accounts payable | 1,059,231 | 1,059,231 |
| Accrued liabilities | 839,142 | 823,834 |
| Series B Preferred Stock | 148,794 | — |

| | | |
|---|---|---|
| | $ 18,184,226 | $ 18,020,124 |

Following is a reconciliation of the changes in liabilities subject to compromise for the period from the Petition Date through December 31, 2003:

| | Cumulative since Petition Date |
|---|---|
| Balance at Petition Date | $ 18,017,513 |
| Contract rejections | 2,611 |
| Balance at December 31, 2002 | 18,020,124 |
| Contract rejections | 18,308 |
| Series B Preferred Stock | 148,794 |
| Settlements | (3,000) |
| Balance at December 31, 2003 | $ 18,184,226 |

The amounts presented as liabilities subject to compromise may be subject to future adjustments depending on Bankruptcy Court actions, completion of the reconciliation process with respect to disputed claims, determinations of the secured status of certain claims, the values of any collateral securing such claims, or other events. Such adjustments may be material to the amounts reported as liabilities subject to compromise.

Amortization of deferred financing fees related to pre-petition debt obligations was terminated effective on the Petition Date and the unamortized amount at the Petition Date ($134,208,000) has been included as an offset to liabilities subject to compromise at December 31, 2003 and 2002 as an adjustment of the net carrying value of the related pre-petition debt. Similarly, amortization of the issuance costs for the Company's redeemable preferred stock was also terminated at the Petition Date. 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. For additional information, see Notes 14 and 15.

Upon the Debtors' emergence from bankruptcy, the Company anticipates that material adjustments will be recorded to the Company's consolidated balance sheet to reflect the restructuring of the Company's 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 of the Company will be allocated to its 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, the Company's consolidated financial statements for periods subsequent to the fresh-start reporting date are not expected to be comparable with those of prior periods.

*Reorganization Expenses due to Bankruptcy and Investigation and Re-audit Related Fees*

Only those fees directly related to the Chapter 11 filings are included in reorganization expenses due to bankruptcy. These expenses are offset by the interest earned during reorganization. Certain reorganization expenses are contingent upon the approval of a plan of reorganization by the Bankruptcy Court and include cure costs, financing fees and success fees. The Company is currently aware of certain success fees that potentially could be paid to third party financial advisers of the Company and Committees upon the Company's emergence from bankruptcy. Currently, these contingent fees are estimated to be between $21,500,000 and $34,950,000. As no plan of reorganization has been confirmed by the Bankruptcy Court, no accrual for such contingent payments or equity awards to certain executives payable upon emergence from bankruptcy has been recorded in the accompanying consolidated financial statements. The following table sets forth certain components of reorganization expenses for the indicated periods (amounts in thousands):

**ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**(Debtors-In-Possession)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

| | Year ended December 31, | |
|---|---|---|
| | 2003 | 2002 |
| Contract and lease rejections | $ 18,258 | $ 2,409 |
| Professional fees | 81,949 | 47,499 |
| Interest earned during reorganization | (4,390) | (2,779) |
| Other | 3,054 | 1,555 |
| Total reorganization expenses due to bankruptcy | $ 98,871 | $ 48,684 |

The Company is incurring certain professional fees that, although not directly related to the Chapter 11 filing, relate to the investigation of the actions of the Rigas Family management and related efforts to comply with applicable laws and regulations. These expenses include the additional audit fees incurred for the year ended December 31, 2001 and prior, and legal, special investigation and forensic consultant fees of the Company and a special committee of the Board. These expenses have been included in investigation and re-audit related fees in the accompanying consolidated statements of operations.

**Note 3: Summary of Significant Accounting Policies**

*Bankruptcy*

As a result of the Debtors' Chapter 11 filings, these consolidated financial statements have been prepared in accordance with SOP 90-7. For additional information, see Note 2.

*Cash Equivalents*

Cash equivalents consist primarily of money market funds and United States ("U.S.") Government obligations with maturities of three months or less when purchased. The carrying amounts of cash equivalents approximate their fair values.

*Supplemental Cash Flow Information*

The table below sets forth the Company's supplemental cash flow information (amounts in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Cash paid for interest | $ 379,423 | $ 660,801 | $ 1,090,420 |
| Capitalized interest | $ (21,643) | $ (37,010) | $ (57,248) |
| Cash paid for income taxes | $ 461 | $ 175 | $ 570 |

Significant non-cash investing and financing activities are summarized in the table below. There were no significant non-cash transactions in 2003. The summarized information in the table should be read in conjunction with the more detailed information included in the referenced Notes (amounts in thousands):

| | Year ended December 31, | |
|---|---|---|
| | 2002 | 2001 |
| Net assets of entities acquired in exchange for issuance of Class A Common Stock (Note 8) | $ 46,470 | $ 184,294 |
| Purchase of Adelphia securities by Rigas Family Entities (Note 6) | $ 393,569 | $ 421,715 |

**ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**(Debtors-In-Possession)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

| | | |
|---|---|---|
| Issuance of treasury shares on behalf of NFHLP (Note 6)* | $ — | $ 5,407 |
| Excess of fair value of net assets acquired over historical cost of net assets surrendered in cable systems exchanges (Note 8) | $ — | $ 541,994 |
| Decrease in additional paid-in capital due to TelCove Spin-off (Note 9) | $ 1,346,500 | $ — |
| Assets acquired under capital leases (Note 14) | $ 11,244 | $ 44,252 |

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* Niagara Frontier Hockey, L.P., a Delaware limited partnership owned by the Rigas Family ("NFHLP").

