EXHIBIT F

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Adelphia Communications Corporation:

We have completed an integrated audit of Adelphia Communications Corporation's 2004 consolidated financial statements and of its internal control over financial reporting as of December 31, 2004 and audits of its 2003 and 2002 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements and financial statement schedules

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 and other consolidated entities (Debtors-in-Possession from June 25, 2002), collectively, the "Company," at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules (not presented herein) listed in the index appearing under Item 15(a)(ii) of the Company's 2004 Annual Report on Form 10-K present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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. As more fully described in Note 9 to the accompanying consolidated financial statements, 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 involved in material litigation, the ultimate outcome of which is not presently determinable. The uncertainties inherent in the bankruptcy and litigation processes, the Company's net capital deficiency and its recurring losses from operations all 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 and consummation of either the sale of substantially all of the Company's United States assets to Time Warner NY Cable LLC, a subsidiary of Time Warner Cable Inc., and Comcast Corporation or emergence as a stand-alone company with sufficient financing, 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. 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 Notes 1 and 5 to the accompanying consolidated financial statements, effective January 1, 2004, the Company adopted Financial Accounting Standards Board Interpretation No. 46-R, Consolidation of Variable Interest Entities. As discussed in Note 10 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. As discussed in Note 3 to the accompanying consolidated financial statements, the Company changed its method of computing amortization on customer relationship intangible assets as of January 1, 2004.

Internal control over financial reporting

Also, we have audited management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting appearing in Exhibit F to the Fourth Amended Disclosure Statement, that the Company did not maintain effective internal control over financial reporting as of December 31, 2004, because of the effect of the material weaknesses related to (i) Access to Financial Applications and Data; (ii) Property and Equipment Accounting, and (iii) the Period-End Financial Reporting Process, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit of internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. The following material weaknesses have been identified and included in management's assessment.

1. The Company did not maintain effective controls over access to financial applications and data, including financial applications and data related to property and equipment, general ledger and financial reporting. Specifically, ineffective controls included unrestricted access for information technology and accounting personnel to programs and data, the lack of periodic, independent review and monitoring of such access, and a lack of policies and procedures that govern security and access. This control deficiency did not result in adjustments to the annual or interim financial statements. The existence of this control deficiency could result in a material misstatement of the Company's annual or interim financial statements that would not be prevented or detected. Accordingly, this control deficiency constitutes a material weakness.

2. The Company did not maintain effective controls over the accounting for property and equipment. Specifically, the Company had (i) ineffective controls over its quarterly physical inventory of construction materials, repairs and maintenance supplies and customer premise equipment, including lack of effective inventory count tag control, ineffective or inaccurate inventory counts, and instances of non-compliance with the Company's policy regarding the conduct of physical inventories; (ii) ineffective controls over the commencement of depreciation expense for capital assets placed in service; (iii) ineffective controls over the appropriate review and approval of contractor work and materials used in connection with capital projects; and (iv) inconsistent application of its limits of authority policy pursuant to which contractual or other payment obligations associated with capital projects are approved. These control deficiencies resulted in immaterial audit adjustments to the annual and interim financial statements. The existence of these control deficiencies could result in the misstatement of property and equipment, depreciation expense as well as repairs and maintenance expense that would result in a material misstatement of the Company's annual or interim financial statements that would not be prevented or detected. Accordingly, these control deficiencies, in the aggregate, constitute a material weakness.

3. The Company did not maintain effective controls over its period-end financial reporting process. Specifically, the Company had (i) ineffective controls over the documentation, authorization and review of journal entries; (ii) ineffective controls to ensure the accuracy of and restricted access to spreadsheets used to support journal entries reflected in the Company's general ledger and in its financial reporting process, and (iii) ineffective controls to ensure the completeness of certain general ledger account reconciliations conducted in connection with the period-end financial reporting process. These control deficiencies resulted in immaterial audit adjustments to the annual and interim financial statements. These control deficiencies could result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, these control deficiencies, in the aggregate, constitute a material weakness.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2004 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

In our opinion, management's assessment that the Company did not maintain effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the COSO. Also, in our opinion, because of the effects of the material weaknesses described above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control - Integrated Framework issued by the COSO.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

McLean, Virginia
October 5, 2005

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(Debtors-In-Possession)
CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	December 31, 2004	December 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$338,909	$252,661
Restricted cash (Note 3)	6,300	14,327
Accounts receivable, net (Note 3)	116,613	139,007
Other current assets	82,710	126,042
Total current assets	544,532	532,037
Noncurrent assets:		
Restricted cash (Note 3)	3,035	74,810
Investments in equity affiliates and related receivables (Note 9)	252,237	256,577
Property and equipment, net (Note 3)	4,469,943	4,534,386
Intangible assets, net (Note 3):		
Franchise rights	5,464,420	5,193,739
Goodwill	1,628,519	1,511,875
Customer relationships and other	579,916	962,182
Other noncurrent assets, net	155,586	131,135
Total assets	$13,098,188	$13,196,741
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	$173,654	$198,208
Subscriber advance payments and deposits	33,159	28,913
Accrued liabilities (Note 18)	535,924	412,071
Deferred revenue	33,296	29,281
Current portion of parent and subsidiary debt (Note 11)	667,745	347,119
Amounts due to the Rigas Family and Other Rigas Entities from Rigas Co-Borrowing Entities (Notes 5 and 6)	460,256	—
Total current liabilities	1,904,034	1,015,592
Noncurrent liabilities:		
Other liabilities	35,012	129,141
Deferred revenue	85,397	110,163
Deferred income taxes (Note 15)	729,481	722,644
Total noncurrent liabilities	849,890	961,948
Liabilities subject to compromise (Notes 2 and 11)	18,480,948	18,184,226
Total liabilities	21,234,872	20,161,766
Commitments and Contingencies (Notes 2 and 17)		
Minority's interest in equity of subsidiary	79,142	109,649
Stockholders' deficit (Note 13):		
Series preferred stock	397	397
Class A Common Stock, $.01 par value, 1,200,000,000 shares authorized, 229,787,271 shares issued and 228,692,414 shares outstanding	2,297	2,297
Convertible Class B Common Stock, $.01 par value, 300,000,000 shares authorized, 25,055,365 shares issued and outstanding	251	251
Additional paid-in capital	12,071,165	12,071,165
Accumulated other comprehensive loss, net	(11,565)	(9,680)
Accumulated deficit	(20,221,691)	(18,310,818)
Treasury stock, at cost, 1,094,857 shares of Class A Common Stock	(27,937)	(27,937)
	(8,187,083)	(6,274,325)
Amounts due from the Rigas Family and Rigas Family Entities, net (Note 6)	(28,743)	(800,349)
Total stockholders' deficit	(8,215,826)	(7,074,674)
Total liabilities and stockholders' deficit	$13,098,188	$13,196,741

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 and per share amounts)

	Year ended December 31, 2004	2003	2002
Revenue:			
Third party	$4,143,388	$3,569,017	$3,214,800
Rigas Family Entities (Note 6)	—	—	1,151
Total revenue	4,143,388	3,569,017	3,215,951
Costs and expenses:			
Direct operating and programming:			
Third party	2,653,417	2,386,347	2,246,978
Rigas Family Entities (Note 6)	—	—	9,555
Selling, general and administrative:			
Third party	329,427	268,288	253,420
Rigas Family Entities (Note 6)	—	(21,242)	(15,173)
Investigation and re-audit related fees (Note 2)	125,318	52,039	56,519
Compensation benefit on equity security transactions with the Rigas Family and Rigas Family Entities (Note 6)	—	—	(101,000)
Depreciation (Note 3)	961,840	846,097	956,308
Amortization	159,682	162,839	168,881
Impairment of long-lived assets (Note 10)	83,349	17,641	2,031,757
Provision for uncollectible amounts due from TelCove (Note 7)	—	—	549,407
Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities (Note 6)	—	5,497	1,762,241
(Gains) losses on dispositions of long-lived assets	(4,641)	—	6,747
Total costs and expenses	4,308,392	3,717,506	7,925,640
Operating loss	(165,004)	(148,489)	(4,709,689)
Other expense, net:			
Interest expense, net of amounts capitalized (contractual interest was $1,188,036, $1,156,116 and $1,119,595 during 2004, 2003 and 2002, respectively) (Notes 2 and 3)	(402,627)	(381,622)	(748,382)
Interest expense on debt securities held by the Rigas Family Entities (contractual interest was $23,043 during 2004, 2003 and 2002) (Note 6)	—	—	(10,343)
Other expense, net (2004 and 2002 include $425,000 and $175,000 provision for government settlement, respectively) (Notes 17 and 18)	(425,789)	(963)	(148,765)
Total other expense, net	(828,416)	(382,585)	(907,490)
Loss before reorganization expenses, income taxes, share of losses of equity affiliates, minority's interest, discontinued operations and cumulative effects of accounting changes	(993,420)	(531,074)	(5,617,179)
Reorganization expenses due to bankruptcy (Note 2)	(76,553)	(98,812)	(48,206)
Loss before income taxes, share of losses of equity affiliates, minority's interest, discontinued operations and cumulative effects of accounting changes	(1,069,973)	(629,886)	(5,665,385)
Income tax benefit (expense) (Note 15)	2,843	(117,378)	(76,620)
Share of losses of equity affiliates, net (Note 9)	(7,926)	(2,826)	(119,764)
Minority's interest in loss of subsidiary	16,383	25,430	118,704
Loss from continuing operations before cumulative effects of accounting changes	(1,058,673)	(724,660)	(5,743,065)
Loss from discontinued operations (Note 7)	(571)	(107,952)	(39,457)
Loss before cumulative effects of accounting changes	(1,059,244)	(832,612)	(5,782,522)
Cumulative effects of accounting changes:			
Due to new accounting pronouncements (Notes 5 and 10)	(588,782)	—	(1,406,306)
Due to new method of amortization (Note 3)	(262,847)	—	—
Net loss	(1,910,873)	(832,612)	(7,188,828)
Dividend requirements applicable to preferred stock (contractual dividends were $120,125, $120,125 and $117,279 during 2004, 2003 and 2002, respectively (Note 13)):			
Third party	—	—	(55,551)
Beneficial conversion feature	(8,007)	(7,317)	(3,512)
Net loss applicable to common stockholders	$(1,918,880)	$(839,929)	$(7,247,891)
Basic and diluted loss per weighted average share of common stock:			
From continuing operations before cumulative effects of accounting changes	$(4.20)	(2.88)	(23.11)
Loss from discontinued operations	—	(0.43)	(0.16)
Cumulative effects of accounting changes	(3.36)	—	(5.60)
Net loss applicable to common stockholders	$(7.56)	$(3.31)	$(28.87)

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

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(Debtors-In-Possession)
CONSOLIDATED STATEMENTS OF OPERATIONS—Continued
(amounts in thousands, except share and per share amounts)

	Year ended December 31,		
	2004	2003	2002
Pro forma amounts assuming the new amortization method is applied retroactively:			
Loss before cumulative effect of accounting change	$(1,059,244)	$(842,229)	$(5,984,548)
Net loss applicable to common stockholders	$(1,656,033)	$(849,546)	$(7,449,917)
Basic and diluted loss per weighted average share of common stock:			
Loss before cumulative effect of accounting change	$(4.20)	$(3.35)	$(24.08)
Net loss applicable to common stockholders	$(6.53)	$(3.35)	$(29.68)
Basic and diluted weighted average shares of common stock outstanding	253,747,779	253,747,638	251,030,834

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,		
	2004	2003	2002
Net loss	$(1,910,873)	$(832,612)	$(7,188,828)
Other comprehensive income (loss), before tax			
Foreign currency translation adjustment	(1,821)	8,193	(10,310)
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during the period	163	1,483	(1,410)
Less: reclassification adjustments for losses (gains) included in net loss	(270)	(10)	1,829
Other comprehensive income (loss), before tax	(1,928)	9,666	(9,891)
Income tax (expense) benefit related to each item of other comprehensive income:			
Unrealized holding gains (losses) arising during the period	(65)	(596)	564
Reclassification adjustments for losses (gains) included in net loss	108	4	(732)
Other comprehensive income (loss), net	(1,885)	9,074	(10,059)
Comprehensive loss, net	$(1,912,758)	$(823,538)	$(7,198,887)

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

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(Debtors-In-Possession)
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' 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, 2002	$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, net (Note 18)	—	—	—	(10,059)	—	—	—	(10,059)
Change in amounts due from the Rigas Family and Rigas Family Entities, net	—	—	—	—	—	—	1,199,552	1,199,552
Net proceeds from issuance of Class A Common Stock (Note 13)	—	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 (Note 13)	230	—	557,618	—	—	—	—	557,848
Preferred stock dividend requirements	—	—	(55,551)	—	—	—	—	(55,551)
Spin-off of TelCove (Note 7)	—	—	1,346,500	—	—	—	—	1,346,500
Compensation benefit on equity security transactions with the Rigas Family and Rigas Family Entities (Note 6)	—	—	(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, net (Note 18)	—	—	—	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)
Net loss	—	—	—	—	(1,910,873)	—	—	(1,910,873)
Other comprehensive loss, net (Note 18)	—	—	—	(1,885)	—	—	—	(1,885)
Consolidation of Rigas Co-Borrowing Entities (Note 5)	—	—	—	—	—	—	771,606	771,606
Balance, December 31, 2004	$397	$2,548	$12,071,165	$(11,565)	$(20,221,691)	$(27,937)	$(28,743)	$(8,215,826)

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, 2004	2003	2002
Operating Activities:			
Net loss	$(1,910,873)	$(832,612)	$(7,188,828)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Compensation benefit on equity security transactions with the Rigas Family and Rigas Family Entities	—	—	(101,000)
Depreciation	961,840	846,097	956,308
Amortization	159,682	162,839	168,881
Impairment of long-lived assets	83,349	17,641	2,031,757
Provision for uncollectible amounts due from TelCove	—	—	549,407
Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities	—	5,497	1,762,241
(Gains) losses on dispositions of long-lived assets	(4,641)	—	6,747
Amortization of deferred financing costs	14,113	24,386	60,747
Impairment of cost and available-for-sale investments	3,801	8,544	6,531
Cost allocations and charges to Rigas Family Entities, net	—	(30,986)	(34,084)
Provision for government settlement	425,000	—	175,000
Other noncash gains (charges), net	3,757	(1,931)	(32,045)
Reorganization expenses due to bankruptcy	76,553	98,812	48,206
Deferred income tax expense	5,996	125,254	79,994
Share of losses of equity affiliates, net	7,926	2,826	119,764
Minority's interest in loss of subsidiary	(16,383)	(25,430)	(118,704)
Depreciation, amortization and other noncash charges related to discontinued operations	1,575	108,426	28,396
Cumulative effects of accounting changes	851,629	—	1,406,306
Change in operating assets and liabilities, net of effects of acquisitions and divestitures:			
Accounts receivable	25,959	(2,440)	(8,163)
Other current and other noncurrent assets	43,506	(12,804)	(10,897)
Accounts payable	(115,449)	33,821	618,758
Subscriber advance payments and deposits	(1,761)	2,360	(1,962)
Accrued liabilities	(546)	95,847	216,645
Deferred revenue	(26,447)	(21,375)	(52,067)
Net cash provided by operating activities before payment of reorganization expenses	588,586	604,772	687,938
Reorganization expenses paid during the period	(76,894)	(96,915)	(36,643)
Net cash provided by operating activities	511,692	507,857	651,295
Investing Activities:			
Expenditures for property and equipment	(820,913)	(723,521)	(1,235,884)
Expenditures for acquisitions and other intangibles	(5,047)	(7,830)	(7,898)
Investment in and advances to affiliates	(5,667)	(8,034)	(84,725)
Cash advances to the Rigas Family and Rigas Family Entities	—	(106,860)	(327,581)
Cash received from the Rigas Family and Rigas Family Entities	---	168,293	213,268
Proceeds from sale of assets	14,161	3,712	35,659
Change in restricted cash	79,802	148,345	(236,741)
Net cash used in investing activities	(737,664)	(525,895)	(1,643,902)
Financing Activities:			
Proceeds from DIP Facility	804,851	77,000	200,000
Proceeds from debt	—	—	2,370,000
Repayments of debt	(478,363)	(28,678)	(2,949,991)
Payment of deferred financing costs	(14,268)	(1,253)	(46,733)
Issuance of Class A Common Stock, net of issuance costs	—	—	1,007,410
Issuance of Series F Preferred Stock, net of issuance costs	—	—	557,848
Payment of preferred stock dividends	—	—	(43,771)
Net cash provided by financing activities	312,220	47,069	1,094,763
Increase in cash and cash equivalents	86,248	29,031	102,156
Cash and cash equivalents at beginning of year	252,661	223,630	121,474
Cash and cash equivalents at end of year	$338,909	$252,661	$223,630

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"), its consolidated subsidiaries and other consolidated entities (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. Effective January 1, 2004, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 46, *Consolidation of Variable Interest Entities* (as subsequently revised in December 2003, "FIN 46-R") and began consolidating certain cable television entities owned by members of John J. Rigas' family (collectively, the "Rigas Family") that are subject to co-borrowing arrangements with the Company (the "Rigas Co-Borrowing Entities"). The Company has concluded that the Rigas Co-Borrowing Entities represent variable interest entities for which the Company is the primary beneficiary. Accordingly, all references to the Company prior to January 1, 2004 exclude the Rigas Co-Borrowing Entities and all references to the Company subsequent to January 1, 2004 include the Rigas Co-Borrowing Entities. As a result of the consolidation of the Rigas Co-Borrowing Entities for periods commencing in 2004, the Company's results of operations, financial position and cash flows are not comparable to prior periods. For additional information, see Note 5.

Prior to January 1, 2004, these consolidated financial statements do not include the accounts of any of the entities in which members of the Rigas Family directly or indirectly held controlling interests (collectively, the "Rigas Family Entities"). The Rigas Family Entities include the Rigas Co-Borrowing Entities, as well as other Rigas Family entities (the "Other Rigas Entities"). The Company believes that under the guidelines which existed for periods prior to January 1, 2004, the Company did not have a controlling financial interest, including majority voting interest, control by contract or otherwise in any of the Rigas Family Entities. Accordingly, the Company did not meet the criteria for consolidation of any of the Rigas Family Entities.

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"). The Rigas Co-Borrowing Entities did not file for bankruptcy protection. Effective April 20, 2005, Adelphia entered into definitive agreements with Time Warner NY Cable LLC ("TW NY") and Comcast Corporation ("Comcast") which provide for the sale of substantially all of the Company's U.S. assets. For additional information, see Note 2.

These consolidated financial statements 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 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 at which claims or contingencies may be settled, or the status and priority thereof; (iii) as to stockholders' 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.

In May 2002, certain Rigas Family members resigned from their positions as directors and executive officers of the Company. In addition, the Rigas Family owned common stock with a majority of the voting power in Adelphia and was not 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 Rigas Family Entities. For additional information, see Note 6. Pursuant to the Consent Order of Forfeiture entered by the United States District Court for the Southern District of New York (the "District Court") on June 8, 2005 (the "Forfeiture Order"), all right, title and interest of the Rigas Family and Rigas Family Entities in the Rigas Co-Borrowing Entities, (other than Coudersport Television Cable Co. ("Coudersport") and Bucktail Broadcasting Corporation ("Bucktail")), certain specified real estate and any securities of the Company were forfeited to the United States on June 8, 2005 and such assets and securities are expected to be conveyed (subject to forfeiture proceedings before a federal judge to determine if there are any superior claims) to the Company pursuant to an agreement between the Company and United States Attorney's Office for the Southern

District of New York (the "U.S. Attorney") dated April 25, 2005 (the "Non-Prosecution Agreement") as discussed in Note 17.

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. Although the Company is operating as a debtor-in-possession in the Chapter 11 Cases, the Company's ability to control the activities and operations of its subsidiaries that are also Debtors may be limited pursuant to the Bankruptcy Code. However, because the bankruptcy proceedings for the Debtors are consolidated for administrative purposes in the same Bankruptcy Court and will be overseen by the same judge, the financial statements of Adelphia and its subsidiaries have been presented on a combined basis, which is consistent with consolidated financial statements (see Note 2). All inter-entity transactions between Adelphia, its subsidiaries and, beginning in 2004, the Rigas Co-Borrowing Entities have been eliminated in consolidation.

Note 2: Bankruptcy Proceedings and Sale of Assets of the Company

Overview

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. 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, including the Rigas Co-Borrowing Entities. The assets and liabilities of the non-filing subsidiaries, excluding the Rigas Co-Borrowing Entities, are not considered material to the consolidated financial statements. The assets and liabilities of the Rigas Co-Borrowing Entities as of January 1, 2004 are presented in Note 5.

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. No hearing has been scheduled.

On February 25, 2004, the Debtors filed their proposed joint plan of reorganization (the "Stand-Alone Plan"), which contemplated their emergence from bankruptcy as a stand-alone entity, and related Disclosure Statement with the Bankruptcy Court. On April 22, 2004, Adelphia announced that it intended 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 Adelphia 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. Final bids were due January 31, 2005. Adelphia received a number of bids that related to the acquisition or recapitalization of the Company, in its entirety, or the acquisition of one or more clusters of assets.

On February 4, 2005, the Debtors filed their proposed First Amended Joint Plan of Reorganization and related First Amended Disclosure Statement with the Bankruptcy Court. This plan contemplated the possibility of either: (i) emergence from bankruptcy as a stand-alone entity; (ii) distribution of proceeds resulting from a sale or other corporate transaction involving one or more companies in addition to the Debtors; or (iii) emergence from bankruptcy as part of a stand-alone entity after having sold certain clusters of cable systems and distributed the proceeds of such sales.

On June 25, 2005, the Debtors filed their proposed Second Amended Joint Plan of Reorganization and related Second Amended Disclosure Statement with the Bankruptcy Court. The Plan contemplates, among other things, consummation of the Sale Transaction (defined below) and distribution of the cash and Class A common stock of Time Warner Cable, Inc. ("TWC") (the "TWC Class A Common Stock") received pursuant to the Sale Transaction to the stakeholders of the Debtors in accordance with the Plan.

On September 28, 2005, the Debtors filed their proposed Third Amended Joint Plan of Reorganization (the "Plan") and related Third Amended Disclosure Statement (the "Disclosure Statement") with the Bankruptcy Court. The Plan contemplates, among other things, consummation of the Sale Transaction (defined below) and distribution of the cash and TWC Class A Common Stock received pursuant to the Sale Transaction to the stakeholders of the Debtors in accordance with the Plan.

Sale of Assets

Effective April 20, 2005, Adelphia entered into definitive asset purchase agreements with TW NY and Comcast, pursuant to which TW NY and Comcast will purchase substantially all of the Company's U.S. assets and assume certain of its liabilities (the "Sale Transaction"). Upon the closing of the Sale Transaction, Adelphia will receive approximately $12.7 billion in cash and shares of TWC Class A Common Stock, which are expected to represent 16% of the outstanding equity securities of TWC as of the closing and are to be listed on the New York Stock Exchange. Such percentage assumes the redemption of Comcast's interest in TWC and is subject to adjustment for issuances pursuant to employee stock programs (subject to a cap) and issuances of securities for fair consideration. The purchase price payable by TW NY and Comcast is subject to certain adjustments. TW NY is a subsidiary of TWC, the cable subsidiary of Time Warner Inc. ("Time Warner"). TWC and Comcast and certain of their affiliates have also agreed to swap certain cable systems and unwind Comcast's investments in TWC and Time Warner Entertainment Company, L.P., a subsidiary of TWC ("TWE"). The Sale Transaction does not include the Company's interest in Century/ML Cable Venture ("Century/ML Cable"), a joint venture that owns and operates cable systems in Puerto Rico, which Century and ML Media Partners, L.P. ("ML Media") separately agreed, on June 3, 2005, to sell to San Juan, Cable LLC ("San Juan Cable"). For additional information see Note 6.

As part of the Sale Transaction, Adelphia has agreed to transfer to TW NY and Comcast the assets related to the cable systems that were nominally owned by the Rigas Co-Borrowing Entities and are managed by the Company (such Rigas Co-Borrowing Entities, are herein referred to as the "Managed Cable Entities"). Pursuant to the Forfeiture Order, all right, title and interest of the Rigas Family and Rigas Family Entities in the Rigas Co-Borrowing Entities (other than Coudersport and Bucktail) have been forfeited to the United States. Pursuant to the Non-Prosecution Agreement, the Company expects to obtain ownership of all of the Rigas Co-Borrowing Entities, other than Coudersport and Bucktail, (Coudersport and Bucktail together served approximately 5,000 subscribers (unaudited) in July 2005) and, accordingly, Adelphia expects to be able to transfer to TW NY and Comcast (subject to forfeiture proceedings before a federal judge to determine if there are any superior claims) the assets of the Managed Cable Entities (other than Coudersport and Bucktail) as part of the Sale Transaction. If the Company is unable to transfer all of the assets of the Managed Cable Entities to Comcast and TW NY at the closing of the Sale Transaction, the initial purchase price payable by Comcast and by TW NY would be reduced by an aggregate amount of up to $600,000,000 and $390,000,000, respectively, but would become payable to the extent such assets are transferred to TW NY and Comcast within 15 months of the closing. Adelphia believes that the failure to transfer the assets of Coudersport and Bucktail to TW NY and Comcast will result in an aggregate purchase price reduction of approximately $23,000,000, reflecting a reduction to the purchase price payable by TW NY of approximately $15,000,000 and by Comcast of approximately $8,000,000. For additional information, see Note 17.

Pursuant to a separate agreement, dated as of April 20, 2005, TWC, among other things, has guaranteed the obligations of TW NY under the asset purchase agreement between TW NY and Adelphia.

Until a plan of reorganization is confirmed by the Bankruptcy Court and becomes effective, the Sale Transaction cannot be consummated. The closing of the Sale Transaction is also subject to the satisfaction or waiver of conditions customary to transactions of this type, including, among others: (i) receipt of applicable regulatory approvals, including the consent of the Federal Communications Commission (the "FCC") to the transfer of certain licenses and any applicable approvals of local franchising authorities to the change in ownership of the cable systems operated by the Company, to the extent not preempted by section 365 of the Bankruptcy Code; (ii) expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; (iii) the offer and sale of the shares of TWC Class A Common Stock to be issued in the Sale Transaction having been exempted from registration pursuant to an order of the Bankruptcy Court confirming the Plan or a no-action letter from the staff of the Securities and Exchange Commission (the "SEC"), or a registration statement covering the offer and sale of such shares having been declared effective; (iv) the TWC Class A Common Stock to be issued in the Sale Transaction being freely tradable and not subject to resale restrictions, except in certain circumstances; (v) approval of the shares of TWC Class A Common Stock to be issued in the Sale Transaction for listing on the New York Stock Exchange; (vi) entry by the Bankruptcy Court of a final order confirming the Plan and, contemporaneously with the closing of the Sale Transaction, consummation of the Plan; (vii) satisfactory settlement by Adelphia of the claims and causes of action brought by the SEC and the investigations by the United States Department of Justice (the "DoJ"); (viii) the absence of any material adverse effect with respect to TWC's business and certain significant components of the Company's business (without taking into consideration any loss of subscribers by the Company's business (or results thereof) already reflected in the projections specified in the asset purchase agreements or the purchase price adjustments); (ix) the number of eligible basic subscribers (as the term is used in the purchase agreements) served by the Company's cable systems as of a specified date prior to the closing of the Sale Transaction not being below an agreed upon threshold; (x) the absence of an actual change in law, or proposed change in law that has a reasonable possibility of being enacted, that would adversely affect the tax treatment accorded to the Sale Transaction with respect to TW NY; (xi) a filing of an election under Section 754 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), by each of Century-TCI California Communications, L.P. ("Century-TCI"), Parnassos Communications, L.P. ("Parnassos") and Western NY Cablevision L.P. ("Western NY Cablevision"); and (xii) the provision of certain audited and unaudited financial information by Adelphia.

The closing under each purchase agreement is also conditioned on a contemporaneous closing under the other purchase agreement. However, pursuant to a letter agreement, dated as of April 20, 2005, and the asset purchase agreement between Adelphia and TW NY, TW NY has agreed to purchase the cable operations of Adelphia that Comcast would have acquired if Comcast's purchase agreement is terminated prior to closing as a result of the failure to obtain FCC or applicable antitrust approvals. In such event and assuming TW NY received such approvals, TW NY will pay the $3.5 billion purchase price to have been paid by Comcast, less Comcast's allocable share of the liabilities of Century-TCI, Parnassos and Western NY Cablevision, which shall not be less than $549,000,000 or more than $600,000,000. Consummation of the Sale Transaction, however, is not subject to the consummation of the agreement by TWC, Comcast and certain of their affiliates to swap certain cable systems and unwind Comcast's investments in TWC and TWE, as described above. There is no assurance that TW NY would be able to obtain the required FCC or applicable antitrust approvals for the transaction contemplated by the letter agreement.

The purchase agreements with TW NY and Comcast contain certain termination rights for Adelphia, TW NY and Comcast, and further provide that, upon termination of the purchase agreements under specified circumstances, Adelphia may be required to pay TW NY a termination fee of approximately $353,000,000 and Comcast a termination fee of $87,500,000.

As described above, on September 28, 2005, the Debtors filed the Plan and the Disclosure Statement with the Bankruptcy Court that reflects the terms of the Sale Transaction. Certain fees are due to the Company's financial advisors 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 sales process. Such fees cannot be determined until the closing of the Sale Transaction.

Confirmation of Plan of Reorganization

For the Plan to be confirmed and become effective, the Debtors must, among other things:

- obtain an order of the Bankruptcy Court approving the Disclosure Statement as containing "adequate information";
- solicit acceptance of the Plan 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;
- obtain an order from the Bankruptcy Court confirming the Plan; and
- consummate the Plan.

To complete these steps, the Bankruptcy Court must first hold a hearing to determine if the Disclosure Statement contains adequate information; the hearing to approve the Disclosure Statement has been scheduled for October 20, 2005. Second, the Bankruptcy Court must find that the Disclosure Statement contains adequate information and the Debtors must solicit the acceptance of the Plan. Third, before it can issue a confirmation order, the Bankruptcy Court must find that either each class of impaired claims or equity interests has accepted the Plan or the Plan meets the requirements of the Bankruptcy Code to confirm the Plan over the objections of dissenting classes. In addition, the Bankruptcy Court must find that the Plan meets certain other requirements specified in the Bankruptcy Code.

Pre-petition Obligations

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 and other 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 against the Debtors. 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 of January 9, 2004 for filing proofs of claim against the Debtors' estates. A bar date is the date by which proofs of claim 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. As of the bar date, approximately 17,000 proofs of claim asserting in excess of $3.2 trillion in claims were filed and, as of August 31, 2005, approximately 18,000 proofs of claim asserting approximately $3.8 trillion in claims were filed, in each case including duplicative claims, but excluding any estimated amounts for unliquidated claims. 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. 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. As the amounts of the allowed claims are determined, adjustments will be recorded in liabilities subject to compromise and reorganization expenses due to bankruptcy.

The Debtors have filed several omnibus objections to certain of the claims, seeking to eliminate in excess of $2.7 trillion in claims, consisting primarily of duplicative claims. Certain claims addressed in such objections were either: (i) reduced and allowed; (ii) disallowed and expunged; or (iii) subordinated by orders of the Bankruptcy Court. Hearings on certain claims objections are also scheduled for October 6 and October 25, 2005. Certain other objections have been adjourned to allow the parties to continue to reconcile such claims. The Debtors have filed an additional omnibus objection which seeks to eliminate, reduce and/or subordinate in excess of $900 billion of claims asserted against the Debtors by Leonard Tow and Claire Tow (together, the "Tows") and the various trusts that are controlled by the Tows. Simultaneously with the filing of such omnibus objection, the Company and certain other Debtors commenced an adversary proceeding in the Bankruptcy Court by filing a complaint against Leonard Tow seeking to: (i) avoid and recover certain unauthorized post-petition transfers and/or fraudulent transfers totaling approximately $14,000,000 (the "Avoidable Transfers"); (ii) disallow Leonard Tow's claims pending the return of Avoidable Transfers; and (iii) subordinate Leonard Tow's claims. Additional omnibus objections may be filed as the claims resolution process continues.

Debtor-in-Possession ("DIP") Credit Facility

In order to provide liquidity following the commencement of the Chapter 11 Cases, the Debtors entered into a $1,500,000,000 debtor-in-possession credit facility (as amended, the "DIP Facility"). On May 10, 2004, the Debtors entered into a $1,000,000,000 extended debtor-in-possession credit facility (the "First Extended DIP Facility"), which amended and restated the DIP Facility in its entirety. On February 25, 2005, the Debtors entered into a $1,300,000,000 further extended debtor-in-possession credit facility (the "Second Extended DIP Facility"), which amended and restated the First Extended DIP Facility in its entirety. For additional information, see Note 11.

Exit Financing Commitment

On February 25, 2004, Adelphia executed a commitment letter and certain related documents pursuant to which a syndicate of financial institutions committed to provide to the Debtors up to $8,800,000,000 in exit financing (the "Exit Financing Facility"). Following the Bankruptcy Court's approval on June 30, 2004 of the exit financing commitment, 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. In light of the agreements with TW NY and Comcast, on April 25, 2005, the Company informed the exit lenders of its election to terminate the exit financing commitment, which termination became effective on May 9, 2005. As a result of the termination, the Company recorded a charge of $58,267,000 during the second quarter of 2005, which represents previously unpaid commitment fees of $45,428,000, the nonrefundable fee of $10,000,000 and certain other expenses. As of December 31, 2004, $39,267,000 was included in other noncurrent assets, net.

Going Concern

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"). 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. 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.

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

- having a plan of reorganization confirmed by the Bankruptcy Court and it becoming effective;
- obtaining substantial exit financing if the Sale Transaction is not consummated and the Company is to emerge from bankruptcy under a stand-alone plan, 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;
- obtaining consideration sufficient to settle pre-petition liabilities subject to compromise if the Sale Transaction is not consummated, 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;
- extending the Second Extended DIP Facility through the effective date of a plan of reorganization in the event the Sale Transaction is not consummated before the maturity date of the Second Extended DIP Facility. A failure to obtain an extension to the Second Extended DIP Facility 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;
- remaining in compliance with the financial and other covenants of the Second Extended DIP Facility, including its limitations on capital expenditures and its financial covenants through the effective date of a plan of reorganization;
- being able to successfully implement the Company's business plans, decrease basic subscriber losses and offset the negative effects that the Chapter 11 filing has had on the Company's business, including the impairment of customer and vendor relationships;
- resolving material litigation;
- renewing franchises; failure to do so will result in reduced operating results and potential impairment of assets;
- 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
- motivating and retaining key executives and employees.

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 sheets as liabilities subject to compromise and that revenue, expenses, realized gains and losses, and provisions for losses resulting directly from the reorganization due to the bankruptcy be reported separately as reorganization expenses in the consolidated statements of operations. 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, 2004	December 31, 2003
Parent and subsidiary debt	$ 11,560,684	$ 11,560,684
Parent and subsidiary debt under co-borrowing credit facilities	4,576,375	4,576,375
Accounts payable	954,858	1,059,231
Accrued liabilities	1,240,237	839,142
Series B Preferred Stock	148,794	148,794
Liabilities subject to compromise	$ 18,480,948	$ 18,184,226

The Rigas Co-Borrowing Entities are jointly and severally obligated with certain of the Debtors to the lenders with respect to borrowings under certain co-borrowing facilities ("Co-Borrowing Facilities"). Borrowings under the Co-Borrowing Facilities have been presented as liabilities subject to compromise in the accompanying consolidated balance sheets as collection of such borrowings from the Debtors is stayed. Collection of such borrowings from the Rigas Co-Borrowing Entities has not been stayed and actions may be taken to collect such borrowings from the Rigas Co-Borrowing Entities. However, the Rigas Co-Borrowing Entities would not have sufficient assets to satisfy claims for all liabilities under the Co-Borrowing Facilities.

Following is a reconciliation of the changes in liabilities subject to compromise for the period from the Petition Date through December 31, 2004 (amounts in thousands):

Balance at Petition Date	$ 18,017,513
Contract rejections	2,611
Balance at December 31, 2002	18,020,124
Series B Preferred Stock	148,794
Contract rejections	18,308
Settlements	(3,000)
Balance at December 31, 2003	18,184,226
Increase in government settlement reserve (see Note 17)	425,000
Contract rejections	3,156
Settlements	(131,434)
Balance at December 31, 2004	$ 18,480,948

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 as an adjustment of the net carrying value of the related pre-petition debt. Similarly, amortization of the deferred 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 the Chapter 11 proceedings. In addition, no preferred stock dividends have been accrued subsequent to the Petition Date.

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 upon the Company's emergence from bankruptcy to third party financial advisors retained by the Company and the Committees in connection with the Chapter 11 Cases. Currently, these success fees are estimated to be between $6,500,000 and $19,950,000 in the aggregate. In addition, Adelphia's Chief Executive Officer ("CEO") and Chief Operating Officer ("COO") are eligible to receive equity awards of Adelphia stock with a minimum aggregate fair value of $17,000,000 upon the Debtors' emergence from bankruptcy. Such awards may be increased up to a maximum aggregate value of $25,500,000 at the discretion of the board of directors of Adelphia (the "Board"). As no plan of reorganization has been confirmed by the Bankruptcy Court, no accrual for such contingent payments or equity awards has been recorded in the accompanying consolidated financial statements. See Note 17 for additional information. The following table sets forth certain components of reorganization expenses for the indicated periods (amounts in thousands):

	Year Ended December 31,		
	2004	2003	2002
Professional fees	$ 78,308	$ 81,948	$ 47,500
Contract rejections	3,156	18,308	2,611
Interest earned during reorganization	(3,457)	(4,390)	(2,779)
Other	(1,454)	2,946	874
Reorganization expenses due to bankruptcy	$ 76,553	$ 98,812	$ 48,206

The Company has incurred 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, as well as legal fees, forensic consultant fees and legal defense costs paid on behalf of the Rigas Family. These expenses have been included in investigation and re-audit related fees in the accompanying consolidated statements of operations.

Condensed Financial Statements of Debtors

The Debtors' condensed consolidated balance sheet as of December 31, 2004 is as follows (amounts in thousands):

Assets:	
Total current assets	$ 624,572
Property and equipment, net	4,323,142
Intangible assets, net	7,174,967
Other noncurrent assets	406,414
Total assets	$ 12,529,095
Liabilities and Stockholders' Deficit:	
Liabilities:	
Other current liabilities	$ 755,512
Current portion of parent and subsidiary debt	667,605
Total noncurrent liabilities	843,274
Liabilities subject to compromise	18,480,948
Total liabilities	20,747,339
Minority's interest	79,142
Stockholders' deficit:	
Series preferred stock	397
Common stock	2,548
Additional paid-in capital	9,566,968
Accumulated other comprehensive income, net	826
Accumulated deficit	(17,059,560)
Treasury stock, at cost	(27,937)
	(7,516,758)
Amounts due from the Rigas Family and Rigas Family Entities, net	(780,628)
Total stockholders' deficit	(8,297,386)
Total liabilities and stockholders' deficit	$ 12,529,095

The Debtors' condensed consolidated statement of operations for the year ended December 31, 2004 is as follows (amounts in thousands):

Revenue	$ 3,934,732
Costs and expenses:	
Direct operating and programming	2,532,193
Selling, general and administrative	310,060
Investigation and re-audit related fees	108,065
Depreciation	920,343
Amortization	151,966
Impairment of long-lived assets	77,751
Gains on dispositions of long-lived assets	(4,641)
Total costs and expenses	4,095,737
Operating loss	(161,005)
Interest expense, net of amounts capitalized	(385,137)
Other expense, net	(427,047)
Reorganization expenses due to bankruptcy	(76,553)
Income tax benefit	3,483
Share of losses of equity affiliates, net	(7,926)
Minority's interest in loss of subsidiary	16,383
Loss from continuing operations	(1,037,802)
Loss from discontinued operations	(571)
Loss before cumulative effects of accounting changes	(1,038,373)
Cumulative effects of accounting changes	(262,847)
Net loss	$ (1,301,220)

Following is condensed consolidated cash flow data for the Debtors for the year ended December 31, 2004 (amounts in thousands):

Net cash provided by (used in):	
Operating activities	$ 462,012
Investing activities	$ (687,713)
Financing activities	$ 312,220

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 Government obligations with maturities of three months or less when purchased. The carrying amounts of cash equivalents approximate their fair values.

Restricted Cash

Details of restricted cash are presented below (amounts in thousands):

	December 31, 2004	2003
Current restricted cash:		
Dispute related to acquisition(a)	$ 3,618	$ 13,215
Other	2,682	1,112
Current restricted cash	$ 6,300	$ 14,327
Noncurrent restricted cash:		
Tranche B Loan(b)	$ —	$ 45,000
Agreement with insurance provider(c)	—	28,662
Other	3,035	1,148
Noncurrent restricted cash	$ 3,035	$ 74,810

(a) Cash receipts from customers that were placed in trust as a result of a dispute arising from the acquisition of a cable system (see Note 8)

(b) Proceeds received from the $200,000,000 Tranche B Loan made pursuant to the DIP facility that were subject to letter of credit agreements or other restrictions pursuant to the DIP Facility

(c) Amounts that are required for the payment of franchise fees pursuant to an agreement with an insurance provider

Accounts Receivable

Accounts receivable are reflected net of an allowance for doubtful accounts. Such allowance was $37,954,000 and $40,108,000 at December 31, 2004 and 2003, respectively. The allowance for doubtful accounts is 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.

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. The Company's available-for-sale securities and cost investments are included in other noncurrent assets, net in the accompanying consolidated balance sheets.

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 loss 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. Pursuant to Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), the Company does not amortize the excess basis to the extent it has been attributed to goodwill and franchise rights. As discussed below under *"Intangible Assets,"* the Company has determined that franchise rights have an indefinite life, and therefore are not subject to amortization.

Changes in the Company's proportionate share of the underlying equity of an equity method investee, which result from the issuance of additional equity securities of the 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 investment 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

SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended ("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 expense, net 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 11.

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 the estimated fair values of the identifiable net assets acquired has been recorded as goodwill. The value assigned to the *Class A common stock, par value $0.01 per share ("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. The application of purchase accounting requires a high degree of judgment and involves the use of significant estimates and assumptions.

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, 2004	2003
Cable distribution systems	$ 7,357,896	$ 6,608,704
Support equipment and buildings	556,203	689,838
Land	54,091	51,979
	7,968,190	7,350,521
Accumulated depreciation	(3,498,247)	(2,816,135)
Property and equipment, net	$ 4,469,943	$ 4,534,386

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 labor, material and overhead costs related to: (i) 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 exists, disconnecting customer locations and repairing or maintaining drops, are expensed as incurred. The Company's methodology for capitalization of internal construction labor and internal and contracted third party installation costs (including materials) utilizes standard costing models based on actual costs. Materials and external labor costs associated with construction activities are capitalized based on amounts invoiced to the Company by third parties.

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, 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 its property and equipment. Effective January 1, 2004, the Company changed the useful life used to calculate the depreciation of standard definition digital set-top boxes from five years to four years due to the introduction of advanced digital set-top boxes which provide high definition television ("HDTV") and digital video recording capabilities, and the expected migration of new and existing customers to these advanced digital set-top boxes. In addition, consumer electronics manufacturers continue to include advanced technology necessary to receive digital and HDTV signals within television sets, which the Company expects to further contribute to the reduction in the useful life of its set-top boxes. The impact of this change in useful life on the Company's operating results for the year ended December 31, 2004 was an $111,849,000 increase to the Company's net loss and a $0.44 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. Pursuant to SFAS No. 142, the Company does not amortize 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.