*Restricted Cash*

Restricted cash is comprised of: (i) proceeds received from the $200,000,000 loan made pursuant to the DIP Facility (the "Tranche B Loan") that were subject to letter of credit agreements or other restrictions pursuant to the DIP Facility, (ii) cash receipts from customers that were placed in trust as a result of a dispute arising from the acquisition of a cable system (for additional information, see Note 8), (iii) amounts that are required to be used to pay franchise fees pursuant to an agreement with an insurance provider and (iv) amounts reserved for the construction of an advanced information technology infrastructure under TelCove's contract with the Commonwealth of Pennsylvania. Details of restricted cash are presented below (amounts in thousands):

| | December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Current restricted cash: | | | |
| Dispute related to acquisition | $ 13,215 | $ 9,244 | $ — |
| Other | 1,112 | — | — |
| Total | $ 14,327 | $ 9,244 | $ — |

| | December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Noncurrent restricted cash: | | | |
| Tranche B Loan | $ 45,000 | $193,000 | $ — |
| Agreement with insurance provider | 28,662 | 32,946 | — |
| Commonwealth of Pennsylvania | — | — | 18,995 |
| Other | 1,148 | 2,292 | 2,216 |
| Total | $ 74,810 | $228,238 | $ 21,211 |

*Accounts Receivable*

Accounts receivable are reflected net of an allowance for doubtful accounts. Such allowance was $40,108,000, $26,957,000 and $104,452,000 (including $71,890,000 related to TelCove) at December 31, 2003, 2002 and 2001, respectively. Valuation allowances for uncollectible accounts receivable are established through a charge to direct operating and programming expenses. The Company assesses the adequacy of this reserve periodically, evaluating general factors such as the length of time individual receivables are past due, historical collection experience, and the economic and competitive environment.

In the case of receivables for CLEC telecommunications services, the Company also assesses the ability of specific customers to meet their financial obligations and establishes specific valuation allowances based on the amount the Company expects to collect from these customers, as considered necessary. If circumstances change such that past collection experience and assessment of the economic and regulatory environment are no longer relevant, the estimate of the recoverability of the Company's accounts receivable may change.

*Investments*

All publicly traded marketable securities held by the Company are classified as available-for-sale securities and are recorded at fair value. Unrealized gains and losses resulting from changes in fair value between measurement dates for available-for-sale securities are recorded net of taxes as a component of other comprehensive income (loss). Unrealized losses that are deemed to be other-than-temporary are recognized currently. Investments in privately held entities in which the Company does not have the ability to exercise significant influence over their operating and financial policies are accounted for at cost, subject to other-than-temporary impairment, and are included in other noncurrent assets, net.

Investments in entities in which the Company has the ability to exercise significant influence over the operating and financial policies of the investee are accounted for under the equity method. Equity method investments are recorded at original cost, subject to other-than-temporary impairment, and adjusted quarterly to recognize the Company's proportionate share of the investees' net income or losses after the date of investment, additional contributions or advances made, and dividends received. The equity method of accounting is suspended when the Company no longer has significant influence, for example, during the period that investees are undergoing corporate reorganization or bankruptcy proceedings. The Company's share of losses is generally limited to the extent of the Company's investment unless the Company is committed to provide further financial support to the investee. The excess of the Company's investment over its share of the net assets of each of the Company's investees has been attributed to the franchise rights and customer relationship intangibles of the investee. Accordingly, prior to the Company's January 1, 2002 adoption of SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), the Company calculated the amortization of such excess basis on a straight-line basis using weighted average useful lives that were based on the useful lives of the assets of the applicable investee. Following the adoption of SFAS No. 142, the Company no longer amortizes the excess basis to the extent it has been attributed to the investee's intangible assets that are not subject to amortization. As discussed below under "Intangible Assets", the Company has determined that franchise rights have an indefinite life, and therefore are not subject to amortization. Excess basis amortization is included in share of earnings (losses) of equity affiliates, net in the accompanying consolidated statements of operations.

Changes in the Company's proportionate share of the underlying equity of a subsidiary or an equity method investee, which result from the issuance of additional equity securities of the subsidiary or equity investee, are reflected as increases or decreases to the Company's additional paid-in capital.