Goodwill represents the excess of the acquisition cost of an acquired entity over the fair value of the identifiable net assets acquired. Pursuant to SFAS No. 142, the Company does not amortize goodwill.

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, 2003	$ 1,503,838	$ 3,846	$ 1,507,684
Acquisition	4,191	—	4,191
Balance at December 31, 2003	1,508,029	3,846	1,511,875
Consolidation of Rigas Co-Borrowing Entities (Note 5)	116,844	—	116,844
Other	—	(200)	(200)
Balance at December 31, 2004	$ 1,624,873	$ 3,646	$ 1,628,519

Customer relationships represent the value attributed to customer relationships acquired in business combinations and are amortized over a 10-year period. Beginning in 2004, the Company began amortizing its customer relationships using the double declining balance method. Customer relationships were amortized using the straight-line method prior to 2004. The new method of amortization was adopted to better recognize the attrition patterns of our customer relationships and has been applied to customer relationships acquired prior to 2004. The effect of the change in 2004 was to decrease amortization expense by $23,072,000. The application of the new amortization method to customer relationships acquired prior to 2004 resulted in an additional charge of $262,847,000 which has been reflected as a cumulative effect of a change in accounting principle in the accompanying consolidated statements of operations. The proforma amounts shown in the consolidated statements of operations have been adjusted for the effect of retroactive application on amortization, changes in impairment of long-lived assets and minority's interest in loss of subsidiary which would have been made had the new method been in effect. Amortization of customer relationships and other aggregated $145,357,000, $157,019,000 and $159,451,000 during 2004, 2003 and 2002, respectively. Based solely on the Company's current amortizable intangible assets, the Company expects that amortization expense of amortizable intangible assets will be approximately $113,000,000, $102,000,000, $100,000,000, $97,000,000 and $80,000,000 during 2005, 2006, 2007, 2008 and 2009, respectively. The details of customer relationships and other are set forth below for the indicated periods (amounts in thousands):

	As of December 31,	
	2004	2003
Gross carrying value	$ 1,674,138	$ 1,620,941
Accumulated amortization	(1,094,222)	(658,759)
Net carrying value	$ 579,916	$ 962,182

For the year ended December 31, 2004, goodwill, franchise rights and customer relationships and other increased $116,844,000, $354,029,000 and $38,888,000, respectively, due to the January 1, 2004 consolidation of the Rigas Co-Borrowing Entities.

Impairment of Long-Lived Assets

Pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144"), 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 measures fair value based upon the present value of estimated future net cash flows of an asset group over its remaining useful life. The Company utilizes 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 16. 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. The Company estimates the fair value of its goodwill and franchise rights primarily based on discounted cash flows, current market transactions and industry trends. 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 Assets.* Any excess of the carrying value over the fair value for franchise rights is charged to operations as an impairment loss.

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 10.

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. Amounts capitalized for internal-use software were $22,502,000, $14,882,000 and $15,250,000 during 2004, 2003 and 2002, respectively. Amortization of internal-use software costs was $14,325,000, $5,820,000 and $9,430,000 for 2004, 2003 and 2002, respectively. The net book value of internal-use software at December 31, 2004 and 2003 was $42,059,000 and $35,678,000, 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, 2004 and 2003 as an adjustment of the net carrying value of the related pre-petition debt. Deferred financing fees related to the DIP facilities and the Exit Financing Facility of $46,589,000 and $12,774,000 at December 31, 2004 and 2003, respectively, are included in other 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 allocable share of the common equity of those consolidated subsidiaries.

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 the Rigas Co-Borrowing Entities as well as Other Rigas Entities with varying degrees of involvement with the Company. The Company does not hold equity interests in any of the Rigas Family Entities. Following is a discussion of the Company's significant accounting policies related to transactions with the Rigas Family and Rigas Family Entities. As discussed in Notes 5 and 6, effective January 1, 2004, the Company began consolidating the Rigas Co-Borrowing Entities. On April 25, 2005, Adelphia and the Rigas Family entered into an agreement to settle Adelphia's lawsuit against the Rigas Family. For additional information, see Note 17.

Until mid-2002, the Company disbursed significant amounts of money directly to or on behalf of the Rigas Family Entities. The Company continues to fund the cash needs for the payment of interest on co-borrowing debt for the Rigas Co-Borrowing 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 Rigas Family Entities if the 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.

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 Managed Cable Entities are based on the actual costs incurred by the Company. Amounts charged subsequent to January 1, 2004 have been eliminated in consolidation. All other transactions prior to January 1, 2004 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*("SFAS No. 114"), and SFAS No. 118, *Accounting by Creditors for Impairments of a Loan—Income Recognition and Disclosures* ("SFAS No. 118"), 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 rates, 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 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 associated with the Company's media services business 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.

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 revenue and amortized, generally on a straight-line basis, over the contract term, 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 payments received from shopping and other programming networks for which the Company does not pay license fees and 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 revenue associated with such terminated obligations is recognized and included in other expense, net in the accompanying consolidated statements of operations.

Advertising Costs

Advertising costs are expensed as incurred. The Company's advertising expense was $96,842,000, $88,379,000 and $61,026,000 during 2004, 2003 and 2002, respectively.

Stock-Based Compensation

The Company applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board ("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* and by SFAS No. 123-R, *Share-Based Payment* ("SFAS No. 123-R"). 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, except per share amounts):

	Year Ended December 31,		
	2004	2003	2002
Net loss, as reported	$ (1,910,873)	$ (832,612)	$ (7,188,828)
Deduct compensation expense determined under fair value method, net of $0 taxes for all years	(167)	(1,077)	(1,079)
Pro forma net loss	$ (1,911,040)	$ (833,689)	$ (7,189,907)
Loss per share:			
Basic and diluted—as reported	$(7.56)	$(3.31)	$(28.87)
Basic and diluted—pro forma	$(7.56)	$(3.31)	$(28.88)

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.

Adelphia has Class A Common Stock and Convertible Class B common stock, par value $0.01 per share ("Class B Common Stock", and together with the Class A Common Stock, the "Adelphia Common Stock").

Potential common shares were not included in the computation of diluted EPS because their inclusion would be anti-dilutive. At December 31, 2004, 2003 and 2002, the number of potential common shares was 87,072,964, 87,082,474 and 87,464,763, respectively. Such potential common shares consist of stock options to acquire shares of Class A Common Stock, and preferred securities and debt instruments that are convertible into shares of Class A Common Stock. 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 accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Significant estimates are involved in the determination of: (i) asset impairments; (ii) the recorded provisions for contingent liabilities; (iii) the carrying amounts of liabilities subject to compromise; (iv) estimated useful lives of tangible and intangible assets; (v) internal costs capitalized in connection with construction and installation activities; (vi) the recorded amount of deferred tax assets and liabilities; (vii) the allowances provided for uncollectible amounts with respect to the amounts due from the Rigas Family and Rigas Family Entities and accounts receivable; (viii) the allocation of the purchase price in business combinations; and (ix) the fair value of derivative financial instruments. Actual amounts, particularly with respect to matters impacted by proceedings under Chapter 11, could vary significantly from such estimates.

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current presentation.

Note 4: Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*, ("SFAS No. 154"), which provides guidance on the accounting for and reporting of accounting changes and error corrections. In general, in the absence of explicit transition requirements for new pronouncements, SFAS No. 154 requires retrospective application of the effects of changes in accounting principle to prior periods' financial statements, unless it is impracticable to determine the effects of the change. The provisions of SFAS No. 154 are effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS No. 154 is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143* ("FIN 47"), which addresses the financial accounting and reporting obligations associated with the conditional retirement of tangible long-lived assets and the associated asset retirement costs. FIN 47 requires that, where there is an unconditional obligation to perform asset retirement activity even though there is uncertainty as to the timing and/or the method of settlement may be conditional on a future event, companies must recognize a liability for the fair value of the conditional asset retirement if the fair value of the liability can be reasonably estimated. The requirements of FIN 47 are effective for fiscal periods ending after December 15, 2005. The Company is currently evaluating the impact of the adoption of FIN 47.

In December 2004, the FASB issued SFAS No. 123-R. Generally, SFAS No. 123-R requires the Company to recognize the grant-date fair value of stock options as compensation expense in its consolidated statements of operations at the date the options are issued to employees. SFAS No. 123-R applies to all stock options and other share-based payments granted after December 31, 2005 and to previously granted awards that are either unvested as of the adoption date or are modified after the adoption date. The Company is required to adopt SFAS No. 123-R in the first quarter of 2006.

The Company has not granted any stock options since the Petition Date and does not anticipate granting any new options. In addition, all options currently outstanding will be fully vested prior to the adoption of SFAS No. 123-R. Accordingly, at this time, the adoption of SFAS No. 123-R will not have an impact on the Company's consolidated results of operations.

In December 2004, the FASB issued SFAS No. 153, *Exchanges of Nonmonetary Assets—an amendment of APB Opinion No. 29,* ("SFAS No. 153"). In general, SFAS No. 153 requires that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged, unless the entity's future cash flows are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, and are to be applied prospectively. The adoption of SFAS No. 153 is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs—an amendment of ARB No. 43,* ("SFAS No. 151"). In general, SFAS No. 151 requires that inventory costs such as idle facility expense, freight, handling costs and spoilage be recognized as current period charges regardless of whether they meet the "abnormal" criterion of Accounting Research Bulletin No. 43, *Inventory Pricing.* The provisions of SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005, and are to be applied prospectively The adoption of SFAS No. 151 is not expected to have a material impact on the Company's consolidated results of operations or financial position.

In March 2004, the EITF reached a consensus on Issue No. 03-6, *Participating Securities and the Two-Class Method under FASB Statement No. 128* ("EITF No. 03-6"), which addresses the calculation and disclosure of earnings per share for companies with participating convertible securities or multiple classes of common stock. EITF No. 03-6 is effective for fiscal periods beginning after March 31, 2004. The adoption of EITF No. 03-6 did not have an impact on the Company's calculation or disclosure of earnings per share.

Note 5: Variable Interest Entities

FIN 46-R requires variable interest entities, as defined by FIN 46-R, to be consolidated by the primary beneficiary if certain criteria are met. The provisions of FIN 46-R must be applied to variable interest entities that are not special purpose entities, as defined in FIN 46-R, no later than the end of the first interim period or annual reporting date ending after March 15, 2004, and variable interest entities that are special purpose entities no later than the first interim or annual reporting date ending after December 15, 2003. None of the Company's variable interest entities are special purpose entities.

The Company has concluded that the Rigas Co-Borrowing Entities, which include the Managed Cable Entities, represent variable interest entities for which the Company is the primary beneficiary, as contemplated by FIN 46-R. The Rigas Co-Borrowing Entities do business under the Adelphia name, are managed by the Company and rely on the Company in order to provide services to their customers. In addition, the Company will absorb the majority of the expected losses of the Rigas Co-Borrowing Entities. Accordingly, effective January 1, 2004, the Company began consolidating the Rigas Co-Borrowing Entities on a prospective basis and, as such, has not restated previously issued financial statements. The assets and liabilities of the Rigas Co-Borrowing Entities are included in the Company's consolidated financial statements at the Rigas Co-Borrowing Entities' historical cost because these entities first became variable interest entities and Adelphia became the primary beneficiary when Adelphia and these entities were under the common control of the Rigas Family. As a result of the adoption of FIN 46-R, the Company recorded a $588,782,000 charge as a cumulative effect of a change in accounting principle as of January 1, 2004. The Company is reporting the operating results of the Rigas Co-Borrowing Entities in the "cable" segment. See Note 16 for further discussion of the Company's business segments.

As discussed in Note 17, on April 25, 2005, the Company entered into an agreement with the U.S. Attorney. Adelphia also consented to the entry of a final judgment in the July 24, 2002 SEC civil enforcement action (the "SEC Civil Action") thereby resolving the SEC's claims against Adelphia. Concurrently, Adelphia and the Rigas Family entered into an agreement to settle Adelphia's lawsuit against the Rigas Family, and the Rigas Family entered into an agreement with the U.S. Attorney. These agreements are collectively referred to as the "Government Settlement Agreements."

Certain subsidiaries of Adelphia and the Rigas Co-Borrowing Entities are jointly and severally liable for all amounts borrowed pursuant to certain Co-Borrowing Facilities (see Notes 6 and 11 for additional information). Prior to the consolidation of the Rigas Co- Borrowing Entities, the Company reflected the full amounts outstanding under such Co-Borrowing Facilities as debt in the balance sheet of the Company, without regard to the attribution of such co-borrowings between the Company and the Rigas Co-Borrowing Entities, because of the joint and several liability under these Co-Borrowing Facilities.

In addition to the Rigas Co-Borrowing Entities, the Rigas Family owned, prior to forfeiture to the United States on June 8, 2005, at least 16 additional entities that could be considered variable interest entities under FIN 46-R. None of these Other Rigas Entities is engaged in the cable business or is a co-borrower under the Company's credit agreements. Certain of these Other Rigas Entities are holding companies that acquired debt and equity securities of the Company and one of the Company's subsidiaries. The business activities of certain other of the Other Rigas Entities are not known. The Company has made an exhaustive effort to obtain the information necessary to determine whether these Other Rigas Entities are variable interest entities and, if so, whether the Company is the primary beneficiary. The Company has requested, but has not been provided, financial statements of the Other Rigas Entities. Responses to the Company's request indicate that the Other Rigas Entities are unable to provide the necessary financial information to the Company. Accordingly, the Company has not applied the provisions of FIN 46-R to the Other Rigas Entities because the Company does not have sufficient financial information to perform the required evaluations. The most significant assets believed to be owned by the Other Rigas Entities consist of Adelphia securities that were purchased from the Company. The most significant liabilities of the Other Rigas Entities of which the Company is aware are the amounts owed to the Company with respect to the purchase of such Adelphia securities and other transactions, as described in greater detail in Note 6. The Company believes that its maximum exposure to future loss in its statement of operations as a result of its involvement with the Other Rigas Entities is equal to the net carrying value of its advances to the Other Rigas Entities, or approximately $28,743,000 at December 31, 2004. The net carrying value 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 Plan.

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(Debtors-In-Possession)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

Pursuant to the Forfeiture Order, all right, title and interest of the Rigas Family and Rigas Family Entities in the Rigas Co- Borrowing Entities (other than Coudersport and Bucktail), certain specified real estate and any securities of the Company were forfeited to the United States on June 8, 2005 and such assets and securities are expected to be conveyed (subject to completion of forfeiture proceedings before a federal judge to determine if there are any superior claims) to the Company pursuant to the Non-Prosecution Agreement. See Note 17 for additional information.

The consolidation of the Rigas Co-Borrowing Entities resulted in the following impact to the Company's consolidated balance sheet as of January 1, 2004 (amounts in thousands):

Assets:		
Other current assets	$	10,157
Property and equipment, net		144,951
Intangible assets, net		509,761
Other noncurrent assets		7,140
Total assets	$	672,009
Liabilities(d):		
Amounts due to the Rigas Family and Other Rigas Entities from Rigas Co-Borrowing Entities(a)	$	460,256
Other current liabilities		21,158
Other noncurrent liabilities		7,771
Stockholders' Deficit(d):		
Accumulated deficit		(588,782)
Amounts due to the Rigas Co-Borrowing Entities from the Rigas Family and Other Rigas Entities(b)		—
Amounts due to Adelphia from the Rigas Co-Borrowing Entities(c)		771,606
Total liabilities and stockholders' deficit	$	672,009

(a) As a result of the January 1, 2004 consolidation of the Rigas Co-Borrowing Entities, the Company has reflected a $460,256,000 payable from the Rigas Co-Borrowing Entities to the Rigas Family and Other Rigas Entities as a current liability in the accompanying consolidated balance sheet. The Company has determined that this liability to certain Other Rigas Entities has no legal right of set-off against amounts due to the Rigas Co-Borrowing Entities from the Rigas Family and Other Rigas Entities. In general, amounts due to the Rigas Family and Other Rigas Entities from the Rigas Co-Borrowing Entities are unsecured, have no maturity date, have no specific repayment terms and have no specific terms for accrual of interest. No interest has been accrued with respect to this liability. As a result of the Government Settlement Agreements, this liability will not be paid. Settlement of this liability will be recognized by the Company when these amounts are settled or the underlying securities are transferred to the Company.

(b) Represents $416,500,000 for amounts due to the Rigas Co-Borrowing Entities from the Rigas Family and Other Rigas Entities less an allowance for uncollectible amounts of $416,500,000. See Note 6 for additional information.

(c) Represents the elimination due to consolidation of amounts due to Adelphia from the Rigas Co-Borrowing Entities of $929,431,000 less an allowance for uncollectible amounts of $157,825,000.

(d) Liabilities and stockholders' deficit exclude co-borrowing indebtedness attributable to the Rigas Co-Borrowing Entities of $2,846,156,000 and the related receivable as all of the co-borrowing indebtedness attributable to the Rigas Co-Borrowing Entities is already reflected in the Company's accompanying consolidated balance sheets.

The consolidation of the Rigas Co-Borrowing Entities resulted in the following impact to the Company's consolidated statements of operations for the year ended December 31, 2004 (amounts in thousands):

Revenue	$ 194,089
Costs and expenses:	
Direct operating and programming	114,846
Selling, general and administrative:	
Third party	12,206
Investigation and re-audit related fees	17,233
Depreciation	38,533
Amortization	7,716
Impairment of long-lived assets	5,598
Total costs and expenses	196,132
Operating loss	(2,043)
Other income	1,091
Income tax expense	(85)
Loss before cumulative effects of accounting changes	(1,037)
Cumulative effects of accounting changes	(588,782)
Net loss(a)	$ (589,819)

(a) Net loss excludes amounts related to co-borrowing interest expense as the expense is reflected in the Company's consolidated financial statements.

In addition to the Rigas Family Entities, the Company performed an evaluation under FIN 46-R of other entities in which the Company has a financial interest. The Company concluded that no further adjustments to its consolidated financial statements were required as a result of these evaluations and the adoption of FIN 46-R.

Note 6: 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 ("CMS") and accounting functions, advancing funds, purchasing goods or services and engaging in numerous other formal and informal transactions or arrangements. At December 31, 2004, the Company did not hold equity interests in any of the Rigas Family Entities. Pursuant to the Forfeiture Order, all right, title and interest of the Rigas Family and Rigas Family Entities in the Rigas Co-Borrowing Entities (other than Coudersport and Bucktail), certain specified real estate and any securities of the Company were forfeited to the United States on June 8, 2005, and such assets and securities are expected to be conveyed (subject to the completion of forfeiture proceedings before a federal judge to determine if there are any superior claims) to the Company pursuant to the Non-Prosecution Agreement.

The following table shows the amounts due from the Rigas Family and Rigas Family Entities net of the allowance for uncollectible amounts and amounts due from the Rigas Co-Borrowing Entities prior to the 2004 consolidation of the Rigas Co-Borrowing Entities under FIN 46-R, as described in Note 5 (amounts in thousands):

	December 31, 2004	December 31, 2003
Amounts due from the Rigas Family and Other Rigas Entities	$ 2,630,770	$ 2,214,270
Amounts due from Rigas Co-Borrowing Entities*	—	929,431
Amounts due before allowance for uncollectible amounts	2,630,770	3,143,701
Allowance for uncollectible amounts	(2,602,027)	(2,343,352)
Amounts due from the Rigas Family and Rigas Family Entities, net	$ 28,743	$ 800,349

* On January 1, 2004, the Company began consolidating the Rigas Co-Borrowing Entities in accordance with FIN 46-R. As such, amounts due from the Rigas Co-Borrowing Entities have been eliminated.

In connection with the Government Settlement Agreements, amounts owed between Adelphia (including the forfeited Rigas Co-Borrowing Entities which are expected to be conveyed to Adelphia) and the Rigas Family and Other Rigas Entities will not be collected or paid. Settlement of the $28,743,000 included in the table above, as well as the $460,256,000 due from the Rigas Co-Borrowing Entities to the Rigas Family and Other Rigas Entities as discussed in Note 5, will be recognized by the Company when these amounts are settled or the underlying securities are transferred to the Company.

Changes in the amounts due from the Rigas Family and Rigas Family Entities are presented below in total and separately for amounts due from the Rigas Co-Borrowing Entities and the Rigas Family and Other Rigas Entities for the indicated periods (amounts in thousands):

	Amounts due from: Rigas Co-Borrowing Entities	Amounts due from: The Rigas Family and Other Rigas Entities	Total amounts due before deducting allowance
Balance at January 1, 2002	$ 972,025	$ 1,636,416	$ 2,608,441
Funding by the Company for operations and other activities	112,650	214,931	327,581
Deposits in the Company's CMS for operations and other activities	(174,258)	(27,489)	(201,747)
Deposits in the Company's CMS for interest on the Adelphia debt securities held by the Rigas Family and the Other Rigas Entities	—	(11,521)	(11,521)
Management fees and other costs charged by the Company to the Rigas Co-Borrowing Entities	17,494	—	17,494
Co-Borrowing interest charged to Rigas Family Entities	10,556	—	10,556
Purchase of Adelphia securities by Rigas Family Entities	—	393,569	393,569
Sale of land owned by Rigas Family Entities	—	(465)	(465)
Net revenue earned from cooperative advertising arrangement with NFHLP	—	1,151	1,151
Programming rights charges from NFHLP	—	(9,961)	(9,961)
Production reimbursements from NFHLP	—	406	406
Net change in liabilities incurred under Company contracts for expenses of the Rigas Co-Borrowing Entities	20,928	—	20,928
Other activity, net	(3,305)	18,003	14,698
Balance at December 31, 2002	956,090	2,215,040	3,171,130
Funding by the Company for operations and other activities	96,086	7	96,093
Deposits in the Company's CMS for operations and other activities	(168,290)	(3)	(168,293)
Management fees and other costs charged by the Company to the Rigas Co-Borrowing Entities	22,217	—	22,217
Amounts to fund legal defense of the Rigas Family	10,767	—	10,767
Net change in liabilities incurred under Company contracts for expenses of the Rigas Co-Borrowing Entities	3,018	—	3,018
Other activity, net	9,543	(774)	8,769
Balance at December 31, 2003	929,431	2,214,270	3,143,701
Consolidation of amounts due to the Rigas Co-Borrowing Entities from the Rigas Family and Other Rigas Entities	—	416,500	416,500
Amounts due from Rigas Co-Borrowing Entities eliminated due to consolidation	(929,431)	—	(929,431)
Balance at December 31, 2004	$ —	$ 2,630,770	$ 2,630,770

The Company has separately assessed the collectibility of the amounts due from the Rigas Family and each of the Other Rigas Entities at the end of each reporting period. Prior to the Petition Date, the Company considered these amounts to be collateral-backed loans under SFAS No. 114 and SFAS No. 118. The Company adjusted the allowance for uncollectible amounts based on increases or decreases in the estimated values of the underlying net assets of the Rigas Family and each of the Other Rigas Entities available for repayment of amounts advanced. The Company's assessment of collectibility was based on an orderly sale of the Rigas Family's and Other Rigas Entities' underlying assets and did not apply current changes in circumstances to prior periods. 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. Subsequent to the Petition Date, the Company ceased the recognition of increases in the values of the underlying assets of the Rigas Family and Other Rigas Entities. Once an allowance had been established against all or part of the amount owed to the Company by a Rigas Family Entity, the Company adopted the cost recovery method for purposes of recognizing co-borrowing interest. Under this method, the full amount of interest is deferred until such time as the underlying principal is fully recovered. No accounting recognition is given in the Company's financial statements for the amounts deferred.