On a quarterly basis, the Company reviews its investments to determine whether a decline in fair value below the cost basis is other-than-temporary. The Company considers a number of factors in its determination including: (i) the financial condition, operating performance and near term prospects of the investee, (ii) the reason for the decline in fair value, be it general market, industry specific or investee specific conditions, (iii) the length of time that the fair value of the investment is below the Company's carrying value, and (iv) changes in value subsequent to the balance sheet date. If the decline in estimated fair value is deemed to be other-than-temporary, a new cost basis is established at the then estimated fair value. In situations where the fair value of an asset is not evident due to a lack of public market price or other factors, the Company uses its best estimates and assumptions to arrive at the estimated fair value of such an investment. The Company's assessment of the foregoing factors involves a high degree of judgment, and the use of significant estimates and assumptions.

*Derivative and Other Financial Instruments*

Effective January 1, 2001, the Company 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 ("SFAS No. 137"), 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"). SFAS No. 133 requires that all derivative instruments be recognized in the balance sheet at fair value. In addition, SFAS No. 133 provides that for derivative instruments that qualify for hedge accounting, changes in fair value will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in stockholders' equity as a component of accumulated other comprehensive income (loss) until the hedged item is recognized in earnings, depending on whether the derivative hedges changes in fair value or cash flows. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

The Company has entered into interest rate exchange agreements, interest rate cap agreements and interest rate collar agreements with the objective of managing its exposure to fluctuations in interest rates. However, the Company has not designated these agreements as hedging instruments pursuant to the provisions of SFAS No. 133. Accordingly, changes in the fair value of these agreements were recognized currently and included in other income (expense) through the Petition Date. Changes in the fair value of these agreements subsequent to the Petition Date have not been recognized, as the amount to be received or paid in connection with these agreements will be determined by the Bankruptcy Court. For additional information, see Note 14.

The Company has received stock purchase warrants from vendors and other strategic partners in connection with various agreements. Prior to January 1, 2001, the Company accounted for these warrants at cost, subject to other-than-temporary impairment. Pursuant to SFAS No. 133, these warrants are considered to be derivative financial instruments. As such, following the adoption of SFAS No. 133, changes in the fair values of these warrants have been included in other income (expense), net. For additional information, see Note 5.

*Business Combinations*

The Company has accounted for business combinations using the purchase method of accounting. The results of operations of the acquired business have been included in the Company's consolidated results from the date of the acquisition. The cost to acquire companies, including transaction costs, has been allocated to the underlying net assets of the acquired company based on their respective fair values. Any excess of the purchase price over estimated fair values of the identifiable net assets acquired has been recorded as goodwill. The value assigned to Class A Common Stock issued by Adelphia as consideration for acquisitions is generally based on the average market price for a period of a few days before and after the date that the respective terms were agreed to and announced. Gains or losses on exchanges of cable systems are calculated as the difference between the historical cost basis of the net assets of the surrendered cable systems and the fair value of the net assets of the acquired cable systems, as adjusted for any additional consideration that is received or paid.

The application of purchase accounting requires a high degree of judgment and involves the use of significant estimates and assumptions. For additional information, see Note 8.

*Property and Equipment*

The details of property and equipment and the related accumulated depreciation are set forth below for the indicated periods (amounts in thousands):

| | December 31, | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |

| | | | |
|---|---|---|---|
| Cable distribution systems | $ 6,608,704 | $ 6,283,662 | $ 5,352,760 |
| Support equipment and buildings | 689,838 | 698,528 | 1,579,793 |
| Land | 51,979 | 51,404 | 47,519 |
| | 7,350,521 | 7,033,594 | 6,980,072 |
| Accumulated depreciation | (2,816,135) | (2,373,255) | (2,009,173) |
| | $ 4,534,386 | $ 4,660,339 | $ 4,970,899 |

Property and equipment is stated at cost, less accumulated depreciation. In accordance with SFAS No. 51, *Financial Reporting by Cable Television Companies* ("SFAS No. 51"), the Company capitalizes costs associated with the construction of new cable transmission and distribution facilities and the installation of new cable services. Capitalized construction and installation costs include materials, labor and applicable indirect costs. Installation costs include (i) labor, material and overhead costs related to the initial connection (or "drop") from the Company's cable plant to a customer location, (ii) the replacement of a drop and (iii) the installation of equipment for additional services, such as digital cable or high-speed Internet ("HSI"). The costs of other customer-facing activities, such as reconnecting customer locations where a drop already exits, disconnecting customer locations and repairing or maintaining drops, are expensed as incurred. The Company's methodology for capitalization of construction and installation costs uses standard models based on actual costs.

The Company captures data from its billing, customer care and engineering records to determine the number of occurrences for each capitalizable activity, applies the appropriate standard and capitalizes the result on a monthly basis. Periodically, the Company reviews and adjusts, if necessary, the amount of costs capitalized utilizing the methodology described above, based on comparisons to actual costs incurred. Significant judgment is involved in the development of costing models and in the determination of the nature and amount of indirect costs to be capitalized.

Improvements that extend asset lives are capitalized and other repairs and maintenance expenditures are expensed as incurred.