Changes in the allowance for uncollectible amounts due from the Rigas Co-Borrowing Entities and the Rigas Family and Other Rigas Entities are presented below (amounts in thousands):

	Allowance for uncollectible amounts due from:		
	Rigas Co-Borrowing Entities	The Rigas Family and Other Rigas Entities	Total allowance for uncollectible amounts
Balance at January 1, 2002	$ (100,375)	$ (475,239)	$ (575,614)
Provision for uncollectible amounts	(51,953)	(1,710,288)	(1,762,241)
Balance at December 31, 2002	(152,328)	(2,185,527)	(2,337,855)
Provision for uncollectible amounts	(5,497)	—	(5,497)
Balance at December 31, 2003	(157,825)	(2,185,527)	(2,343,352)
Elimination of the allowance for amounts due from Rigas Co-Borrowing Entities due to consolidation	157,825	—	157,825
Consolidation of the allowance for amounts due to the Rigas Co-Borrowing Entities from the Rigas Family and Other Rigas Entities	—	(416,500)	(416,500)
Balance at December 31, 2004	$ —	$ (2,602,027)	$ (2,602,027)

Amounts due from the Rigas Co-Borrowing Entities

As a result of the consolidation of the Rigas Co-Borrowing Entities, the $929,431,000 receivable from the Rigas Co-Borrowing Entities at December 31, 2003 and the related $157,825,000 allowance for uncollectible amounts were eliminated from the Company's consolidated balance sheet as of January 1, 2004.

Amounts due from the Rigas Family and Other Rigas Entities

Because the Company and the Rigas Family and Other Rigas Entities were under common control during the periods in which the amounts due from the Rigas Family and Other Rigas Entities were accumulated, the receivable balance, net of the allowance for uncollectible amounts, has been reported as an addition to stockholders' deficit in the accompanying consolidated financial statements. In general, amounts due from the Rigas Family and Other Rigas Entities are unsecured and have no maturity date and no specified terms for the accrual of interest.

As a result of the January 1, 2004 consolidation of the Rigas Co-Borrowing Entities, the amounts due from the Rigas Family and Other Rigas Entities include $416,500,000 due to the Rigas Co-Borrowing Entities from the Rigas Family and Other Rigas Entities, offset by an allowance for uncollectible amounts of $416,500,000, which was established prior to January 1, 2004. These amounts do not include $460,256,000 that the Rigas Co-Borrowing Entities owe to the Rigas Family and Other Rigas Entities for which the Company has determined that there is no legal right of set-off against amounts due to certain other Rigas Co-Borrowing Entities from the Rigas Family and Other Rigas Entities. As a result of the Government Settlement Agreements, neither the amounts receivable nor the amounts payable will be collected or paid.

Impact of Transactions with the Rigas Family and Rigas Family Entities on Consolidated Statements of Operations

Transactions occurring on or after January 1, 2004 between the Company and the Rigas Co-Borrowing Entities are eliminated in consolidation. The effects of various transactions between the Company and the Rigas Family and Rigas Family Entities on certain line items included in the accompanying consolidated statements of operations are summarized below for the indicated 2003 and 2002 periods (amounts in thousands):

	Year ended December 31,	
	2003	2002
Revenue:		
Net revenue from cooperative advertising arrangement with NFHLP(a)	$ —	$ 1,151
Expenses:		
Direct operating and programming:		
Programming rights and other expenses paid to NFHLP(a)	$ —	$ 9,961
Production reimbursements from NFHLP(a)	—	(406)
Total included in direct operating and programming	$ —	$ 9,555
Selling, general and administrative:		
Management fees and other costs charged by the Company to the Managed Cable Entities(b)	$ (22,217)	$ (17,494)
Management fees and other costs charged by the Rigas Family and Other Rigas Entities to the Company(c)	975	2,321
Total included in selling, general and administrative	$ (21,242)	$ (15,173)
Interest expense on Adelphia debt securities held by Other Rigas Entities	$ —	$ (10,343)

(a) Amounts Charged to the Company from NFHLP. During 2002, Niagara Frontier Hockey, L.P., a Delaware limited partnership owned by the Rigas Family ("NFHLP"), charged the Company for broadcast rights to the Buffalo Sabres hockey games and for luxury suites, tickets, advertising and other entertainment costs. Also during 2002, the Company received net revenue and reimbursements for production costs from NFHLP related to a cooperative advertising arrangement between the Company and NFHLP. The amounts charged to and received by the Company pursuant to these arrangements are set forth in the foregoing table summarizing the effects of transactions with the Rigas Family Entities in the accompanying consolidated statements of operations.

During 2002, the Company recorded an increase to the allowance against its advances to NFHLP of $68,796,000. Such increase reflects amounts required to adjust the carrying value to net realizable value. The 2002 increase includes a $38,077,000 charge related to the Company's decision to discontinue funding and to seek a buyer for NFHLP and a $30,719,000 charge related to the Company's conclusion, after conducting negotiations with several potential buyers, that it would not recover any of its advances to NFHLP. The Company received no proceeds in connection with the closing of the sale of NFHLP in April 2003.

The Company charged management fees and interest to NFHLP during 2002. Due to the fact that collectibility was not assured, the Company did not recognize any income with respect to such management fees and interest. The Company used facilities owned by NFHLP from 1999 through the second quarter of 2003. No rent was charged to the Company for the use of such facilities. The Company renovated such facilities in 2000 at a cost of $849,000. The book value of such renovation costs was written-off by the Company in 2003 when the property was vacated. In 2000, the Company guaranteed a third party loan to NFHLP with an aggregate principal amount of $27,637,000, which guarantee was collateralized by letters of credit. The Company was relieved of this contingent obligation as a result of the April 2003 sale of NFHLP.

During the first quarter of 2002, NFHLP and certain of its subsidiaries filed voluntary petitions to reorganize under Chapter 11, and during the fourth quarter of 2003, NFHLP and certain of its subsidiaries asserted certain claims against the Company. For additional information, see Note 17.

(b) *Management Fees and Other Costs Charged by the Company to the Managed Cable Entities.* The Company provides management and administrative services, under written and unwritten enforceable agreements, to the Managed Cable Entities.

In circumstances where a written management agreement exists, a management fee is charged to the Managed Cable Entity in accordance with the written agreement. Such management agreements generally provide for a management fee based on a percentage of revenue plus reimbursements for expenses incurred by the Company on behalf of the Managed Cable Entities. Under unwritten agreements, the Company charges the Managed Cable Entities their share of costs incurred by the Company, as well as reimbursable expenses. Such charges are generally based upon the Managed Cable Entities' share of revenue or subscribers, as appropriate. The management fees actually paid by the Managed Cable Entities are generally limited by the terms of the applicable Co-Borrowing Facility. The amounts charged to the Managed Cable Entities pursuant to these arrangements are included in management fees and other charges to the Managed Cable Entities in the foregoing table and have been reflected as a reduction of selling, general and administrative expenses in the accompanying consolidated statements of operations for the years ended December 31, 2003 and 2002. Effective January 1, 2004, these fees and cost allocations have been eliminated upon consolidation of the Rigas Co-Borrowing Entities.

(c) *Management Fees and Other Costs Charged by the Rigas Family and Other Rigas Entities to the Company.* The Rigas Family and Other Rigas Entities provided services to the Company in exchange for consideration that may or may not have been equal to the fair value of such goods and services, as summarized in the following table (amounts in thousands):

	Year Ended December 31, 2003	Year Ended December 31, 2002
Services provided to the Company by the Rigas Family and Other Rigas Entities:		
Management services(1)	$975	$1,300
Facility management and maintenance services(2)	—	860
Rent paid to the Rigas Family and Other Rigas Entities(3)	—	74
Other(4)	—	87
Total charges for services provided by the Rigas Family and Other Rigas Entities	$975	$2,321
Capital goods acquired from Other Rigas Entities		
Furniture, fixtures and related design and installation services(5)	$—	$2,167
Capital improvements(2)	—	70
Total charges for capital goods acquired from Other Rigas Entities	$—	$2,237

(1) Charges for services arose from Adelphia's 99.5% limited partnership interest in Praxis Capital Ventures, L.P. ("Praxis"), a consolidated subsidiary of Adelphia. Praxis was primarily engaged in making private equity investments in the telecommunications market. Adelphia committed to provide $65,000,000 of capital to Praxis, of which $8,500,000 was invested by Praxis during 2002 and 2001. The Rigas Family owns membership interests in both the Praxis general partner and the company that manages Praxis. The Praxis management company charged a management fee to Adelphia at an annual rate equal to 2% of the capital committed by Adelphia. Adelphia recorded an expense for management fees of $975,000 and $1,300,000 for the years ended December 31, 2003 and 2002, respectively. During 2004, 2003 and 2002, the Company

recorded reserves of $800,000, $300,000 and $148,000 respectively, against the carrying value of certain Praxis investments.

By order dated October 20, 2003, the Debtors rejected the Praxis partnership agreement under applicable bankruptcy law. Rejection may give rise to pre-bankruptcy unsecured damage claims that are included in liabilities subject to compromise at the amounts expected to be allowed. As of December 31, 2004, the Company had accrued $1,300,000 in management fees due under the Praxis partnership agreement for the periods prior to rejection of the partnership agreement.

(2) Through December 2002, Wending Creek Farms, Inc. ("Wending Creek"), an entity owned by the Rigas Family, performed various facility management and maintenance services for the Company. Wending Creek also performed capital improvements for the Company.

(3) The Company rented various condominiums and apartments, as well as certain office and warehouse space, from the Rigas Family and the Other Rigas Entities.

(4) Represents amounts charged by the Other Rigas Entities for various administrative and other services.

(5) The Company purchased furniture, fixtures and related design and installation services from certain of the Other Rigas Entities. Due to the fact that the Company and such Other Rigas Entities were under common control at the time such purchases were made, such Other Rigas Entities' mark-up on such transactions, which aggregated $205,000 for 2002, was treated as an adjustment of additional paid-in capital.

Other Transactions with the Rigas Family and Rigas Family Entities

Rigas Co-Borrowing Entities. The Company performs all of the cash management functions for the Rigas Co-Borrowing Entities using the CMS. As such, positive cash flows of the Rigas Co-Borrowing Entities are generally deposited into the Company's cash accounts. Negative cash flows, which represent the payment of interest on co-borrowing debt for the Rigas Co-Borrowing Entities, are generally deducted from the Company's cash accounts. In addition, the personnel of the Rigas Co-Borrowing Entities are employees of the Company, and substantially all of the cash operating expenses and capital expenditures of the Rigas Co-Borrowing Entities are paid by the Company on behalf of the Rigas Co-Borrowing Entities. Charges to the Rigas Co-Borrowing Entities for such expenditures are determined by reference to the terms of the applicable third party invoices or vendor agreements. Although this activity affects the amounts due from the Rigas Co-Borrowing Entities, prior to the consolidation of the Rigas Co-Borrowing Entities, the Company did not include any of these charges as related party transactions to be separately reported in its consolidated statements of operations. Effective January 1, 2004, such amounts are included in the Company's consolidated statements of operations. The most significant of these expenditures incurred by the Company on behalf of the Rigas Co-Borrowing Entities during 2003 and 2002 include third party programming charges, employee related charges and third party billing service charges which are shown in the following table (amounts in thousands):

	Year ended December 31,	
	2003	2002
Programming charges from third party vendors	$ 48,228	$ 43,404
Employee related charges	20,543	20,522
Billing charges from third party vendors	3,009	2,662
	$ 71,780	$ 66,588

Prior to January 1, 2004, the Company recognized all of the liabilities incurred under these arrangements on behalf of the Rigas Co-Borrowing Entities. At December 31, 2003, $51,644,000 was included in accrued liabilities in the accompanying consolidated balance sheet.

During 2004 and 2003, various stipulations and orders were approved by the Bankruptcy Court that caused the Managed Cable Entities to pay approximately $28,000,000 of legal defense costs on behalf of certain members of the Rigas Family. As a result of the consolidation of the Rigas Co-Borrowing Entities, $17,000,000 of such defense costs have been included in investigation and re-audit related fees in the accompanying consolidated statement of operations for the year ended December 31, 2004.

In connection with the Government Settlement Agreements, the Company agreed to pay the Rigas Family an additional $11,500,000 for legal defense costs, which was paid and expensed by the Company in June 2005. The Government Settlement Agreements release the Company from further obligation to provide funding for legal defense costs for the Rigas Family.

Purchase of Adelphia Securities by Other Rigas Entities. Adelphia issued debt securities to certain Other Rigas Entities in 2002. Details of the securities issued to these Other Rigas Entities are set forth in the following table (dollars in thousands):

Date issued	Securities purchased by Other Rigas Entities	Purchase price on agreement date	Interest factor	Total purchase price to Other Rigas Entities
January 22, 2002	$400,000 aggregate principal amount of 3.25% Convertible Subordinated Notes due 2021 (the "3.25% Notes") under an agreement dated April 19, 2001*	$391,000	$2,569	$393,569

* The 3.25% Notes held by the Other Rigas Entities were convertible into Class B Common Stock and the 3.25% Notes held by the public were convertible into Class A Common Stock. All terms, including the conversion ratios, of the 3.25% Notes held by the public were otherwise identical to the 3.25% Notes held by the Other Rigas Entities. For additional information, see Note 11.

The Company did not receive cash as a result of the issuance of the 3.25% Notes to the Other Rigas Entities, but rather the purchase price has been reflected as an increase to amounts due from the Rigas Family and Rigas Family Entities in the accompanying consolidated balance sheets. The price discount received by the Other Rigas Entities of $9,000,000 for the 3.25% Notes was amortized to interest expense over the life of the securities with such amortization ceasing at the Petition Date consistent with the Company's treatment of other debt instruments. The securities purchase agreement also provided that the Other Rigas Entities be charged interest on the purchase price of the securities from the agreement date through the issuance date (the "interest factor"). The interest factor for the 3.25% Notes has been reflected as an adjustment to additional paid-in capital. See Note 11 for further discussion regarding additional debt securities held by the Other Rigas Entities.

In 2001, the Company agreed to issue 7,500,000 shares of Class B Common Stock and 2,000,000 shares of 7.5% Series E Mandatory Convertible Preferred Stock, with a par value of $0.01 per share ("Series E Preferred Stock"), to the Other Rigas Entities no later than August 12, 2002 for aggregate cash consideration of $202,550,000. As the equity securities were to be issued to entities controlled by the Rigas Family, certain of whom were employees of the Company, the Company recognized compensation expense of $101,000,000 in 2001 based on the difference between the purchase price of the securities and their market price, in accordance with APB Opinion No. 25. The Company recognized a compensation benefit of $101,000,000 during 2002 as no shares were issued under the agreement.

Pursuant to the Forfeiture Order, all right, title and interest of the Rigas Family and Rigas Family Entities in the Rigas Co-Borrowing Entities (other than Coudersport and Bucktail), certain specified real estate and any securities of the Company were forfeited to the United States on June 8, 2005 and such assets and securities are expected to be conveyed (subject to forfeiture proceedings before a federal judge to determine if there are any superior claims) to the Company pursuant to the Non-Prosecution Agreement. The Company will recognize the benefits of such conveyance when it occurs. For additional information, see Note 17.

Century/ML Cable. In connection with the December 13, 2001 settlement of a dispute, Adelphia, Century, Century/ML Cable, ML Media and Highland Holdings ("Highland"), a Rigas Family Entity, entered into a Leveraged Recapitalization Agreement (the "Recap Agreement") pursuant to which Century/ML Cable agreed to redeem ML Media's 50% interest in Century/ML Cable (the "Redemption") on or before September 30, 2002 for a purchase price between $275,000,000 and $279,800,000, depending on the timing of such redemption. Among other things, the Recap Agreement provided that: (i) Highland would arrange debt financing for the Redemption; (ii) Highland, Adelphia and Century would jointly and severally guarantee debt service on debt financing for the Redemption on and after the closing of the Redemption; and (iii) Highland and Century would own 60% and 40% interests, respectively, in the recapitalized Century/ML Cable. Under the terms of the Recap Agreement, Century's 50% interest in Century/ML Cable was pledged to ML Media as collateral for Adelphia's obligations. On or about December 18, 2001, Adelphia placed $10,000,000 on deposit on behalf of Highland as earnest funds for the transaction. During June of 2002, ML Media withdrew the $10,000,000 from escrow following the Bankruptcy Court's approval of the release of these funds to ML Media. Simultaneously with the execution of the Recap Agreement, ML Media, Adelphia and certain of its subsidiaries entered into a stipulation of settlement, pursuant to which certain litigation between them was stayed pending the Redemption. By order dated September 17, 2003, Adelphia and Century rejected the Recap Agreement under applicable bankruptcy law. Adelphia has not accrued any liability for damage claims related to the rejection of the Recap Agreement. Adelphia and Century/ML Cable have challenged the Recap Agreement and the Redemption as unenforceable on fraudulent transfer and other grounds, and Adelphia, Century, Highland, Century/ML and ML Media are engaged in litigation regarding the enforceability of the Recap Agreement. In this regard, ML Media filed an amended complaint against Adelphia on July 3, 2002 in the Bankruptcy Court. On April 15, 2004, the Bankruptcy Court dismissed all counts of Adelphia's challenge of the Recap Agreement except for its allegation that ML Media aided and abetted a breach of fiduciary duties in connection with its execution. The court also allowed Century/ML Cable's action to avoid the Recap Agreement as a fraudulent conveyance to proceed. For additional information concerning this litigation, see Note 17.

On June 3, 2005, Century and ML Media entered into an interest acquisition agreement ("IAA") to sell their interests in Century/ML Cable for $520,000,000 (subject to certain potential purchase price adjustments as defined in the IAA) to San Juan Cable. Consummation of the sale is subject to approval by the Bankruptcy Court in Century/ML Cable's separate Chapter 11 case, confirmation of a plan of reorganization of Century/ML Cable, the receipt of financing by the buyers and other customary conditions, many of which are outside the control of Century/ML Cable, Century and ML Media. There can be no assurance whether or when such conditions will be satisfied. The sale of Century/ML Cable will not resolve the pending litigation among Adelphia, Century, Highland, Century/ML Cable and ML Media.

Margin Loans. Certain members of the Rigas Family and certain of the Other Rigas Entities entered into margin loan agreements with various investment banks and other financial institutions and pledged equity and debt securities issued by the Company to secure such loans. Although the total amount of these margin loans is unknown, from July 2000 to May 2002, certain members of the Rigas Family and certain of the Other Rigas Entities have made approximately $252,000,000 of payments in connection with margin calls. Funds for these margin call payments came from the CMS, and are included in *"Funding by the Company for operations and other activities"* in the preceding summary table of changes in the *"Amounts due from the Rigas Family and Rigas Family Entities."*

Timber Rights. In February 2000, the Company acquired timber rights for a 3,656-acre parcel of property from an unrelated third party for a cash purchase price of $26,535,000. Simultaneously, one of the Other Rigas Entities purchased the 3,656-acre parcel of land for a cash purchase price of $465,000. The timber rights sale agreement contained a provision stipulating that ownership of the timber rights would be transferred to such Other Rigas Entities as a part of the consideration to be received by the Other Rigas Entities for any change in control transaction that would cause the cumulative voting percentage of the Rigas Family in Adelphia to fall below 50%. On June 13, 2002, both the land and timber rights were sold to an unrelated third party for an aggregate cash purchase price of $20,000,000. In connection with such sale, the Company recorded a $465,000 decrease to the amounts due from the Rigas Family and Rigas Family Entities and a $6,747,000 loss on disposition. Such loss is included in gains (losses) on disposition of long-lived assets in the accompanying 2002 consolidated statement of operations.

Coudersport Golf Course. Beginning in the fourth quarter of 2000, the Company commenced construction of a golf course on land near Coudersport, Pennsylvania. Although the Company owned a small portion of this land, the majority was owned by the Other Rigas Entities. The Company paid for and capitalized all costs of construction, which costs amounted to $13,571,000 through May 2002 when construction was ceased. As a result of the decision to cease construction, the Company recorded an impairment loss of $13,236,000 during the second quarter of 2002.

As discussed in Note 10, such loss is included in impairment of long-lived assets in the accompanying 2002 consolidated statement of operations.