Subject to the change noted below for set-top boxes, remotes and modems, depreciation is computed on the straight-line method using the following useful lives:

| Classification | Useful Lives |
|---|---|
| Cable distribution systems: | |
| Construction equipment | 12 years |
| Cable plant | 9 to 12 years |
| Set-top boxes, remotes and modems | 3 to 5 years (see below) |
| Studio equipment | 7 years |
| Advertising equipment | 5 years |
| Tools and test equipment | 5 years |
| Support equipment and buildings: | |
| Buildings and improvements | 10 to 20 years |
| Office furniture | 10 years |
| Aircraft | 10 years |
| Computer equipment | 3 to 7 years |
| Office equipment | 5 years |
| Vehicles | 5 years |

The Company periodically evaluates the useful lives of all property and equipment. Since January 1, 2002, depreciation of set-top boxes, remotes and modems has been provided using the straight-line method over an estimated useful life of 3 to 5 years. Prior to January 1, 2002, the Company calculated depreciation of set-top boxes, remotes and modems under the straight-line method over an estimated useful life of 5 to 7.5 years. Management reduced these estimated lives based upon continued technological changes, including the move from analog to digital technology and a higher churn rate associated with digital cable service, which indicated a decline in such lives. The impact of changing these useful lives during the year ended December 31, 2002 was a $95,220,000 increase to the Company's net loss and a $0.38 per common share increase to the Company's net loss per common share.

The useful lives used to depreciate cable plant that is undergoing rebuilds are adjusted such that property and equipment to be retired will be fully depreciated by the time the rebuild is completed. In addition, the useful lives assigned to property and equipment of acquired companies are based on the expected remaining useful lives of such acquired property and equipment. Upon the sale of cable systems, the related cost and accumulated depreciation is removed from the respective accounts and any resulting gain or loss is reflected in earnings.

*Intangible Assets*

Franchise rights represent the value attributed to agreements with local authorities that allow access to homes in cable service areas acquired in connection with a business combination. Prior to the adoption of SFAS No. 142 on January 1, 2002, the Company amortized such acquired franchise rights on a straight-line basis over a 40-year period. Following the adoption of SFAS No. 142, the Company is no longer amortizing acquired franchise rights as the Company has determined that such rights have an indefinite life. Costs to extend and maintain the Company's franchise rights are expensed as incurred. Prior to the adoption of SFAS No. 142, these costs were capitalized in accordance with SFAS No. 51 and were amortized on a straight-line basis over the renewal period, generally 15 years.

Goodwill represents the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Prior to the adoption of SFAS No. 142, the Company amortized goodwill on a straight-line basis over a 40-year period. Following the adoption of SFAS No. 142, the Company no longer amortizes goodwill.

The pro forma net loss and net loss per common share for 2001, as adjusted to eliminate the amortization of excess cost basis attributable to intangible assets of equity affiliates, franchise rights and goodwill, are set forth below (amounts in thousands):

| | **Year ended December 31, 2001** |
|---|---|
| Net loss, as reported | $(6,116,501) |
| Adjustment to eliminate amortization of: | |
| Excess cost basis attributable to intangible assets of equity affiliates that are not subject to amortization | 6,635 |
| Franchise rights | 175,273 |
| Goodwill | 162,468 |
| Pro forma net loss | $(5,772,125) |
| | |
| Basic and diluted loss per common share, as reported | $ (35.07) |
| Adjustment to eliminate amortization of: | |
| Excess cost basis attributable to intangible assets of equity affiliates that are not subject to amortization | .04 |
| Franchise rights | 1.00 |
| Goodwill | .92 |

| | |
|---|---|
| Pro forma basic and diluted loss per common share, as adjusted | $ (33.11) |

Following is a reconciliation of the changes in the carrying amount of goodwill for the periods indicated (amounts in thousands):

| | Cable | Corporate and Other | Total |
|---|---|---|---|
| Balance at January 1, 2001* | $ 5,557,695 | $ 95,266 | $ 5,652,961 |
| Acquisitions | 185,040 | — | 185,040 |
| Increase due to increase in the Company's ownership interest in TelCove | — | 99,040 | 99,040 |
| Goodwill amortization expense | (155,959) | (6,509) | (162,468) |
| Impairments | (2,444,084) | (187,797) | (2,631,881) |
| Balance at December 31, 2001 | 3,142,692 | — | 3,142,692 |
| Acquisitions | 3,328 | — | 3,328 |
| Cumulative effects of accounting changes | (881,610) | — | (881,610) |
| Impairments | (755,905) | — | (755,905) |
| Other adjustments | (821) | — | (821) |
| Balance at December 31, 2002 | 1,507,684 | — | 1,507,684 |
| Acquisitions | 4,191 | — | 4,191 |
| Balance at December 31, 2003 | $ 1,511,875 | $ — | $ 1,511,875 |

* Restated. See Note 4.

Customer relationships, which represent the value attributed to customer relationships acquired in business combinations, are amortized on a straight-line basis over a 10-year period. Amortization of intangible assets aggregated $157,515,000, $158,898,000 and $499,713,000 during 2003, 2002 and 2001, respectively. Based solely on the Company's current amortizable intangible assets, the Company expects that amortization expense will be approximately $157,000,000 each year over the next five years. The details of customer relationships and other are set forth below for the indicated periods (amounts in thousands):

| | As of December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Gross carrying amount | $ 1,620,941 | $ 1,610,729 | $ 1,701,609 |
| Accumulated amortization | (658,759) | (501,244) | (390,975) |
| Net carrying amount | $ 962,182 | $ 1,109,485 | $ 1,310,634 |

*Impairment of Long-Lived Assets*

Pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), which the Company adopted on January 1, 2002, the Company evaluates property and equipment and amortizable intangible assets for impairment whenever current events and circumstances indicate the carrying amounts may not be recoverable. If the carrying amount is greater than the expected future undiscounted cash flows to be generated, the Company recognizes an impairment loss equal to the excess, if any, of the carrying value over the fair value of the asset. The Company generally measured fair value based upon the present value of estimated future net cash flows of an asset group over its remaining useful life. The Company utilized an independent third party valuation firm to assist in the determination of fair value for the cable assets. With respect to long-lived assets associated with cable systems, the Company groups systems at a level which represents the lowest level of cash flows that are largely independent of other assets and liabilities. The Company's asset groups under this methodology consist of seven major metropolitan markets and numerous other asset groups in the Company's geographically dispersed operations.

Pursuant to SFAS No. 142, the Company evaluates its goodwill and franchise rights for impairment, at least annually on July 1, and whenever other facts and circumstances indicate that the carrying amounts of goodwill and franchise rights may not be recoverable. The Company evaluates the recoverability of the carrying amount of goodwill at its operating regions. These operating regions make up the Company's cable operating segment determined pursuant to SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information,* as further discussed in Note 20. For purposes of this evaluation, the Company compares the fair value of the assets of each of the Company's operating regions to their respective carrying amounts. If the carrying value of an operating region were to exceed its fair value, the Company would then compare the implied fair value of the operating region's goodwill to its carrying amount, and any excess of the carrying amount over the fair value would be charged to operations as an impairment loss. The fair value of goodwill represents the excess of the operating region's fair value over the fair value of its identifiable net assets. The Company evaluates the recoverability of the carrying amount of its franchise rights based on the same asset groupings used to evaluate its long-lived assets under SFAS No. 144 because the franchise rights are inseparable from the other assets in the asset group. These groupings are consistent with the guidance in Emerging Issues Task Force ("EITF") Issue No. 02-7, *Unit of Measure for Testing Impairment of Indefinite-Lived Intangible Asset.* Any excess of the carrying value over the fair value for franchise rights is charged to operations as an impairment loss.

Prior to the adoption of SFAS No. 144 and SFAS No. 142, the Company evaluated impairment of the carrying amounts of its property and equipment and intangible assets including goodwill under SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* ("SFAS No. 121"). In addition, the Company evaluated impairment of goodwill under Accounting Principles Board ("APB") Opinion No. 17, *Intangible Assets* ("APB No. 17"). The Company evaluated its assets for impairment whenever current events and circumstances indicated that such carrying amounts may not be recoverable. Under SFAS No. 121, if the carrying amounts of the assets were greater than the expected undiscounted cash flows to be generated by such assets, an impairment loss was recognized when the carrying values of such assets exceeded their estimated fair value. The Company generally measured fair value based upon the present value of estimated future net cash flows of an asset group over its remaining useful life. The Company utilized an independent third party valuation firm to assist in the determination of fair value. Under APB No. 17, the Company evaluated goodwill for impairment after consideration of any impairments measured under SFAS No. 121 on an undiscounted cash flow basis.

The evaluation of long-lived assets for impairment requires a high degree of judgment and involves the use of significant estimates and assumptions. For additional information, see Note 12.

*Internal-Use Software*

The Company capitalizes certain direct development costs associated with internal-use software, including external direct costs of material and services, and payroll and related benefit costs for employees devoting time to the software projects. Such costs are amortized over an estimated useful life of three years, beginning when the assets are substantially ready for use. Capitalized internal-use software costs were $14,882,000, $15,250,000 and $59,905,000 during 2003, 2002 and 2001, respectively. The net book value of internal-use software at December 31, 2003, 2002 and 2001 was $35,678,000, $26,584,000 and $95,741,000, respectively. Internal-use software costs are included in other noncurrent assets, net in the accompanying consolidated balance sheets.

*Deferred Financing Fees*

In general, costs associated with the issuance and refinancing of debt are deferred and amortized to interest expense using the effective interest method over the term of the related debt agreement. However, in the case of deferred financing costs related to pre-petition debt obligations, amortization was terminated effective on the Petition Date and the unamortized amount at the Petition Date ($134,208,000) is included as an offset to liabilities subject to compromise at the Petition Date and at December 31, 2003 and 2002 as an adjustment of the net carrying value of the related pre-petition debt. Deferred financing fees related to the DIP Facility of $12,774,000 and $35,908,000 at December 31, 2003 and 2002, respectively, are included in other noncurrent assets, net in the accompanying consolidated balance sheets. Deferred financing fees related to pre-petition debt of $161,351,000 at December 31, 2001, are included in noncurrent assets, net in the accompanying consolidated balance sheets.