Briar's Creek Golf Membership. On October 31, 2000, the Company paid $600,000 to acquire a membership interest in Briar's Creek Golf, LLC and $100,000 for a Founder's membership deposit. Such membership was used primarily by members of the Rigas Family. The Company also paid dues totaling $6,000 per year in connection with this membership. For purposes of the accompanying consolidated financial statements, all of the costs and expenses associated with this membership have been treated as costs and expenses of the Company. The $600,000 membership interest was written off by the Company during the second quarter of 2002. Such write-off is included in impairment of cost and available-for-sale investments in the accompanying 2002 consolidated statement of operations. The Company resigned its Founder's membership interest in May 2004 and will receive a refund of an amount approximating the $100,000 deposit over a three-year period.

Use of Company Assets. Prior to June 2002, members of the Rigas Family used the Company aircraft at the expense of the Company. The Company also paid corporate credit card invoices submitted by members of the Rigas Family. Due to the nature of the charges and the lack of documentation submitted by the Rigas Family members, the Company is unable to determine which portions of these expenditures were personal in nature or related to the business affairs of the Rigas Family Entities. Accordingly, all of the amounts paid by the Company with respect to these items have been accounted for as expenses of the Company in the accompanying consolidated statements of operations.

Rigas Family Employees. Through May 2002, John J. Rigas and his sons Michael J. Rigas, Timothy J. Rigas and James P. Rigas each served as an executive officer and director of the Company and Peter L. Venetis, John J. Rigas' son-in law, served as a director of the Company. In addition, Ellen Rigas Venetis, the daughter of John J. Rigas, was employed by the Company to perform certain community services during 2002 for an annual salary of $61,000. Ms. Venetis never served as an officer or director of the Company. The Company has treated all wages paid to members of the Rigas Family as expenses of the Company.

ErgoArts, Inc. and SongCatcher Films, LLC. From 1998 through 2002, the Company advanced funds to ErgoArts, Inc., an entity wholly-owned by John J. Rigas and Ellen Rigas Venetis, and SongCatcher Films, LLC, an entity in which John J. Rigas and Ellen Rigas Venetis held equity interests. At December 31, 2004, the outstanding balance due to the Company from ErgoArts and SongCatcher Films under these arrangements was approximately $677,000 and $3,100,000, respectively. The advances to ErgoArts were made principally in connection with the development and potential production of documentary films.

Registration Rights. Substantially all of the shares of Class A Common Stock, Class B Common Stock and securities convertible into Class A or Class B Common Stock owned by the Other Rigas Entities have been registered by Adelphia on registration statements or are subject to pre-bankruptcy registration rights agreements or arrangements for registration in the future.

Other Agreements with the Rigas Family and Rigas Family Entities

Rigas Family Agreement. On May 23, 2002, Adelphia entered into an agreement (the "Rigas Family Agreement") with John J. Rigas, Timothy J. Rigas, James P. Rigas and Michael J. Rigas, acting in their individual capacities and on behalf of each entity directly or indirectly controlled by any or all of them (collectively, the "Contracting Rigas Family Members") that, among other items, provided for: (i) the resignation of the Contracting Rigas Family Members from their positions as executive officers of Adelphia and members of the Board; (ii) the placement of all shares of Adelphia Common Stock owned by the Contracting Rigas Family Members into a voting trust until all obligations of the Contracting Rigas Family Members to the Company for borrowed money are satisfied, with the voting of such shares to be directed by a special committee of the Board through Adelphia's 2004 annual meeting and thereafter to be voted in proportion to the votes cast by all other holders of Adelphia shares; (iii) the use of all of the free cash flow of the Managed Cable Entities to repay amounts owed by the Contracting Rigas Family Members as primary obligors in respect of the Co-Borrowing Facilities and the pledge of the Contracting Rigas Family Members' equity interests in the Managed Cable Entities to the Company until all amounts owed by the Contracting Rigas Family Members to the Company in respect of borrowed money are satisfied; (iv) the transfer of the stock or assets of the Managed Cable Entities from the Contracting Rigas Family Members to the Company in exchange for a payment equal to the taxes incurred by the Contracting Rigas Family Members as a result of such transfer and a reduction in the amounts owed by the Contracting Rigas Family Members as primary obligors in respect of the Co-Borrowing Facilities, with the amount of such reduction to be based on third party appraisals, less the payment with respect to taxes to be incurred by the Contracting Rigas Family Members in connection with such transfer; (v) the transfer of approximately $567,000,000 of the Company's debt held directly or indirectly by the Contracting Rigas Family Members to the Company in exchange for an equivalent reduction in the amounts owed by the Contracting Rigas Family Members to the Company in respect of existing stock purchase agreements and as primary obligors in respect of the Co-Borrowing Facilities; (vi) the pledge of all shares of Adelphia Common Stock owned directly or indirectly by the Contracting Rigas Family Members to secure the repayment of the Co-Borrowing Facilities and the repayment of any indemnification payments made by the Company to Contracting Rigas Family Members pursuant to the terms of the Rigas Family Agreement; (vii) the accrual of interest on amounts owed by the Contracting Rigas Family Members under the Co-Borrowing Facilities at a rate of 6% per annum, to be paid on December 31, 2006, or earlier if amounts due under the Co-Borrowing Facilities are prepaid; (viii) the transfer of a 3,656 acre parcel of land underlying certain timber rights of the Company by the Contracting Rigas Family Members to the Company in exchange for a $465,000 reduction in the amounts owed by the Contracting Rigas Family Members as primary obligors in respect of the Co-Borrowing Facilities; (ix) the Company's honoring its prior commitment to provide severance arrangements to John J. Rigas, including a $1,400,000 annual cash payment for three years, lifetime healthcare coverage for Mr. Rigas and his spouse, the use of office space, equipment and a secretary, vested stock options exercisable for their term and the use of the Company's aircraft in certain limited circumstances; and (x) the termination of the aforementioned severance arrangements in the event Mr. Rigas is convicted of a felony.

Pursuant to the Plan and in accordance with the Bankruptcy Code, the Company intends to reject the Rigas Family Agreement. Except for the accrual of the severance arrangements for John J. Rigas, no economic effect had been given to the Rigas Family Agreement in the consolidated financial statements. As of December 31, 2004, $2,717,000 of severance had been accrued for John J. Rigas.

Note 7: TelCove

Spin-off and Bankruptcy

TelCove, Inc. ("TelCove") owned, operated and managed entities that provided competitive local exchange carrier ("CLEC") telecommunications services. On January 11, 2002 (the "TelCove Spin-off Date"), the Company completed a transaction (the "TelCove Spin-off") whereby all of the shares of common stock of TelCove owned by Adelphia were distributed in the form of a dividend to holders of Class A Common Stock and Class B Common Stock. On the TelCove Spin-off Date, the Company owned 78% of the outstanding common stock and 96% of the total voting power in TelCove. The TelCove Spin-off resulted in the distribution of net liabilities of $1,346,500,000, which have been reflected as an increase to additional paid-in capital in the accompanying consolidated statement of stockholders' deficit. The TelCove Spin-off excluded certain CLEC systems which the Company purchased from TelCove in 2001 and 2000 (the "CLEC Market Assets").

On March 27, 2002 (the "TelCove Petition Date"), TelCove and certain of its direct subsidiaries commenced voluntary cases to reorganize under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Subsequently, on June 18, 2002, certain indirect subsidiaries of TelCove also commenced voluntary cases to reorganize under Chapter 11 of the Bankruptcy Code in the Bankruptcy Court. TelCove and its direct and indirect subsidiaries that have commenced Chapter 11 filings are collectively referred to herein as the "TelCove Debtors." From the TelCove Spin-off Date through the TelCove Petition Date, the Rigas Family Entities owned a controlling interest in TelCove, and accordingly, the Company and TelCove were under the common control of the Rigas Family during that period. Subsequent to the TelCove Spin-off and prior to the TelCove Petition Date, the Company provided additional funding of $15,510,000 to TelCove in the form of unsecured advances to fund operations. As discussed in greater detail below, the Company also provided funding of $15,000,000 to the TelCove Debtors in May 2002 in the form of a debtor-in-possession credit and security agreement (the "TelCove DIP Credit Agreement").

TelCove, as an unrestricted borrower under a joint bank credit facility with certain of Adelphia's subsidiaries (the "Subsidiary Borrowers") and a Rigas Family Entity, was credited with proceeds aggregating $500,000,000 from unsecured borrowings under this facility during 2000. The Subsidiary Borrowers are jointly and severally liable for all borrowings under this joint bank credit facility. As such, the full amount borrowed by TelCove under this joint bank credit facility has been reflected in the balance sheets of the Subsidiary Borrowers. Through December 31, 2001, both TelCove and the Subsidiary Borrowers were included in the Company's accompanying consolidated financial statements.

At the TelCove Spin-off Date, the Company recorded a receivable from TelCove of $518,897,000 representing the net effect of $500,000,000 related to the principal amount of the borrowings attributed to TelCove under the joint credit facility and $18,897,000 of additional advances that resulted primarily from costs incurred by the Company in connection with the development of TelCove's billing system. All of such amounts including the $15,510,000 of unsecured advances were fully reserved during 2002.

In April 2002, the TelCove Debtors entered into the TelCove DIP Credit Agreement with Adelphia and one of the Rigas Family Entities (collectively, the "TelCove DIP Lenders"). Pursuant to the TelCove DIP Credit Agreement, the TelCove DIP Lenders committed to provide TelCove with a $135,000,000 revolving credit facility. The TelCove DIP Credit Agreement was structured such that Adelphia was responsible for loaning the first $67,500,000 and the Rigas Family Entity was responsible for loaning the second $67,500,000. The TelCove DIP Credit Agreement was to mature on the earlier of April 2004, the effectiveness of TelCove's reorganization plan or the occurrence and continuance of an event of default. Loans under the TelCove DIP Credit Agreement were to bear interest at a rate equal to a prime rate plus 3.75% per annum, subject to adjustment during the continuance of any event of default. The TelCove DIP Credit Agreement also provided for a facility fee of 1% of the unborrowed loan commitment and for the payment by TelCove of deferred financing fees of $4,050,000. No interest or fees were ever received from TelCove. In April 2002, the Bankruptcy Court approved an interim order for $27,000,000 of borrowings under the TelCove DIP Credit Agreement pending a final hearing. In May 2002, Adelphia loaned $15,000,000 of such approved borrowings to TelCove, but did not provide the remaining $12,000,000 that had been approved by the Bankruptcy Court. In August 2002, the TelCove Debtors closed on an alternative debtor-in-possession credit agreement with an unrelated third party that, with the Company's consent, subordinated the priority of the Company's claims pursuant to the TelCove DIP Credit Agreement. As a result, the Company recorded a reserve against the entire $15,000,000 loaned to TelCove during 2002.

In connection with the 2000 and 2001 acquisitions of certain CLEC systems, the Company entered into management agreements with TelCove to manage the local telecommunications transmission systems for the Company. The management agreements, which had an initial term of three years, contained automatic renewals for successive three-year periods, unless the Company gives notification that it is terminating such agreements. TelCove was also eligible to receive a quarterly performance bonus at the discretion of the Company. During 2003 and 2002, the aggregate amount charged to the Company pursuant to these management agreements was $3,045,000 and $4,170,000, respectively. The Company provided management and record keeping services to TelCove in accordance with applicable agreements. The agreements provided for a reasonable charge for the costs of providing services to TelCove plus reimbursement of applicable out-of-pocket costs. Due to the fact that collectibility was not assured, the Company recognized the amounts charged to TelCove on a cash basis. The Company recognized $1,215,000 of such charges and reimbursements as reductions of its costs and expenses during 2003. The Company did not receive any reimbursements from TelCove in 2002.

The foregoing management agreements were effectively superceded by a management agreement executed on April 7, 2004 in connection with the settlement of a dispute between the Company and TelCove, as described below.

On December 3, 2003, the Debtors and TelCove entered into a Master Reciprocal Settlement Agreement pursuant to which the parties, among other things, memorialized their agreement relating to their ownership and use of certain shared assets. On March 23, 2004, the Bankruptcy Court approved the Master Reciprocal Settlement Agreement.

Global Settlement Agreement

On February 21, 2004, the Debtors and TelCove executed a global settlement agreement (the "Global Settlement") that resolved, among other things, certain claims put forth by both TelCove and Adelphia. The Global Settlement provided that, on the closing date, the Company would transfer to TelCove certain settlement consideration, including approximately $60,000,000 in cash plus an additional payment of up to $2,500,000 related to certain outstanding payables, as well as certain vehicles, real property and intellectual property licenses used in the operation of TelCove's businesses. Additionally, the parties executed various annexes to the Global Settlement (collectively, the "Annex Agreements") that provided, among other things, for: (i) a five-year business commitment to TelCove for telecommunication services by the Company; (ii) future use by TelCove of certain fiber capacity in assets owned by the Company; and (iii) the mutual release by the parties from any and all liabilities, claims and causes of action that either party had or may have had against the other party. Finally, the Global Settlement provided for the transfer by the Company to TelCove of the CLEC Market Assets together with the various licenses, franchises and permits related to the operation and ownership of such assets. On March 23, 2004, the Bankruptcy Court approved the Global Settlement. The Company recorded a $97,902,000 liability during the fourth quarter of 2003 to provide for the Global Settlement. The Annex Agreements became effective in accordance with their terms on April 7, 2004.

On April 7, 2004, the Company paid $57,941,000 to TelCove, transferred the economic risks and benefits of the CLEC Market Assets to TelCove pursuant to the terms of the Global Settlement and entered into a management agreement which provided for the management of the CLEC Market Assets from April 7, 2004 through the date of transfer to TelCove.

On August 20, 2004, the Company paid TelCove an additional $2,464,000 pursuant to the Global Settlement in connection with the resolution and release of certain claims. On August 21, 2004, the CLEC Market Assets were transferred to TelCove.

Discontinued CLEC Operations

As a result of the Global Settlement discussed above, the Company transferred the CLEC Market Assets together with the various licenses, franchises and permits related to the operation and ownership of such assets to TelCove. The Company has presented the CLEC Market Assets, including the cost of the Global Settlement, as discontinued operations in the accompanying consolidated financial statements. The following table presents the summarized results of operations of the CLEC Market Assets included in discontinued operations for the indicated periods (amounts in thousands):

	Year Ended December 31,		
	2004	2003	2002
Revenue	$ 9,057	$ 37,026	$ 52,506
Costs and expenses:			
Direct operating and programming	7,074	33,431	62,282
Selling, general and administrative	828	2,354	1,171
Depreciation and amortization	1,271	10,465	27,918
Other	455	826	592
Total costs and expenses	9,628	47,076	91,963
Provision for cost of Global Settlement	—	97,902	—
Loss from discontinued operations	$ (571)	$ (107,952)	$ (39,457)

Note 8: Acquisition

On February 14, 2002, Adelphia issued 2,112,305 shares of Class A Common Stock valued at $46,470,000 to Verizon Media Ventures, Inc. d/b/a Verizon Americast ("Verizon Media Ventures") in exchange for cable television assets serving approximately 47,300 basic subscribers (unaudited) in California. Subsequently, certain franchise authorities filed suit against Verizon Media Ventures and the Company asserting that Verizon Media Ventures had not received approval from the franchise authorities for the sale as required by the applicable franchise agreement. See Note 17 for further information. On May 14, 2002, a temporary restraining order was granted to unwind a portion of the sale of certain assets and allow the sale of others. Because Verizon Media Ventures had vacated the area, the Company was required to provide service on behalf of Verizon Media Ventures to subscribers in the franchise area. In addition, the Company was prohibited from using any funds received from these subscribers and was required to place all such funds in a trust account.

The Company recorded the portion of the purchase price related to the areas affected by the restraining order as a $22,585,000 deposit from Verizon Media Ventures, and allocated the remaining purchase price to property and equipment ($9,651,000), franchise rights ($6,635,000), customer relationships ($4,271,000) and goodwill ($3,328,000). In April, 2003, upon appeal, the preliminary injunction was vacated, and the Company, upon request, was entitled to use the funds placed in trust. As a result, the portion of the purchase price that had been reflected as a deposit from Verizon Media Ventures in 2002 was allocated to property and equipment ($7,435,000), franchise rights ($6,142,000), customer relationships ($3,954,000) and goodwill ($4,190,000) during the second quarter of 2003. During the period in which the restraining order was in effect, the Company deferred both revenue and expenses related to the subscribers residing in the affected franchise area. The net profit of $864,000 during the restraining order period was recorded as a reduction of the purchase price in the second quarter of 2003, upon relief from the preliminary injunction.

Note 9: Investments in Equity Affiliates and Related Receivables

The Company has various investments accounted for under the equity method. The following table includes the Company's percentage ownership interest and the carrying value of its investments and related receivables as of the indicated dates (dollars in thousands):

	Percentage ownership at December 31, 2004	December 31, 2004	December 31, 2003
Century/ML Cable(a)	50%	$ 243,896	$ 240,542
Other	various	8,341	16,035
Investments in equity affiliates and related receivables		$ 252,237	$ 256,577

The following table includes the Company's share of losses of its equity affiliates, including excess basis amortization and write-downs to reflect other-than-temporary declines in value for the indicated periods (amounts in thousands):

	Year ended December 31, 2004	2003	2002
Century/ML Cable(a)	$ —	$ —	$ 3,128
Devon Mobile(b)	—	—	(123,327)
Other	(7,926)	(2,826)	435
Share of losses of equity affiliates, net	$ (7,926)	$ (2,826)	$ (119,764)

(a) Century/ML Cable

Century/ML Cable owns, operates and manages cable systems located in Puerto Rico. Century/ML Cable is a joint venture between ML Media and Century. As both Century and ML Media have substantial participatory rights in the management of Century/ML Cable, the Company used the equity method to account for its investment in Century/ML Cable until September 30, 2002, when Century/ML Cable filed a voluntary petition to reorganize under Chapter 11 of the Bankruptcy Code. Following the Chapter 11 filing, the Company suspended the use of the equity method and began to carry its investment in Century/ML Cable at cost. The Company has evaluated its investment in Century/ML Cable for an other-than-temporary decline in fair value below the cost basis in accordance with its policy and concluded that the estimated fair value exceeded its cost basis. This bankruptcy proceeding is administered separately from that of the Debtors. Century/ML Cable is operating its business as a debtor-in-possession and, along with its subsidiary, Century/ML Cable Corporation, continues to provide service to its subscribers. Century/ML Cable Corporation did not file for reorganization under Chapter 11. At this time, Century/ML Cable is expected to generate sufficient cash to fund foreseeable operations and capital requirements. The Century/ML Cable Chapter 11 filing is not expected to have a material impact on the operations of Century/ML Cable Corporation.

On June 3, 2005, Century and ML Media entered into the IAA to sell their interests in Century/ML Cable for $520,000,000 (subject to certain potential purchase price adjustments as defined in the IAA) to San Juan Cable. Consummation of the sale is subject to approval by the Bankruptcy Court in Century/ML Cable's separate Chapter 11 case, confirmation of a plan of reorganization of Century/ML Cable, the receipt of financing by the buyers and other customary conditions, many of which are outside the control of Century/ML Cable, Century and ML Media. There can be no assurance whether or when such conditions will be satisfied. The sale of Century/ML Cable will not resolve the pending litigation among Adelphia, Century, Highland, Century/ML Cable and ML Media.

On August 9, 2005, Century/ML Cable filed its Plan of Reorganization (the "Century/ML Plan") and related Disclosure Statement (the "Century/ML Disclosure Statement") with the Bankruptcy Court. By order dated August 18, 2005, the Bankruptcy Court approved the Century/ML Disclosure Statement. On September 7, 2005, the Bankruptcy Court confirmed the Century/ML Plan. The Century/ML Plan is designed to satisfy the conditions of the IAA with San Juan Cable and provides that all third-party claims will either be paid in full or assumed by San Juan Cable under the terms set forth in the IAA. Consummation of the Century/ML Plan is subject to certain conditions, including the concurrent sale of the interests in Century/ML Cable pursuant to the IAA. There can be no assurance whether or when such conditions will be satisfied. The Century/ML Plan, if consummated, will not resolve the pending litigation among Adelphia, Century, Highland, Century/ML Cable and ML Media.

The excess of the Company's investment in Century/ML Cable over the Company's proportionate share of Century/ML Cable's net assets was $175,441,000 at December 31, 2004 and 2003.

The Company provides management, programming and record keeping services to Century/ML Cable. In connection with the execution of the Recap Agreement among Century/ML Cable, ML Media and one of the Rigas Family Entities in December 2001, as further discussed in Note 6, the parties agreed to increase the management fees from 5% to 10% of Century/ML Cable's revenue plus reimbursable expenses. In June 2003, the management fees charged to Century/ML Cable were reduced to 5% of Century/ML Cable's revenue plus reimbursable expense in connection with the Debtors' rejection of the Recap Agreement. The Company has provided reserves against any management fees charged in excess of 5%. During the period in which the Company used the equity method to account for Century/ML Cable, the Company eliminated 50% of the management fee from Century/ML Cable against the Company's share of Century/ML Cable's losses. After deducting such eliminations and reserves, the net Century/ML Cable management fees included as a reduction of selling, general and administrative expenses in the Company's accompanying statements of operations were $4,200,000, $4,053,000 and $2,280,000 during 2004, 2003 and 2002, respectively. In addition to management fees, the Company is reimbursed by Century/ML Cable for programming expenses and other amounts paid on Century/ML Cable's behalf. At December 31, 2004 and 2003, the amounts receivable from Century/ML Cable for such fees and reimbursements, net of applicable reserves, were $23,442,000 and $20,088,000 respectively. Such receivables are included with the Company's investment in Century/ML Cable in the foregoing table.

As further described in Note 17, ML Media and Adelphia are engaged in litigation regarding the Recap Agreement and other matters.

(b) Devon Mobile Communications L.P. ("Devon Mobile")

Pursuant to the Agreement of Limited Partnership of Devon Mobile dated as of November 3, 1995 (the "Devon Mobile Limited Partnership Agreement"), the Company owned a 49.9% limited partnership interest in Devon Mobile. An unrelated third party (the "Devon General Partner") owned the remaining 50.1% general partnership interest. The Devon General Partner also held 60% of the voting rights in a management committee that was created by the terms of the Devon Mobile Limited Partnership Agreement (the "Devon Mobile Management Committee"). The Company held the remaining voting rights in the Devon Mobile Management Committee. James P. Rigas, a member of the Rigas Family, was the Company's representative on the Devon Mobile Management Committee until May 2002, when he resigned from his position with Adelphia.