*Minority's Interest*

Recognition of minority's interest share of losses of consolidated subsidiaries are limited to the amount of such minority's interest allocable share of the common equity of those consolidated subsidiaries. In addition, in situations where losses allocable to the minority's interest are charged to the Company because such losses exceed the minority's interest share of the subsidiary's equity, the subsequent recapture of such losses as a result of the subsidiary's issuance of additional equity to minority's interest is reflected as an increase to additional paid-in capital.

*Foreign Currency Translation*

Assets and liabilities of the Company's cable operations in Brazil, where the functional currency is the local currency, are translated into U.S. dollars at the exchange rate as of the balance sheet date, and the related translation adjustments are recorded as a component of other comprehensive income (loss). Revenue and expenses are translated using average exchange rates prevailing during the period.

*Transactions with the Rigas Family and Rigas Family Entities*

The Company has had significant involvement, directly or indirectly, with the Rigas Family and numerous legal entities owned by the Rigas Family. The involvement ranges from engaging in joint business transactions, such as co-borrowing arrangements, to managing cable system operations, participating in centralized cash management and accounting functions, advancing funds, purchasing goods or services and engaging in numerous other formal and informal transactions or arrangements. The Rigas Family Entities include entities that are borrowers under co-borrowing agreements with certain subsidiaries of Adelphia (including the subsidiaries of such entities, the "Rigas Co-Borrowing Entities") as well as other Rigas Family Entities with varying degrees of involvement with the Company. The Company does not hold equity interests in any of the Rigas Family Entities.

Until mid-2002, the Company disbursed significant amounts of money directly to or on behalf of the Rigas Family Entities. The Company continues to disburse money for the operations of certain Rigas Family Entities that operate cable systems and are managed by the Company (the "Managed Cable Entities"). Generally, amounts funded to or on behalf of the Rigas Family Entities were recorded by the Company as advances to those entities and are included as amounts due from the Rigas Family and Rigas Family Entities. The amounts due from the Rigas Family and Rigas Family Entities also include interest expected to be reimbursed by the Rigas Co-Borrowing Entities (considered probable of collection) on the portion of the co-borrowing debt attributable to those entities. Interest was deferred or otherwise not charged to the Rigas Family or the other Rigas Family Entities because amounts were not considered probable of collection or written agreements supporting such charges could not be located. No accounting recognition is given in the Company's financial statements for the amounts deferred.

Amounts due from the Rigas Family and Rigas Family Entities is presented as a reduction of stockholders' equity as (i) approximately half of the advances were used by those entities to acquire Adelphia securities, (ii) these advances occurred frequently, (iii) there were no definitive debt instruments that specified repayment terms and (iv) there was no demonstrated repayment history.

During periods in which the Company and the Rigas Family Entities were under common control, transfers of entities or long-lived assets between such entities were accounted for at the transferor's historical cost and any difference between the consideration agreed upon and such historical cost was treated as an adjustment of additional paid-in capital. Where a contractual agreement or similar arrangement exists for management services, the fees charged are based on the contractually specified terms. In the absence of such agreements, the fees charged by the Company to the Rigas Family Entities are based on the actual costs incurred by the Company. The Company also charged transaction fees with respect to debt financing obtained and acquisitions arranged for certain Rigas Co-Borrowing Entities. For accounting purposes, the excess of the transaction fees charged by the Company over the actual cost associated with obtaining the debt financing or arranging the acquisition has been reflected as an adjustment to additional paid-in capital. All other transactions between the Company and the Rigas Family Entities have been reflected in the Company's consolidated financial statements based on the actual cost of the related goods or services.

The Company followed the principles outlined in SFAS No. 114, *Accounting by Creditors for Impairment of a Loan,* and SFAS No. 118, *Accounting by Creditors for Impairments of a Loan—Income Recognition and Disclosures,* to establish its policies related to both the recognition of interest due from the Rigas Family Entities and to determine impairment of advances to the Rigas Family and Rigas Family Entities. As previously mentioned, interest attributed to a particular Rigas Family Entity is recognized as amounts due from the Rigas Family and Rigas Family Entities in the Company's consolidated financial statements as long as none of the underlying receivable balance due from that entity is impaired. Once all or a portion of the receivable balance due from a Rigas Family Entity is impaired, the reimbursement of interest is no longer recognized on any of the debt attributable to that Rigas Family Entity because collection is not probable.