Devon Mobile, through its subsidiaries, held licenses to operate regional wireless telephone businesses in several states. In late May 2002, the Company notified the Devon General Partner that it would likely terminate certain discretionary operational funding to Devon Mobile. The Company waived its right to participate in the Devon Mobile Management Committee on June 14, 2002. On August 19, 2002 (the "Devon Mobile Petition Date"), Devon Mobile and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (the "Devon Mobile Bankruptcy Court"). Pursuant to Devon Mobile's joint plan of liquidation, which was approved by the Devon Mobile Bankruptcy Court in October 2003, the Company's interests in Devon Mobile were extinguished.

The Company used the equity method to account for its limited partnership interest in Devon Mobile through the Devon Mobile Petition Date. Due to the inability of the Devon General Partner to absorb its share of Devon Mobile's losses, the Company recognized 100% of Devon Mobile's losses under the equity method. During 2002, the Company recognized a charge of $113,962,000 to: (i) write-off its equity investment of $11,356,000; (ii) write-off its receivables from Devon Mobile of $67,820,000; and (iii) to accrue a liability for a $34,786,000 guarantee of an accounts payable obligation to one of Devon Mobile's vendors. Such charge is included in share of losses of equity affiliates, net in the accompanying consolidated statements of operations. The accrued liability for the guarantee of the accounts payable obligation is presented as a liability subject to compromise in the accompanying consolidated balance sheets.

The Company charged fees to Devon Mobile pursuant to a services agreement dated December 29, 2000. Such fees included management fees of $400,000 per month. During 2002, management fees aggregated $2,400,000 and were eliminated against the Company's 100% share of Devon Mobile's losses.

As further discussed in Note 17, the Company and Devon Mobile are involved in litigation.

Note 10: Impairment of Long-Lived Assets

A summary of impairment charges for long-lived assets is set forth below (amounts in thousands):

	Year ended December 31,		
	2004	2003	2002
Property and equipment(a)	$ —	$ 17,000	$ —
Intangible assets, net:			
Franchise rights(b)	83,349	641	1,212,860
Goodwill(b)	—	—	755,905
Other assets (c)	—	—	62,992
Impairment of long-lived assets	$ 83,349	$ 17,641	$ 2,031,757

(a) Property and Equipment

In light of the declining values associated with cable systems in Brazil, as evidenced by the sale of other Brazilian cable entities during 2003, the Company performed an evaluation of its Brazilian cable operations during 2003. As a result of this evaluation, the Company recorded an impairment charge to write-down the assets of this operation to their estimated fair market value.

(b) Cable Impairments

Effective January 1, 2002, the Company adopted SFAS No. 142 and performed its transitional impairment evaluation of the carrying value of goodwill and franchise rights as of January 1, 2002. As a result of this evaluation, the Company recorded impairment charges to write-down goodwill by $881,610,000 and franchise rights by $524,696,000 to their respective estimated fair values. Such charges are reflected in cumulative effects of accounting changes in the accompanying consolidated statements of operations.

As a result of the Debtors' Chapter 11 filing, the Company performed an evaluation of the carrying amounts of goodwill and franchise rights in accordance with SFAS No. 142 and an evaluation of long-lived assets in accordance with SFAS No. 144, as of June 30, 2002. As a result of these evaluations, the Company recorded impairment charges to write-down goodwill by $755,905,000 and franchise rights by $1,212,860,000 to their respective estimated fair values. The Petition Date of the Chapter 11 filing substantially coincided with the Company's annual impairment testing date.

The Company, as a result of its annual impairment test, recorded additional impairments of $83,349,000 and $641,000 in 2004 and 2003, respectively, related to franchise rights. The 2004 impairment was primarily driven by subscriber losses. No events occurred during 2004, 2003 or the remainder of 2002 that would require additional impairment tests to be performed.

(c) Other assets

The Company began developing an internal operation's, call center and billing system ("Convergence") in 1998. After a careful evaluation of the functionality and usability of Convergence, the Company decided in 2002 not to pursue continued deployment and terminated additional funding for and abandoned the system. As a result of this decision, the Company recognized an impairment charge of $49,756,000 during 2002 to write-off all capitalized costs associated with Convergence.

As discussed in Note 6, as a result of the Company's decision to cease construction of a golf course, the Company recorded an impairment charge of $13,236,000 in 2002.

Note 11: Debt

The carrying value of the Company's debt is summarized below for the indicated periods (amounts in thousands). Although the Company has timely paid all interest due under the DIP facilities, they are classified as a current liability as the Company has received and may require future waivers to prevent or cure certain defaults under the DIP facilities. See Note 2 for additional information.

	December 31, 2004	2003
Current portion of parent and subsidiary debt:		
Secured:		
First Extended DIP Facility(a)	$ 627,176	$ 276,032
Capital lease obligations	39,657	70,159
Unsecured other subsidiary debt	912	928
Current portion of parent and subsidiary debt	$ 667,745	$ 347,119
Liabilities subject to compromise:		
Parent debt—unsecured:(b)		
Senior notes	$ 4,767,565	$ 4,767,565
Convertible subordinated notes(c)	1,992,022	1,992,022
Senior debentures	129,247	129,247
Pay-in-kind notes	31,847	31,847
Total parent debt	6,920,681	6,920,681
Subsidiary debt:		
Secured:		
Notes payable to banks	2,240,313	2,240,313
Unsecured:		
Senior notes	1,105,538	1,105,538
Senior discount notes	342,830	342,830
Zero coupon senior discount notes	755,031	755,031
Senior subordinated notes	208,976	208,976
Other subsidiary debt	121,523	121,523
Total subsidiary debt	4,774,211	4,774,211
Deferred financing fees(d)	(134,208)	(134,208)
Parent and subsidiary debt before Co-Borrowing Facilities (Note 2)	$ 11,560,684	$ 11,560,684
Co-Borrowing Facilities(e) (Note 2)	$ 4,576,375	$ 4,576,375

(a) First Extended DIP Facility

In connection with the Chapter 11 filings, Adelphia and certain of its subsidiaries, (collectively, the "Loan Parties") entered into the $1,500,000,000 DIP Facility. On May 10, 2004, the Loan Parties entered into the $1,000,000,000 First Extended DIP Facility, which superseded and replaced, in its entirety, the DIP Facility. The First Extended DIP Facility was superseded and replaced in its entirety by the Second Extended DIP Facility, which is described below.

The First Extended DIP Facility was scheduled to mature upon the earlier of March 31, 2005, or upon the occurrence of certain other events, as described in the First Extended DIP Facility. Upon the closing of the First Extended DIP Facility, the Company borrowed an aggregate of $390,750,000 under the First 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 proceeds from the borrowings under the First Extended DIP Facility were permitted to be used for general corporate purposes and investments, as defined in the First Extended DIP Facility. The First Extended DIP Facility was secured with a first priority lien on all of the Loan

Parties' unencumbered assets, a priming first priority lien on all assets of the Loan Parties securing their pre-petition bank debt and a junior lien on all other assets of the Loan Parties. The First Extended DIP Facility was comprised of an $800,000,000 Tranche A Loan and a $200,000,000 Tranche B Loan. The applicable margin on loans extended under the First Extended DIP Facility was reduced (when compared to the DIP Facility). Loans under the First Extended DIP Facility accrued interest at the Alternative Base Rate as defined in the First Extended DIP Facility plus 1.50%, or the Adjusted London interbank offered rate ("LIBOR"), as defined in the First Extended DIP Facility plus 2.50%. In addition, under the First 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 terms of the First Extended 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 or payments with respect to any shares of capital stock, subject to certain exceptions set forth in the First Extended DIP Facility. The First Extended 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 First Extended DIP Facility. In addition, from time to time, the Company received waivers to prevent or cure certain defaults under the First Extended DIP Facility.

On June 29, 2004, and July 30, 2004 certain Loan Parties made mandatory prepayments of principal on the First Extended DIP Facility in connection with the consummation of certain asset sales. As a result, the total commitment for the entire First Extended DIP Facility was reduced to $996,425,000, with the total commitment of the Tranche A Loan being reduced to $796,822,000 and the total commitment of the Tranche B Loan being reduced to $199,603,000. As of December 31, 2004, $427,573,000 under the Tranche A Loan has been drawn and letters of credit totaling $117,452,000 have been issued under the Tranche A Loan, leaving availability of $251,797,000 under the Tranche A Loan. Furthermore, as of December 31, 2004, the entire Tranche B Loan has been drawn.

Second Extended DIP Facility

On February 25, 2005, the Loan Parties entered into the $1,300,000,000 Second Extended DIP Facility, which supersedes and replaces in its entirety the First Extended DIP Facility. The Second Extended DIP Facility was approved by the Bankruptcy Court on February 22, 2005 and closed on February 25, 2005. Except as set forth below, the material terms and conditions of the Second Extended DIP Facility are substantially identical to the material terms and conditions of the First Extended DIP Facility, including the covenants and collateral securing the Second Extended DIP Facility.

The Second Extended DIP Facility matures upon the earlier of March 31, 2006 or the occurrence of certain other events, as described in the Second Extended DIP Facility. The Second Extended DIP Facility consists of an $800,000,000 Tranche A Loan (including a $500,000,000 letter of credit subfacility) and a $500,000,000 Tranche B Loan. The proceeds from borrowings under the Second Extended DIP Facility are permitted to be used for general corporate purposes and investments, as defined in the Second Extended DIP Facility. The Second Extended DIP Facility is secured with a first priority lien on all of the Loan Parties' unencumbered assets, a priming first priority lien on all assets of the Loan Parties securing their pre-petition bank debt and a junior lien on all other assets of the Loan Parties. The applicable margin on loans extended under the Second Extended DIP Facility was reduced (when compared to the First Extended DIP Facility) to 1.25% per annum in the case of Alternate Base Rate loans and 2.25% per annum in the case of Adjusted LIBOR Rate loans. In addition, under the Second Extended DIP Facility, the commitment fee with respect to the unused portion of the Tranche A Loan was changed from a commitment fee of between 0.50% and 0.75% per annum to 0.50% per annum.

In connection with the closing of the Second Extended DIP Facility, on February 25, 2005, the Loan Parties borrowed an aggregate of $578,000,000 and used all such proceeds and a portion of available cash and cash equivalents to repay all of the indebtedness outstanding under the First Extended DIP Facility, including accrued and unpaid interest and certain fees and expenses. In addition, all of the participations in the letters of credit outstanding under the First Extended DIP Facility were transferred to certain lenders under the Second Extended DIP Facility.

From time to time, the Loan Parties and the DIP lenders entered into certain amendments to the terms of the Second Extended DIP Facility. In addition, from time to time, the Company received waivers to prevent or cure certain defaults under the Second Extended DIP Facility. These waivers and amendments are effective through the maturity date of the Second Extended DIP Facility.

(b) Parent Debt

All debt of Adelphia is structurally subordinated to the debt of its subsidiaries such that the assets of an indebted subsidiary are used to satisfy the applicable subsidiary debt before being applied to the payment of parent debt.

(c) Convertible Subordinated Notes

At December 31, 2004 and December 31, 2003, the convertible subordinated notes included: (i) $1,029,876,000 aggregate principal amount of 6% convertible subordinated notes; (ii) $975,000,000 aggregate principal amount of 3.25% convertible subordinated notes; and (iii) unamortized discounts aggregating $12,854,000. Other Rigas Entities hold $167,376,000 aggregate principal amount of the 6% notes and $400,000,000 aggregate principal amount of the 3.25% notes. The terms of the 6% notes and 3.25% notes provide for the conversion of such notes into Class A Common Stock (Class B Common Stock in the case of notes held by the Other Rigas Entities) at the option of the holder any time prior to maturity at an initial conversion price of $55.49 per share and $43.76 per share, respectively.

Pursuant to the Forfeiture Order, all right, title and interest of the Rigas Family and Rigas Family Entities in any securities of the Company were forfeited to the United States on June 8, 2005, and such securities are expected to be conveyed (subject to forfeiture proceedings before a federal judge to determine if there are any superior claims) to the Company pursuant to the Non-Prosecution Agreement. The Company will recognize the benefits of such conveyance when it occurs. For additional information, see Note 17.

(d) Deferred Financing Fees

Pursuant to the requirements of SOP 90-7, deferred financing fees related to pre-petition debt have been included as an adjustment of the net carrying value of the related pre-petition debt at December 31, 2004 and 2003 and are no longer being amortized. 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 in liabilities subject to compromise as an adjustment of the net carrying value of the related pre-petition debt.

(e) Co-Borrowing Facilities

The Co-Borrowing Facilities represent the aggregate amount outstanding pursuant to three separate Co-Borrowing Facilities dated May 6, 1999, April 14, 2000 and September 28, 2001. Each co-borrower is jointly and severally liable for the entire amount of the indebtedness under the applicable Co-Borrowing Facility regardless of whether that co-borrower actually borrowed that amount under such Co-Borrowing Facility. All amounts outstanding under Co-Borrowing Facilities at December 31, 2004 represent pre-petition liabilities of the Debtors and have been classified as liabilities subject to compromise in the accompanying consolidated balance sheets. Collection of amounts outstanding under the Co-Borrowing Facilities from the Rigas Co-Borrowing Entities has not been stayed and actions may be taken to collect such borrowings from the Rigas Co-Borrowing Entities.

The table below sets forth amounts outstanding for the Co-Borrowing Facilities at December 31, 2004 and December 31, 2003 (amounts in thousands):

	Co-Borrowing Facilities
Attributable to Rigas Co-Borrowing Entities	$ 2,846,156
Attributable to non-Rigas Co-Borrowing Entities	1,730,219
Total included as debt of the Company	$ 4,576,375

Other Debt Matters

The fair value, as determined using third party quoted market prices or rates available for debt with similar terms and maturities, and weighted average interest rate of the Company's debt, including the Company's pre-petition debt, is summarized below as of the indicated periods (dollars in thousands):

	2004	2003	2002
Fair value	$ 15,585,467	$ 14,611,503	$ 8,908,761
Weighted average interest rate	7.49%	7.02%	7.12%

The table below sets forth the contractual principal maturities, without consideration for default provisions, of the Company's debt. Such maturities exclude net discounts of $311,326,000 and deferred financing fees of $134,208,000 (amounts in thousands):

2005 and prior years	$ 4,515,737
2006	$ 2,998,234
2007	$ 2,130,590
2008	$ 1,617,550
2009	$ 2,598,925
2010 and thereafter	$ 3,389,302

The foregoing maturities and interest rates include significant pre-petition obligations, which as discussed below, are stayed and any action taken with regard to defaults under the pre-petition debt obligations is prevented. Therefore, these commitments do not reflect actual cash outlays in future periods.

Due to the commencement of the Chapter 11 proceedings and the Company's failure to comply with certain financial covenants, the Company is in default on substantially all of its pre-petition debt obligations. Except as otherwise may be determined by the Bankruptcy Court, the automatic stay protection afforded by the Chapter 11 proceedings prevents any action from being taken against any of the Debtors with regard to any of the defaults under the pre-petition debt obligations. With the exception of the Company's capital lease obligations and a portion of other subsidiary debt, all of the pre-petition obligations are classified as liabilities subject to compromise in the accompanying consolidated balance sheets. For additional information, see Note 2.

Interest Rate Derivative Agreements

Prior to the Petition Date, the Company entered into interest rate swaps, caps and collar agreements with financial institutions to reduce the impact of changes in interest rates on its debt. The Company entered into swap agreements pursuant to which it paid either a fixed rate ("Fixed Rate Swap") or a variable rate ("Variable Rate Swap") to reduce the risk of incurring higher interest costs in periods of rising and falling interest rates, respectively. Interest rate cap and interest rate collar ("Interest Rate Collar") agreements were used to reduce the impact of increases in interest rates on variable-rate debt. The Company did not designate the foregoing derivative financial instruments as hedging instruments pursuant to the provisions of SFAS No. 133. Accordingly, changes in the fair value of these instruments were recognized currently and included in other expense, net through the Petition Date. Changes in the fair value of these instruments subsequent to the Petition Date have not been recognized, as these agreements have been stayed and the amount to be received or paid in connection with these instruments will be determined by the Bankruptcy Court.

At the Petition Date, all of the Company's derivative financial instruments had been settled or have since been settled except for one Fixed Rate Swap, one Variable Rate Swap and one Interest Rate Collar, which remain outstanding at December 31, 2004. As the settlement of the remaining derivative financial instruments will be determined by the Bankruptcy Court, the $3,486,000 fair value of the liability associated with the derivative financial instruments at the Petition Date has been classified as a liability subject to compromise in the accompanying consolidated balance sheets. Losses resulting from changes in the fair value of interest rate exchange agreements aggregated $159,000 during 2002 (pre-petition), and such amount is included in other expense, net in the accompanying consolidated statements of operations.

Note 12: Redeemable Preferred Stock

13% Cumulative Exchangeable Preferred Stock

On July 7, 1997, Adelphia issued 1,500,000 shares of Series A 13% Cumulative Exchangeable Preferred Stock due July 15, 2009 ("Series A Preferred Stock"). The Series A Preferred Stock, which was exchanged in November 1997 for Series B 13% Cumulative Exchangeable Preferred Stock due July 15, 2009 ("Series B Preferred Stock"), had an aggregate liquidation preference of $150,000,000 on the date of issuance and was recorded net of issuance costs of $2,025,000. Upon exchange, the shares of Series A Preferred Stock were returned to their original status of authorized but unissued preferred stock. Dividends are payable semi-annually at 13% of the liquidation preference of the outstanding Series B Preferred Stock. Dividends are payable in cash with any accumulated unpaid dividends bearing interest at 13% per annum. The Series B Preferred Stock ranks junior in right of payment to all indebtedness of Adelphia. Adelphia has the right to redeem, at its option, all or a portion of the Series B Preferred Stock at redemption prices that begin at 106.5% of the liquidation preference thereof on July 15, 2002 and decline to 100% of the liquidation preference thereof on July 15, 2008. Adelphia is required to redeem all of the shares of the Series B Preferred Stock outstanding on July 15, 2009 at a redemption price equal to 100% of the liquidation preference thereof. Any redemption of the Series B Preferred Stock would require the payment, without duplication, of all accumulated and unpaid dividends and interest to the date of redemption. The Series B Preferred Stock provides for voting rights in certain circumstances and contains restrictions and limitations on: (i) dividends and certain other payments and investments; (ii) indebtedness; (iii) mergers and consolidations; and (iv) transactions with affiliates.

Adelphia may, at its option, on any dividend payment date, exchange in whole or in part (subject to certain restrictions), the then outstanding shares of Series B Preferred Stock for 13% Senior Subordinated Exchange Debentures due July 15, 2009 which have provisions consistent with the provisions of the preferred stock. Adelphia accrued cash dividends of $9,480,000 during the year ended December 31, 2002. As a result of the filing of the Debtor's Chapter 11 Cases, the Company, as of the Petition Date, discontinued accruing dividends on all of its preferred stock issuances. For additional information, see Note 2. In addition, as the Company is not current in its periodic reporting obligations under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company is not in compliance with certain covenants contained in the certificate of designation for the Series B Preferred Stock. The Series B Preferred Stock and the related accrued dividends are classified as a liability subject to compromise in the accompanying consolidated balance sheets.

Note 13: Stockholders' Deficit

Common Stock

The Certificate of Incorporation of Adelphia authorizes two classes of $0.01 par value common stock, Class A Common Stock and Class B Common Stock. Holders of Class A Common Stock and Class B Common Stock vote as a single class on all matters submitted to a vote of the stockholders, with each share of Class A Common Stock entitled to one vote and each share of Class B Common Stock entitled to ten votes, except as described below with respect to the election of one director by the holders of Class A Common Stock, and as otherwise provided by law. In the annual election of directors, the holders of Class A Common Stock voting as a separate class are entitled to elect one of Adelphia's directors. In addition, each share of Class B Common Stock is convertible into a share of Class A Common Stock at the option of the holder. In the event a cash dividend is paid, the holders of Class A Common Stock will be paid 105% of the amount payable per share for each share of Class B Common Stock. Upon liquidation, dissolution or winding up of Adelphia, the holders of Class A Common Stock are entitled to a preference of $1.00 per share and the amount of all unpaid declared dividends thereon from any funds available after satisfying the liquidation preferences of preferred securities, debt instruments and other senior claims on Adelphia's assets. After such amount is paid, holders of Class B Common Stock are entitled to receive $1.00 per share and the amount of all unpaid declared dividends thereon. Any remaining amount would then be shared ratably by both classes. As of December 31, 2004, there were 74,913,196 shares of Class A Common Stock and 12,159,768 shares of Class B Common Stock reserved for issuance pursuant to conversion rights of certain of the Company's debt and preferred stock instruments and exercise privileges under outstanding stock options. In addition, one share of Class A Common Stock is reserved for each share of Class B Common Stock.

Outstanding shares of common stock are as follows for the indicated periods:

	Class A Common Stock	Class B Common Stock
Outstanding shares, January 1, 2002	186,679,834	25,055,365
Issuances	40,000,000	—
Acquisitions	2,012,305	—
Exercise of options	100	—
Outstanding shares, December 31, 2002	228,692,239	25,055,365
Other	175	—
Outstanding shares, December 31, 2003	228,692,414	25,055,365
Outstanding shares, December 31, 2004	228,692,414	25,055,365

Preferred Stock

General. Adelphia was authorized to issue 50,000,000 shares of $0.01 par value preferred stock at December 31, 2004, including: (i) 1,500,000 shares of Series A Preferred Stock, all of which were exchanged for Series B Preferred Stock in 1997; (ii) 1,500,000 shares of Series B Preferred Stock, all of which were issued and outstanding at December 31, 2004; (iii) 20,000 shares of 8 1/8% Series C Cumulative Preferred Stock ("Series C Preferred Stock"), none of which were outstanding at December 31, 2004; (iv) 2,875,000 shares of 5 1/2% Series D Convertible Preferred Stock ("Series D Preferred Stock"), all of which were issued and outstanding at December 31, 2004; (v) 15,800,000 shares of Series E Preferred Stock, 13,800,000 of which were issued and outstanding at December 31, 2004; and (vi) 23,000,000 shares of 7 1/2% Series F Mandatory Convertible Preferred Stock ("Series F Preferred Stock"), all of which were issued and outstanding at December 31, 2004.