The Company evaluated impairment of amounts due from the Rigas Family and Rigas Family Entities at each balance sheet date and whenever other facts and circumstances indicated the carrying value may have been impaired, on an entity-by-entity basis, which considers the legal structure of each entity to which advances were made. The Company was unable to evaluate impairment based on the present value of expected future cash flows from repayment because the advances generally do not have supporting loan documents, interest rate, repayment terms or history of repayment. The Company considered such advances as collateral-backed loans and measured the expected repayments based on the estimated fair value of the underlying assets of each respective entity at the balance sheet dates. The evaluation is based on an orderly liquidation of the underlying assets and does not apply current changes in circumstances to prior periods. For example, the most significant impairment recognition occurred in June 2002 when the Debtors filed for bankruptcy protection due to the dramatic effect that the filing had on the value of the underlying assets available for repayment of the advances. No increases in underlying asset values were recognized following bankruptcy. Any amounts ultimately recovered in excess of recorded amounts will be recognized as income at the time of recovery.

Management believes that the amounts charged to the Rigas Family Entities and reflected in the accompanying consolidated statements of operations with respect to management fees, transaction fees and interest expense are reasonable.

*Revenue Recognition*

Revenue from video and HSI service is recognized as services are provided. Credit risk is managed by disconnecting services to customers whose accounts are delinquent for a specified number of days. Consistent with SFAS No. 51, installation revenue obtained from the connection of subscribers to the cable system is recognized in the period installation services are provided to the extent of related direct selling costs. Any remaining amount is deferred and recognized over the estimated average period that customers are expected to remain connected to the cable system. Installation revenue was less than related direct selling costs for all periods presented. The Company classifies fees collected from cable subscribers for reimbursement of fees paid to local franchise authorities as a component of service revenue because the Company is the primary obligor to the local franchise authority. Revenue from advertising sales is recognized as the advertising is aired. Certain fees and commissions related to advertising sales are recognized as costs and expenses in the accompanying consolidated financial statements.

Revenue from telecommunications services provided by CLECs is recognized as the services are provided at the amount the Company expects to realize, which includes billing and service adjustments. During periods prior to the TelCove Spin-off Date, the Company leased fiber capacity to other telecommunications providers for cash. These transactions were structured as an indefeasible right of use ("IRU") that provided for the exclusive right to use a specified amount of capacity or fiber for a specified term. The consideration received was recognized as revenue on a straight-line basis over the term of the IRU agreement.

*Programming Launch Fees and Incentives*

From time to time, the Company enters into binding agreements with programming networks whereby the Company is to receive cash, warrants to purchase common stock or other consideration in exchange for launch, channel placement or other considerations with respect to the carriage of programming services on the Company's cable systems. Amounts received or to be received under such arrangements are recorded as deferred income and amortized, generally on a straight-line basis, over the period in which the Company expects to earn such payments, provided that it is probable that the Company will satisfy the carriage obligations and that the amounts to be received are reasonably estimable. Where it is not probable that the Company will satisfy the carriage obligations, or where the amounts to be received are not estimable, recognition is deferred until the specific carriage obligations are met and the consideration to be received is reasonably estimable. The amounts recognized under these arrangements generally are reflected as reductions of costs and expenses. However, amounts recognized with respect to (i) payments received from shopping and other programming networks for which the Company does not pay license fees and (ii) consideration received in connection with interactive services are reflected as revenue. At the time that the Company's launch, carriage or other obligations are terminated, any remaining deferred income associated with such terminated obligations is recognized and included in other income (expense), net in the accompanying consolidated statements of operations. For additional information, see Note 11.

*Advertising Costs*

Advertising costs are expensed as incurred. The Company's advertising expense was $88,410,000, $61,077,000 and $62,106,000 during 2003, 2002 and 2001, respectively.

*Stock-Based Compensation*

The Company applies the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB Opinion No. 25"), and related interpretations to account for the Company's fixed plan stock options. Under this method, compensation expense for stock options or awards that are fixed is required to be recognized over the vesting period only if the current market price of the underlying stock exceeds the exercise price on the date of grant. SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"), established accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic value-based method of accounting prescribed by APB Opinion No. 25, and has adopted the disclosure requirements of SFAS No. 123, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation—Transition and Disclosure—an Amendment of FASB Statement No. 123* ("SFAS No. 148"). The following table illustrates the effects on net loss and loss per common share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based employee compensation (amounts in thousands):

| | Year ended December 31, | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| Net loss — as reported | $ (832,612) | $ (7,188,828) | $ (6,116,501) |
| Deduct compensation expense determined under fair value method, net of $0 taxes for all years | $ (1,077) | $ (1,079) | $ (41,105) |
| Pro forma net loss | $ (833,689) | $ (7,189,907) | $ (6,157,606) |
| Loss per share: | | | |
| Basic and diluted — as reported | $ (3.31) | $ (28.87) | $ (35.07) |
| Basic and diluted — pro forma | $ (3.31) | $ (28.88) | $ (35.31) |

The grant-date fair values underlying the foregoing calculations are based on the Black-Scholes option-pricing model. Adelphia has not granted stock options since 2001. With respect to stock options granted by Adelphia in 2001, the key assumptions used in the model for purpose of these calculations were as follows:

| | 2001 |
|---|---|
| Risk-free interest rate | 4.17% |
| Volatility | 54.8% |
| Expected life (in years) | 3.77 |
| Dividend yield | 0% |