With respect to dividend distributions and distributions upon liquidation: (i) all series of Adelphia's preferred stock rank junior to debt instruments and other claims on Adelphia's assets; (ii) the Series B Preferred Stock ranks senior to the Series D Preferred Stock; (iii) the Series D Preferred Stock ranks senior to the Series E Preferred Stock and Series F Preferred Stock; (iv) the Series E Preferred Stock ranks equally with the Series F Preferred Stock; and (v) all series of preferred stock rank senior to the Class A Common Stock and Class B Common Stock. Although the certificate of designation relating to the Series D Preferred Stock indicates that the Series D Preferred Stock ranks equally with the Series B Preferred Stock, the Company has not been able to locate the consent that would have been required to have been obtained from the holders of the Series B Preferred Stock for this to be the case.

As a result of the filing of the Debtors' Chapter 11 Cases, Adelphia, as of the Petition Date, discontinued accruing dividends on all of its outstanding preferred stock. Had the Debtors not filed voluntary petitions under Chapter 11, the total annual dividends that Adelphia would have accrued on all series of its preferred stock during 2004, 2003 and 2002 would have been $120,125,000, $120,125,000 and $117,279,000, respectively.

The certificates of designation relating to the Series B Preferred Stock, Series D Preferred Stock, Series E Preferred Stock and Series F Preferred Stock provide for voting rights in certain limited circumstances. On August 11, 2003, the Company initiated an adversary proceeding against the holders of such preferred stock seeking, among other things, to enjoin those holders from exercising purported rights to elect directors to Adelphia's Board due to Adelphia's failure to pay dividends and alleged breaches of certain covenants contained in applicable certificates of designation. On August 13, 2003, certain preferred stockholders filed an action in the Delaware Chancery Court seeking a declaratory judgment of their purported right to appoint two directors to Adelphia's Board (the "Delaware Action") and the Bankruptcy Court granted Adelphia a temporary restraining order, which, among other things, stayed the Delaware Action and temporarily enjoined preferred stockholders from exercising their purported rights to elect directors to Adelphia's Board. The Delaware Action has since been withdrawn.

The terms of the Series B Preferred Stock are discussed in Note 12, and the terms of the Series D, Series E and Series F Preferred Stock are discussed below.

Series D Preferred Stock. The Series D Preferred Stock accrues dividends at a rate of 5 1/2% per annum, has an aggregate liquidation preference of $575,000,000 and is convertible at any time into 7,059,546 shares of Class A Common Stock. The conversion ratio is subject to adjustment in certain circumstances. Dividends have been accrued in accordance with past management practices. Adelphia accrued aggregate cash dividends on the Series D Preferred Stock of $15,285,000 during 2002.

Series E Preferred Stock. The Series E Preferred Stock accrues dividends at a rate of 7 1/2% per annum, has an aggregate liquidation preference of $345,000,000, subject to adjustment, and is convertible at any time into shares of the Company's Class A Common Stock at $25.37 or 13,598,700 shares. All outstanding shares of Series E Preferred Stock were scheduled to be converted into shares of Class A Common Stock on November 15, 2004, at the then applicable conversion ratio. The conversion ratio is based upon the prior 20-day average market price of the Company's Class A Common Stock, subject to a minimum of 13,598,700 shares and a maximum of 16,046,500 shares at average market prices above $25.37 or below $21.50, respectively. Adelphia has entered into several stipulations postponing, to the extent applicable, the conversion date of both the Series E Preferred Stock and the Series F Preferred Stock. As a result of the continuing impact of the June 2002 bankruptcy filing on the Company's common stock price, the Company expects that the Series E Preferred Stock would convert into the maximum number of Class A Common Stock shares into which the Series E Preferred Stock may be converted, to the extent such conversion was not stayed by the commencement of the Chapter 11 Cases. Accordingly, the Company recognized a beneficial conversion feature of $2,553,500 based upon the expected $21.50 conversion price on its Series E Preferred Stock. Such deemed dividend has been allocated from the preferred stock carrying value to additional paid-in capital and is being accreted, on the interest method, through February 1, 2005. The accretion of the beneficial conversion feature was $1,059,000, $960,000 and $458,000 in 2004, 2003 and 2002, respectively, and has been recorded as part of net loss applicable to common stockholders in the accompanying consolidated statements of operations. Dividends have been accrued in accordance with past management practices. Dividends accrued on the Series E Preferred Stock aggregated $12,578,000 during 2002.

Series F Preferred Stock. On January 22, 2002, and in a related transaction on February 7, 2002, Adelphia issued 23,000,000 shares of Series F Preferred Stock with a liquidation preference of $575,000,000, subject to adjustment. The Series F Preferred Stock accrues dividends at a rate of 7 1/2% per annum and is convertible at any time into shares of the Company's Class A Common Stock at $29.99 or 19,172,800 shares. All outstanding shares of Series F Preferred Stock were scheduled to be converted into shares of Class A Common Stock on February 1, 2005, at the then applicable conversion ratio. The conversion ratio is based upon the prior 20-day average market price of the Company's Class A Common Stock, subject to a minimum of 19,172,800 shares and a maximum of 22,818,300 shares at average market prices above $29.99 or below $25.20, respectively. Adelphia has entered into several stipulations postponing, to the extent applicable, the conversion date of both the Series E Preferred Stock and the Series F Preferred Stock. As a result of the continuing impact of the June 2002 bankruptcy filing on the Company's common stock price, the Company expects that the Series F Preferred Stock would convert into the maximum number of Class A Common Stock shares into which the Series F Preferred Stock is convertible. Accordingly, the Company recognized a beneficial conversion feature of $16,866,000 based upon the expected $25.20 conversion price on its Series F Preferred Stock. Such deemed dividend has been allocated from the preferred stock carrying value to additional paid-in capital and is being accreted, on the interest method, through February 1, 2005. The accretion of the beneficial conversion feature was $6,948,000, $6,357,000 and $3,054,000 in 2004, 2003 and 2002, respectively, and has been recorded as part of net loss applicable to common stockholders in the accompanying consolidated statements of operations. Dividends have been accrued in accordance with past management practices. Dividends accrued on the Series F Preferred Stock aggregated $18,208,000 during 2002.

Note 14: Stock Compensation and Employee Benefit Plans

1998 Adelphia Long-Term Incentive Compensation Plan

During October 1998, Adelphia adopted its 1998 Long-Term Incentive Compensation Plan (the "1998 Plan"). The 1998 Plan, which was approved by the Adelphia stockholders, provides for the granting of: (i) options which qualify as "incentive stock options" within the meaning of Section 422 of the Internal Revenue Code; (ii) options which do not so qualify; (iii) share awards (with or without restriction on vesting); (iv) stock appreciation rights; and (v) stock equivalent awards or phantom units. The number of shares of Class A Common Stock authorized for issuance under the 1998 Plan is 7,500,000. Options, awards and units may be granted under the 1998 Plan to directors, officers, employees and consultants of the Company. The 1998 Plan provides that incentive stock options must be granted with an exercise price of not less than the fair market value of the underlying Class A Common Stock on the date of grant. Options outstanding under the 1998 Plan may be exercised by paying the exercise price per share through various alternative settlement methods. Certain options granted under the 1998 Plan vested immediately and others vest over periods of up to four years. Generally, options were granted with a purchase price equal to the fair value of the shares to be purchased as of the date of grant and the options had a maximum term of ten years. Since 2001, no awards have been granted pursuant to the 1998 Plan and the Company does not intend to grant any new awards pursuant to the 1998 Plan.

The following table summarizes the Company's stock option activity:

	2004 Options	WAEP*	2003 Options	WAEP*	2002 Options	WAEP*
Options outstanding, beginning of year	314,374	$42.83	696,663	$48.28	2,482,076	$45.28
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	(100)	8.68
Cancelled	(9,728)	40.51	(382,289)	52.77	(1,785,313)	44.12
Options outstanding, end of year	304,646	$42.90	314,374	$42.83	696,663	$48.28
Exercisable at end of year	292,646	$42.80	278,587	$42.65	544,359	$50.18

* WAEP represents weighted average exercise price.

The following table summarizes information about the Company's outstanding stock options at December 31, 2004:

	Options outstanding			Options exercisable		
Exercise price per share	Number of shares	Weighted average remaining contractual life (years)	WAEP* per share	Number of shares	Weighted average remaining contractual life (years)	WAEP* per share
$8.04-8.68	11,487	4.5	$8.42	11,487	4.5	$8.42
44.25	293,159	6.1	44.25	281,159	6.1	44.25
	304,646	6.0	$42.90	292,646	6.0	$42.80

* WAEP represents weighted average exercise price.

Phantom Stock Awards

The Company awarded phantom units for 1998 and 1999 to certain management employees which represented compensation bonuses based on Class A Common Stock performance. Such awards vested over three years from the date of grant. A decrease to compensation expense related to these phantom units of $1,607,000 was recorded by the Company during the year ended December 31, 2002. No phantom units were awarded during 2004, 2003 or 2002.

Employee Stock Purchase Plan

Effective January 1, 2002, the Company adopted and instituted an Employee Stock Purchase Plan ("ESPP"). Under the terms of the ESPP, eligible employees were able to authorize payroll deductions of up to 10% of their base compensation, as defined, to purchase Class A Common Stock at a price equal to the fair market value of Class A Common Stock as of the last trading day of each calendar quarter. Shares of Class A Common Stock to be acquired by Participants under the ESPP were purchased in open market transactions. At the end of the first stock purchase period under the ESPP, the quarter ended March 31, 2002, employees purchased 19,172 shares of Class A Common Stock. The ESPP was terminated effective April 2002.

401(k) Employee Savings Plan

The Company sponsors a tax-qualified retirement plan governed by Section 401(k) of the Internal Revenue Code, which provides that eligible full-time employees may contribute up to 25% of their pre-tax compensation subject to certain limitations. For 2003 and 2002, the Company made matching contributions not exceeding the lesser of $750 or 1.5% of each participant's pre-tax compensation. Effective January 1, 2004, the Company's matching contribution was increased to 100% of the first 3% and 50% of the next 2% of each participant's pre-tax compensation. The Company's contributions were $13,941,000, $4,294,000 and $3,883,000 during 2004, 2003 and 2002, respectively.

Short-Term Incentive Plan

The Company maintains a short-term incentive plan (the "STIP"), which is a calendar-year program that provides for the payment of annual bonuses to employees of the Company based upon the satisfaction of qualitative and quantitative metrics, as approved by the Compensation Committee of the Board. In general, in addition to certain general/area managers, full-time employees with a title of director and above are eligible to participate in the STIP. For 2004 and 2003, approximately 350 and 300 employees, respectively, were eligible to participate. Target awards under the STIP are based on a percentage of each participant's base pay. During the years ended December 31, 2004 and 2003, the Company accrued $9,614,000 and $7,353,000, respectively, related to the STIP.

Performance Retention Plan

The Company maintains the Performance Retention Plan (as amended, the "PRP"), which serves to replace equity-based long-term incentive plans previously maintained by the Company and to encourage key employees to remain with the Company by providing annual cash incentive awards based on the Company's performance. Adelphia's CEO and COO do not participate in the PRP. Target awards range from 25% to 200% of a participant's base salary, and the amount of each award is dependent on the Company's achievement of certain financial targets. Initial awards vest in 36 monthly installments starting at the end of each month one year following the month in which the participant begins participation in the PRP. Subsequent awards vest in 36 monthly installments starting as of January 31 of the year immediately following the plan year in which the award was granted. The PRP provides that in the event of a Change in Control (as defined in the PRP), the Compensation Committee of the Board may provide, in its discretion, that all awards (both vested and unvested) will be paid in cash on the date of such consummation of the Change in Control. In the event that the Compensation Committee of the Board makes such a determination, the unvested portion of all awards will be paid based on either the value established for each annual grant based on performance or 100% achievement of any unvalued grants. During the years ended December 31, 2004 and 2003, the Company accrued $8,822,000 and $2,323,000, respectively, related to the PRP.

Key Employee Retention Programs

On September 21, 2004, the Bankruptcy Court entered orders authorizing the Debtors to implement and adopt (i) the Adelphia Communications Corporation Key Employee Continuity Program (as amended, the "Stay Plan") and (ii) the Adelphia Communications Corporation Sale Bonus Program (as amended, the "Sale Plan"). On April 20, 2005, the Bankruptcy Court entered an order authorizing the Debtors to implement and adopt the Adelphia Communications Corporation Executive Vice President Continuity Program (the "EVP Stay Plan" and, together with the Stay Plan and the Sale Plan, the "Continuity Program"), and authorized the Executive Vice Presidents participation in the Sale Plan (the "EVP KERP Order"). The Continuity Program is designed to motivate certain employees (other than the CEO and COO of the Company) to remain with the Company. With respect to the Continuity Program, in the event that a Change in Control (as defined in the EVP Stay Plan, the Stay Plan and the Sale Plan) occurs, and all of the bonuses under the Continuity Program are payable, the total cost of the Continuity Program could reach approximately $34,100,000 (including approximately $1,400,000 payable under the EVP Stay Plan, approximately $9,800,000 payable under the Stay Plan, approximately $19,900,000 payable under the Sale Plan (including $1,850,000 payable to certain Executive Vice Presidents under the Sale Plan pursuant to the EVP KERP Order) and a $3,000,000 pool from which the CEO of Adelphia may grant additional stay or sale bonuses).

EVP Stay Plan. Subject to the terms of the EVP Stay Plan, certain employees of the Company with the title of Executive Vice President (the "EVP Stay Participants") are participants in the EVP Stay Plan and are eligible to receive a cash payment in the form of a bonus (the "EVP Stay Bonus") if, subject to certain limited exceptions, the EVP Stay Participants continue their active employment with the Company from the date such EVP Stay Participants are notified in writing that they have been selected for coverage under the EVP Stay Plan to the payroll date immediately following the earlier of the Effective Date or a Change in Control Date (as defined in the EVP Stay Plan). The CEO of Adelphia selects the EVP Stay Participants and, subject to the review and approval of the Compensation Committee of the Board, establishes the amount of each EVP Stay Participant's EVP Stay Bonus.

Stay Plan. Subject to the terms of the Stay Plan, certain employees of the Company (other than employees who participate in the EVP Stay Plan) (the "Stay Participants") may be eligible to receive a cash payment in the form of a bonus (the "Stay Bonus") if, subject to certain limited exceptions, the Stay Participants continue their active employment with the Company or their successors from the date such Stay Participants are notified in writing that they have been selected for coverage under the Stay Plan to the payroll date immediately following the nine-month anniversary of such date. The CEO of Adelphia selects the Stay Participants and, subject to the review and approval of the Compensation Committee of the Board, establishes the amount of each Stay Participant's Stay Bonus. During the year ended December 31, 2004, the Company accrued $3,302,000 related to the Stay Plan.

Sale Plan. Under the terms of the Sale Plan, certain employees of the Company (the "Sale Participants") may be eligible to receive cash payments in the form of a bonus (the "Sale Bonus") if, subject to certain limited exceptions, the Sale Participants continue their active employment with the Company or its successors until, and following, a Change in Control (as defined in the Sale Plan). Subject to certain exceptions, 50% of the Sale Bonus will be paid to eligible Sale Participants within 10 business days of the effective date of the Change in Control and the remaining 50% of the Sale Bonus will be paid to eligible Sale Participants upon a date that is within 10 business days of the six-month anniversary of such effective date. However, if a Sale Participant is terminated following a Change in Control without cause or due to death or disability or by the Sale Participant for "good reason" (as defined in the Sale Plan) after the required payment date for the first installment of the Sale Bonus, but prior to the payment date for the second installment of the Sale Bonus, then the Sale Participant will be entitled to receive any unpaid amounts of such bonus. The CEO of Adelphia will select the Sale Participants and, subject to the review and approval of the Compensation Committee of the Board, will establish the amount of each Sale Participant's Sale Bonus, subject to any aggregate amounts available under the Sale Plan. As of December 31, 2004, no bonuses had been granted under the Sale Plan.

Form of Amended and Restated Employment Agreement and New Form of Employment Agreement. The Company is seeking to (i) amend and restate all existing employment agreements ("Existing Employment Agreements") that the Company has with Vice Presidents ("VP") and Senior Vice Presidents ("SVP") by entering into the Form of Amended and Restated Employment Agreements (as approved by the Bankruptcy Court) with such VPs and SVPs and (ii) enter into a New Form Employment Agreement (as approved by the Bankruptcy Court) with VPs that are not currently a party to an Existing Employment Agreement and all new employees hired at the level of VP or SVP. As a result, all eligible VPs and SVPs will have agreements that reflect certain recently approved modifications, including (i) severance benefits upon resignation for "good reason" (as such term is defined in the relevant agreement); (ii) non-competition covenants (subject to applicable law); (iii) reimbursement for certain relocation expenses in the case of certain VPs and SVPs that are new hires or have relocated since March 2003 and are terminated under certain circumstances; and (iv) healthcare continuation coverage following a termination by the Company without Cause or by the VP or SVP with "good reason" for a period that is coterminous with their respective severance benefit. Certain VPs and SVPs that enter into the Form of Amended and Restated Employment Agreement or the New Form Employment Agreement, as the case may be, may also be eligible to participate in the Continuity Program and/or the PRP.

Amended and Restated Severance Program. Employees of the Company are currently afforded severance benefits either pursuant to Adelphia's existing severance plan, the Amended and Restated Adelphia Communications Corporation Severance Plan (the "Severance Plan"), or pursuant to an Existing Employment Agreement with the Company. Except for certain limited exceptions, all full-time employees of Adelphia and certain affiliates that do not have Existing Employment Agreements are covered by the Severance Plan, which provides for severance pay in the event of a termination without "Cause" (as defined in the Severance Plan). The modifications to the Severance Plan and the form of employment agreements (as described in the above paragraph) that were approved by the Bankruptcy Court pursuant to the order entered September 21, 2004 could cost the Company a maximum of $9,973,000 (including $5,723,000 in enhanced severance benefits and healthcare continuation, and $4,250,000 in relocation reimbursement expenses) if all Director-level employees, VPs and SVPs are to be involuntarily separated from the Company and all eligible VPs and SVPs qualified for the maximum amount of relocation reimbursement. Certain executive officers of Adelphia are not eligible to participate in the Severance Plan.

Note 15: Income Taxes

The Company files a consolidated federal income tax return with all of its 80%-or-more-owned subsidiaries. Consolidated subsidiaries in which the Company owns less than 80% each file a separate income tax return. The income tax expense of two of the Rigas Co-Borrowing Entities which are subject to income tax has been included below. The components of income tax benefit (expense) are as follows (amounts in thousands):

	Year ended December 31, 2004	2003	2002
Current:			
Federal	$ —	—	$ 1,957
State	8,796	8,468	1,585
Deferred:			
Federal	(5,220)	(109,858)	(83,848)
State	(776)	(15,396)	3,854
Income tax benefit (expense)	$ 2,800	(116,786)	$ (76,452)

Income tax benefit (expense) is included in the consolidated financial statements as follows (amounts in thousands):

	Year ended December 31, 2004	2003	2002
Loss from continuing operations before cumulative effects of accounting changes	$ 2,843	$ (117,378)	$ (76,620)
Other comprehensive income (loss)	(43)	592	168
Income tax benefit (expense)	$ 2,800	$ (116,786)	$ (76,452)

Significant components of the Company's net deferred tax liability are as follows (amounts in thousands):

	December 31, 2004	2003
Deferred tax liabilities:		
Property and equipment	$ (433,035)	$ (333,290)
Intangible assets other than goodwill	(702,013)	(691,831)
Interest expense not accrued due to bankruptcy filing	(705,322)	(473,465)
Investments	(39,962)	(32,154)
	(1,880,332)	(1,530,740)
Deferred tax assets:		
Net operating loss ("NOL") Carryforwards	4,187,286	3,381,295
Provision for uncollectible amounts due from the Rigas Family and Rigas Family Entities	891,174	1,146,072
Reorganization expenses due to bankruptcy	62,289	43,691
Deferred programming launch incentives	42,341	60,650
Goodwill with tax basis	356,562	369,484
Capital loss carryforward	54,660	54,660
Government settlement	247,361	—
Other	28,846	31,378
	5,870,519	5,087,230
Valuation allowance	(4,715,603)	(4,275,754)
	1,154,916	811,476
Net deferred tax liability	$ (725,416)	$ (719,264)
Current portion of net deferred tax liability	4,065	3,380
Noncurrent portion of net deferred tax liability	(729,481)	(722,644)
Net deferred tax liability	$ (725,416)	$ (719,264)

The net change in the valuation allowance for deferred tax assets is as follows (amounts in thousands):

	December 31, 2004	2003	2002
Change in valuation allowance, beginning of year	$ —	$ —	(729,479)
Other changes in valuation allowance	(438,602)	(291,168)	(1,691,143)
Change in valuation allowance included in income tax expense	(438,602)	(291,168)	(2,420,622)
Acquisitions and dispositions	—	—	838,576
Rigas Co-Borrowing Entities	(1,247)	—	—
Total change in valuation allowance	$ (439,849)	$ (291,168)	(1,582,046)

Due to a lack of earnings history, current bankruptcy situation, and impairment charges recognized with respect to franchise costs and goodwill, the Company cannot rely on forecasts of future earnings as a means to realize its deferred tax assets. The Company has determined that it is more likely than not that it will not realize certain deferred tax assets and, accordingly, has recorded valuation allowances associated with these deferred tax assets. As a result of the adoption of SFAS No. 142, effective January 1, 2002, the period of reversal for deferred tax liabilities related to franchise costs and goodwill can no longer be reasonably estimated. Consequently, the Company recorded an additional valuation allowance of $729,479,000 as the Company may not rely on the reversal of deferred tax liabilities associated with franchise costs and goodwill as a means to realize the Company's deferred tax assets.