*Income Taxes*

The Company accounts for its income taxes using the asset and liability method. Under the asset and liability method, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. In addition, deferred tax assets are also recorded with respect to net operating loss and other tax attribute carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Valuation allowances are established when realization of the benefit of deferred tax assets is not deemed to be more likely than not. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

*Earnings (Loss) Per Common Share ("EPS")*

Basic EPS is measured as the earnings or loss attributable to common stockholders divided by the weighted average outstanding common shares for the period. Net earnings (loss) is reduced (increased) by preferred stock dividends and accretion and the value of beneficial conversion features of preferred stock to arrive at earnings (loss) attributable to common stockholders. Diluted EPS is similar to basic EPS but presents the dilutive effect on a per share basis of potential common shares (e.g. convertible securities, options, etc.) as if they had been converted at the beginning of the periods presented, or at original issuance date, if later. Potential dilutive common shares that have an anti-dilutive effect (e.g., those that increase income per share or decrease loss per share) are excluded from diluted EPS.

Potential common shares were not included in the computation of diluted EPS because their inclusion would be anti-dilutive. At December 31, 2003, 2002 and 2001, the number of potential common shares was

87,082,474; 87,464,763 and 66,431,876, respectively. Such potential common shares consist of stock options to acquire shares of Class A Common Stock, and preferred securities and debt instruments that were convertible into shares of Adelphia Common Stock at December 31, 2003, 2002 and 2001, respectively. The foregoing potential common share amounts do not take into account the assumed number of shares that might be repurchased by the Company upon the exercise of stock options.

*Use of Estimates*

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses. Significant estimates are involved in the determination of: (i) asset impairments, (ii) the allocation of the purchase price in purchase method business combinations, (iii) the recorded provisions for contingent liabilities, (iv) the carrying amounts of liabilities subject to compromise, (v) estimated useful lives of tangible and intangible assets, (vi) internal costs capitalized in connection with construction and installation activities, (vii) the fair value of derivative financial instruments, (viii) the recorded amount of deferred tax assets and liabilities and (ix) the allowances provided for uncollectible amounts with respect to the amounts due from the Rigas Family and Rigas Family Entities and accounts receivable. Actual amounts, particularly with respect to matters impacted by proceedings under Chapter 11, could vary significantly from such estimates.

**Note 4: Restatement of Consolidated Financial Statements**

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) four credit facilities pursuant to which certain subsidiaries of Adelphia and the Rigas Co-Borrowing Entities were jointly and severally liable (the "Co-Borrowing Facilities") 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 $2,000,000,000 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, the Company (i) authorized a special committee of the Board, comprised solely of members of the Board who were not members of the Rigas Family, to conduct an investigation into certain transactions involving the Company and certain members of the Rigas Family and certain Rigas Family Entities and certain related matters (the "Special Committee"), and (ii) announced that it expected to restate certain of its consolidated financial statements. Deloitte & Touche LLP ("Deloitte"), the Company's former independent auditor, subsequently suspended its audit work on the Company's 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, the Company dismissed Deloitte. On June 13, 2002, the Company retained PricewaterhouseCoopers LLP as its independent registered public accounting firm.

**ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**(Debtors-In-Possession)**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued**

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. The Company has since retained new directors and senior management, including a new Chief Executive Officer, President and Chief Operating Officer, Chief Financial Officer and Chief Accounting Officer, and implemented improved corporate governance policies and procedures, with one objective being an improved control environment.

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 the Company's 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.

*Impact on Accumulated Deficit as of January 1, 2001 (December 31, 2000)*

The following tables set forth the effects of the restatement adjustments discussed below on the Company's opening accumulated deficit as of January 1, 2001 (December 31, 2000). Due to the substantial number of restatement adjustments, the restatement categories listed in the table generally reflect a number of related adjustments that have been aggregated for disclosure purposes. The restatement adjustments are discussed in the paragraphs following the tables (amounts in thousands):

| | **Balance January 1, 2001 (December 31, 2000)** |
|---|---|
| Accumulated deficit, as previously reported (unaudited) | $ (2,525,203) |
| Restatement adjustments, net:* | |
| Changes in reporting entity | (20,608) |
| Debt issues | (43,091) |
| Capitalization of property and equipment | (955,530) |
| Purchase accounting | (96,606) |
| Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities | (352,683) |
| Balance sheet reconciliations | (127,850) |
| Impairment of cost and available-for-sale investments | (46,461) |
| Programming contracts and related issues | (9,096) |
| Marketing support arrangements with certain equipment vendors | (34,486) |
| Revenue and income recognition | (47,760) |
| Amounts charged to the Rigas Family Entities | (45,962) |
| Investments in nonconsolidated entities | (16,275) |
| Stock compensation | (12,105) |
| Provision for income taxes | 283,173 |
| Minority's interest in losses of subsidiaries, net | (23,810) |
| Share of losses of equity affiliates, net | (98,524) |
| Net restatement adjustments | (1,647,674) |
| As restated | $ (4,172,877) |