During 2004, the Company re-evaluated the impact on its valuation allowance due to the timing of its reversing temporary differences, including its policy of netting the effect of reversing temporary differences associated with customer relationship intangible assets with intangible assets that have indefinite lives. As a result of this evaluation, the Company changed the expectations for scheduling the expected reversal of its deferred tax liabilities associated with these intangible assets and included in its income tax benefit for 2004 a $166,000,000 reduction in the valuation allowances on deferred tax assets related to current expectations for the reversal of its deferred tax liabilities.

SFAS No. 109, *Accounting for Income Taxes,* requires that any valuation allowance established for an acquired entity's deductible temporary differences at the date of acquisition that is subsequently recognized, first reduces goodwill and other noncurrent assets related to the acquisition and then reduces income tax expense. The amount of the valuation allowance for which subsequently recognized tax benefits will be allocated to reduce goodwill or other intangible assets of an acquired entity is $638,136,000.

The difference between the expected income tax benefit at the U.S. statutory federal income tax rate of 35% and the actual income tax benefit (expense) is as follows (amounts in thousands):

	Year ended December 31, 2004	2003	2002
Expected income tax benefit at the statutory federal income tax rate	$ 670,475	$ 246,948	$ 2,492,735
Change in valuation allowance—federal	(371,196)	(287,998)	(2,136,135)
Change in valuation allowance—state	(67,406)	(3,170)	(284,487)
State tax benefit, net of federal expense	72,394	(6,798)	289,350
Nondeductible goodwill amortization and impairment	—	—	(328,900)
Minority's interest and share of losses of equity affiliates	(14,186)	(8,338)	(22,428)
Cumulative effect of accounting change due to new accounting pronouncement	(206,074)	—	—
Expiration of NOL	(79,942)	(61,678)	(24,796)
Other	(1,265)	4,248	(61,791)
Income tax benefit (expense)	$ 2,800	$ (116,786)	$ (76,452)

In the event the Debtors emerge from bankruptcy: (i) these 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 the

Company's tax basis in its 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.

As of December 31, 2004, the Company had NOL carryforwards of approximately $10,700,000,000 and $8,500,000,000 for federal and state income tax purposes, respectively, expiring from 2005 to 2023. In addition, the Company has a capital loss carryforward of approximately $136,000,000, expiring from 2006 to 2008. Consolidated subsidiaries in which the Company owns less than an 80% interest had NOL carryforwards of $89,000,000 for federal and state income tax purposes expiring from 2004 to 2023. These amounts are based on the income tax returns filed for 2003 and certain adjustments to be reflected in amended returns that are expected to be filed for the 2003 tax year and prior periods. The Company expects to file amended federal and state income tax returns for 1999 through 2004. Such returns are subject to examination by federal and state taxing authorities, generally, for a period of three years after the NOL carryforward is utilized.

The Company believes that adequate provision has been made for tax positions that may be challenged by taxing authorities. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, the Company believes that the reserves reflect the probable outcome of known tax contingencies. Unfavorable settlement of any particular issue would require the use of cash. Favorable resolution could result in reduced income tax expense reported in the consolidated financial statements in the future. The tax reserves are generally presented in the balance sheet within other noncurrent liabilities. Certain tax reserve items may be settled through the bankruptcy process which could result in reduced income tax expense reported in the consolidated financial statements in the future.

The Company's income tax benefit (expense) for the years ended December 31, 2004, 2003 and 2002 has been calculated assuming the Company will continue as a going concern and does not reflect the impact the Sale Transaction may have on the Company's ability to utilize its NOL carryforwards or other tax attributes. If the Sale Transaction is consummated, a significant portion of the deferred tax assets will be realized and a significant portion of the valuation allowance will be released.

Note 16: Segments

The Company's only reportable operating segment is its "cable" segment. The cable segment includes the Company's cable system operations (including consolidated subsidiaries, equity method investments and variable interest entities) that provide the distribution of analog and digital video programming and HSI services to customers for a monthly fee through a network of fiber optic and coaxial cables. This segment also includes the Company's media services (advertising) sales business. Upon the adoption of FIN 46-R on January 1, 2004, the reportable cable segment also includes the operations of the Rigas Co-Borrowing Entities. See Note 5 for additional information. The reportable cable segment includes five operating regions that have been combined as one reportable segment, because all of such regions have similar economic characteristics. The Company identifies reportable segments as those consolidated segments that represent 10% or more of the combined revenue, net earnings or loss, or total assets of all of the Company's operating segments as of and for the period ended on the most recent balance sheet date presented. Operating segments that do not meet this threshold are aggregated for segment reporting purposes within the "corporate and other" column.

Selected financial information concerning the Company's current operating segments is presented below for the indicated periods (amounts in thousands):

	Cable	Corporate and other	Eliminations	Total
Operating and Capital Expenditure Data:				
Year ended December 31, 2004:				
Revenue	$ 4,103,339	$ 40,049	$ —	$ 4,143,388
Operating loss	(117,073)	(47,931)	—	(165,004)
Capital expenditures	(764,315)	(56,598)	—	(820,913)
Year ended December 31, 2003:				
Revenue	$ 3,524,021	$ 44,996	$ —	$ 3,569,017
Operating loss	(120,788)	(27,701)	—	(148,489)
Capital expenditures	(721,588)	(1,933)	—	(723,521)
Year ended December 31, 2002:				
Revenue	$ 3,167,680	$ 48,271	$ —	$ 3,215,951
Operating loss	(2,870,017)	(1,839,672)	—	(4,709,689)
Capital expenditures	(1,225,644)	(10,240)	—	(1,235,884)
Balance Sheet Information:				
Total assets				
As of December 31, 2004	$ 12,584,147	$ 4,889,623	$ (4,375,582)	$ 13,098,188
As of December 31, 2003	12,672,473	4,250,691	(3,726,423)	13,196,741

The Company did not derive more than 10% of its revenue from any one customer during 2004, 2003 and 2002. The Company's long-lived assets related to its foreign operations and investments were $6,394,000 and $9,837,000, as of December 31, 2004 and 2003, respectively. The Company's revenue related to its foreign operations was $13,412,000, $10,159,000 and $7,235,000 during 2004, 2003 and 2002, respectively. The Company's assets and revenue related to its foreign operations and investments were not significant to the Company's financial position or results of operations, respectively, during any of the periods presented.

Note 17: Commitments and Contingencies

Commitments

Future minimum lease payments under noncancelable capital and operating leases as of December 31, 2004, are set forth below (amounts in thousands):

	Minimum Lease Commitments	
Year ended December 31,	Capital	Operating
2005	$ 23,801	$ 20,550
2006	17,206	16,744
2007	259	13,638
2008	—	10,911
2009	—	8,412
Thereafter	—	40,157
Total minimum lease payments	$ 41,266	$ 110,412
Less:		
Amount representing interest	(1,609)	
Total	$ 39,657	
Less current portion	$ (39,657)	
Noncurrent portion	$ —	

Subject to the approval of the Bankruptcy Court, the Company may reject pre-petition executory contracts and unexpired leases. As such, the Company expects that its liabilities pertaining to leases, and the related amounts, may change significantly in the future. In addition, it is expected that, in the normal course of business, expiring leases will be renewed or replaced by leases on other properties.

The Company rents office and studio space, tower sites, and space on utility poles under leases with terms which are generally one to five years. Rental expense for the indicated periods is set forth below (amounts in thousands):

Year ended December 31,	
2004	$ 64,135
2003	$ 61,160
2002	$ 59,758

The Company's cable systems are typically constructed and operated under the authority of nonexclusive permits or "franchises" granted by local and/or state governmental authorities. Franchises contain varying provisions relating to the construction and/or operation of cable systems, including, in certain cases, the imposition of requirements to rebuild or upgrade cable systems or to extend the cable network to new residential developments. The Company's franchises also typically provide for periodic payments of fees of not more than 5% of gross revenue in the applicable franchise area to the governmental authority granting the franchise. Additionally, many franchises require payments to the franchising authority to fund the construction or improvement of facilities that are used to provide public, education and governmental ("PEG") access channels. The Company's minimum commitments under franchise agreements, including the estimated cost of fulfilling rebuild, upgrade and network extension commitments, and the fixed minimum amounts payable to franchise authorities for PEG access channels, are set forth in the following table. The amounts set forth in the table below do not include the variable franchise fee and PEG commitments that are described in the paragraph following this table (amounts in thousands):

Year ended December 31,	
2005	$ 25,485
2006	$ 18,387
2007	$ 37,658
2008	$ 12,497
2009	$ 10,185
Thereafter	$ 1,707

As described above, the Company is also obligated to make variable payments to franchise authorities for franchise fees and PEG access channels that are dependent on the amount of revenue generated or the number of subscribers served within the applicable franchise area. Such variable payments aggregated $130,073,000, $114,725,000 and $106,767,000 during 2004, 2003 and 2002, respectively.

The Company pays programming and license fees under multi-year agreements with expiration dates ranging through 2014. The amounts paid under these agreements are typically based on per customer fees, which may escalate over the term of the agreements. In certain cases, such per customer fees are subject to volume or channel line-up discounts and other adjustments. The Company incurred total programming expenses of $1,149,168,000, $1,056,820,000 and $958,485,000 during 2004, 2003 and 2002, respectively.

Contingencies

Reorganization Expenses due to Bankruptcy and Professional Fees

The Company is currently aware of certain success fees that potentially could be paid upon the Company's emergence from bankruptcy to third party financial advisers retained by the Company and Committees in connection with the Chapter 11 Cases. Currently, these success fees are estimated to be between $6,500,000 and $19,950,000 in the aggregate. In addition, the CEO and the COO of the Company are eligible to receive equity awards of Adelphia stock with a minimum aggregate fair value of $17,000,000 upon the Debtors' emergence from bankruptcy. The value of such equity awards will be determined based on the average trading price of the post-emergence common stock of Adelphia during the 15 trading days immediately preceding the 90th day following the date of emergence. These equity awards, which will be subject to vesting and trading restrictions, may be increased up to a maximum aggregate value of $25,500,000 at the discretion of the Board. As no plan of reorganization has been confirmed by the Bankruptcy Court, no accrual for such contingent payments or equity awards has been recorded in the accompanying consolidated financial statements.

Letters of Credit

The Company has 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. All such letters of credit will expire when the Second Extended DIP Facility expires unless adequately collateralized. Unless otherwise amended or extended, the Second Extended DIP Facility will expire no later than March 31, 2006. At December 31, 2004, the aggregate principal amount of letters of credit issued by the Company was $118,342,000 of which $117,452,000 was issued under the First Extended DIP Facility and $890,000 was collateralized by cash. Letters of credit issued under the DIP facilities reduce the amount that may be borrowed under the DIP facilities.

Litigation Matters

General. The Company follows SFAS No. 5, *Accounting for Contingencies*, in determining its accruals and disclosures with respect to loss contingencies. Accordingly, estimated losses from loss contingencies are accrued by a charge to income when information available indicates that it is probable that an asset had been impaired or a liability had been incurred and the amount of the loss can be reasonably estimated. If a loss contingency is not probable or reasonably estimable, disclosure of the loss contingency is made in the financial statements when it is reasonably possible that a loss may be incurred.

SEC Civil Action and DoJ Investigation. On July 24, 2002, the SEC Civil Action was filed against Adelphia, certain members of the Rigas Family and others, alleging various securities fraud and improper books and records claims arising out of actions allegedly taken or directed by certain members of the Rigas Family who held all of the senior executive positions at Adelphia and constituted five of the nine members of Adelphia's board of directors (none of whom remain with the Company).

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(Debtors-In-Possession)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

On December 3, 2003, the SEC filed a proof of claim in the Chapter 11 Cases against Adelphia for, among other things, penalties, disgorgement and prejudgment interest in an unspecified amount. The staff of the SEC told the Company's advisors that its asserted claims for disgorgement and civil penalties under various legal theories could amount to billions of dollars. On July 14, 2004, the Creditors' Committee initiated an adversary proceeding seeking, in effect, to subordinate the SEC's claims based on the SEC Civil Action.

On April 25, 2005, after extensive negotiations with the SEC and the U.S. Attorney, the Company entered into the Non-Prosecution Agreement, pursuant to which the Company agreed, among other things: (i) to contribute $715,000,000 in value to a fund to be established and administered by the United States Attorney General and the SEC for the benefit of investors harmed by the activities of prior management (the "Restitution Fund"); (ii) to continue to cooperate with the U.S. Attorney until the later of April 25, 2007, or the date upon which all prosecutions arising out of the conduct described in the Rigas Criminal Action (as described below) and SEC Civil Action are final; and (iii) not to assert claims against the Rigas Family except for John J. Rigas, Timothy J. Rigas and Michael J. Rigas (together, the "Excluded Parties"), provided that Michael J. Rigas will cease to be an Excluded Party if all currently pending criminal proceedings against him are resolved without a felony conviction on a charge involving fraud or false statements (other than false statements to the U.S. Attorney or the SEC).

The Company's contribution to the Restitution Fund will consist of stock, future proceeds of litigation and, assuming consummation of the Sale Transaction (or another sale generating cash of at least $10 billion), cash. In the event of a sale generating both stock and at least $10 billion in cash, as contemplated in the Sale Transaction, the components of the Company's contribution to the Restitution Fund will consist of $600,000,000 in cash and stock (with at least $200,000,000 in cash) and 50% of the first $230,000,000 of future proceeds, if any, from certain litigation against third parties who injured the Company. If, however, the Sale Transaction (or another sale) is not consummated and instead the Company emerges from bankruptcy as an independent entity, the $600,000,000 payment by the Company will consist entirely of stock in the reorganized Adelphia. Unless extended on consent of the U.S. Attorney and the SEC, which consent may not be unreasonably withheld, the Company must make these payments on or before the earlier of: (i) October 15, 2006; (ii) 120 days after confirmation of a stand-alone plan of reorganization; or (iii) seven days after the first distribution of stock or cash to creditors under any plan of reorganization. The Company recorded charges of $425,000,000 and $175,000,000 during 2004 and 2002, respectively, related to the Non-Prosecution Agreement. Such amounts are reflected in other expense, net in the accompanying consolidated statements of operations.

The U.S. Attorney agreed: (i) not to prosecute Adelphia or specified subsidiaries of Adelphia for any conduct (other than criminal tax violations) related to the Rigas Criminal Action (defined below) or the allegations contained in the SEC Civil Action; (ii) not to use information obtained through the Company's cooperation with the U.S. Attorney to criminally prosecute the Company for tax violations; and (iii) to convey to the Company all of the Rigas Co-Borrowing Entities forfeited by the Rigas Family and Rigas Family Entities, certain specified real estate forfeited by the Rigas Family and any securities of the Company that were directly or indirectly owned by the Rigas Family prior to forfeiture. The U.S. Attorney agreed with the Rigas Family not to require forfeiture of Coudersport and Bucktail (which together served approximately 5,000 subscribers (unaudited) in July 2005). A condition precedent to the Company's obligation to make the contribution to the Restitution Fund described in the preceding paragraph is the Company's receipt of title to the Rigas Co-Borrowing Entities, certain specified real estate and any securities described above forfeited by the Rigas Family and Rigas Family Entities, free and clear of all liens, claims, encumbrances, or adverse interests. The forfeited Rigas Co-Borrowing Entities anticipated to be conveyed to the Company, represent the overwhelming majority of the Rigas Co-Borrowing Entities' subscribers and value.

Also on April 25, 2005, the Company consented to the entry of a final judgment in the SEC Civil Action resolving the SEC's claims against the Company. Pursuant to this agreement, the Company will be permanently enjoined from violating various provisions of the federal securities laws, and the SEC has agreed that if the Company makes the $715,000,000 contribution to the Restitution Fund, then the Company will not be required to pay disgorgement or a civil monetary penalty to satisfy the SEC's claims.

Pursuant to letter agreements with TW NY and Comcast, the U.S. Attorney has agreed, notwithstanding any failure by the Company to comply with the Non-Prosecution Agreement, that it will not criminally prosecute any of the entities or their subsidiaries purchased from the Company by TW NY or Comcast (the "Transferred Joint Venture Entities") pursuant to the Sale Transaction. Under such letter agreements, each of TW NY and Comcast have agreed that following the closing of the Sale Transaction they will cooperate with the relevant governmental authorities' requests for information about the Company's operations, finances and corporate governance between 1997 and confirmation of the Plan. The sole and exclusive remedy against

TW NY or Comcast for breach of any obligation in the letter agreements is a civil action for breach of contract seeking specific performance of such obligations. In addition, TW NY and Comcast entered into letter agreements with the SEC agreeing that upon and after the closing of the Sale Transaction, TW NY, Comcast and their respective affiliates (including the Transferred Joint Venture Entities) will not be subject to, or have any obligation under, the final judgment consented to by the Company in the SEC Civil Action.

The Non-Prosecution Agreement was subject to the approval of, and has been approved by, the Bankruptcy Court. Adelphia's consent to the final judgment in the SEC Civil Action was subject to the approval of, and has been approved by, both the Bankruptcy Court and the District Court. Various parties have challenged and sought appellate review or reconsideration of the orders of the Bankruptcy Court and the District Court approving these settlements. The order of the District Court approving Adelphia's consent to the final judgment in the SEC Civil Action has not been appealed. Although appeals of the Bankruptcy Court's order are still pending, the appeals of the District Court's approval of the Government-Rigas Settlement Agreement (defined below) and the creation of the Restitution Fund have been denied by the United States Court of Appeals for the Second Circuit (the "Second Circuit"). That denial is currently the subject of a pending request for full court review by the Second Circuit.

Adelphia's Lawsuit Against the Rigas Family. On July 24, 2002, Adelphia filed a complaint in the Bankruptcy Court against John J. Rigas, Michael J. Rigas, Timothy J. Rigas, James P. Rigas, James Brown, Michael C. Mulcahey, Peter L. Venetis, Doris Rigas, Ellen Rigas Venetis and the Rigas Family Entities (the "Rigas Civil Action"). This action generally alleged the defendants misappropriated billions of dollars from the Company in breach of their fiduciary duties to Adelphia. On November 15, 2002, Adelphia filed an amended complaint against the defendants that expanded upon the facts alleged in the original complaint and alleged violations of the Racketeering Influenced and Corrupt Organizations ("RICO") Act, breach of fiduciary duty, securities fraud, fraudulent concealment, fraudulent misrepresentation, conversion, waste of corporate assets, breach of contract, unjust enrichment, fraudulent conveyance, constructive trust, inducing breach of fiduciary duty, and a request for an accounting (the "Amended Complaint"). The Amended Complaint sought relief in the form of, among other things, treble and punitive damages, disgorgement of monies and securities obtained as a consequence of the Rigas Family's improper conduct and attorneys' fees.

On April 25, 2005, Adelphia and the Rigas Family entered into a settlement agreement with respect to the Rigas Civil Action (the "Adelphia-Rigas Settlement Agreement"), pursuant to which Adelphia agreed, among other things: (i) to pay $11,500,000 to a legal defense fund for the benefit of the Rigas Family; (ii) to provide management services to Coudersport and Bucktail for an interim period through and including December 31, 2005 ("Interim Management Services"); (iii) to indemnify Coudersport and Bucktail, and the Rigas Family's (other than the Excluded Parties') interest therein, against claims asserted by the lenders under the Co-Borrowing Facilities with respect to such indebtedness up to the fair market value of those entities (without regard to their obligations with respect to such indebtedness); (iv) to provide certain members of the Rigas Family with certain indemnities, reimbursements or other protections in connection with certain third party claims arising out of Company litigation, and in connection with claims against certain members of the Rigas Family by any of the Tele-Media Joint Ventures or Century/ML Cable; and (v) within ten business days of the date on which the Forfeiture Order is entered, dismiss the Rigas Civil Action except for claims against the Excluded Parties. The Rigas Family agreed: (i) to make certain tax elections, under certain circumstances, with respect to the Rigas Co-Borrowing Entities (other than Coudersport and Bucktail); (ii) to pay Adelphia five percent of the gross operating revenue of Coudersport and Bucktail for the Interim Management Services; and (iii) to offer employment to certain Coudersport and Bucktail employees on terms and conditions that, in the aggregate, are no less favorable to such employees (other than any employees who were expressly excluded by written notice to Adelphia received by July 1, 2005) than their terms of employment with the Company.

Pursuant to the Adelphia-Rigas Settlement Agreement, on June 21, 2005, the Company filed a dismissal with prejudice of all claims in this action except against the Excluded Parties.

This settlement was subject to the approval of, and has been approved by, the Bankruptcy Court. Various parties have challenged and sought appellate review or reconsideration of the order of the Bankruptcy Court approving this settlement. The appeals of the Bankruptcy Court's approval remain pending.

Rigas Criminal Action. In connection with an investigation conducted by the DoJ, on July 24, 2002, certain members of the Rigas Family and certain alleged co-conspirators were arrested, and on September 23, 2002, were indicted by a grand jury on charges including fraud, securities fraud, bank fraud and conspiracy to commit fraud (the "Rigas Criminal Action"). On November 14, 2002, one of the Rigas Family's alleged co-conspirators, James Brown, pleaded guilty to one count each of conspiracy, securities fraud and bank fraud. On January 10, 2003, another of the Rigas Family's alleged co-conspirators, Timothy Werth, who had not been arrested with the others on July 24, 2002, pleaded guilty to one count each of securities fraud, conspiracy to commit securities fraud, wire fraud and bank fraud. The trial in the Rigas Criminal Action began on February 23, 2004 in the District Court. On July 8, 2004, the jury returned a partial verdict in the Rigas Criminal Action. John J. Rigas and Timothy J. Rigas were each found guilty of conspiracy (one count), bank fraud (two counts), and securities fraud (15 counts) and not guilty of wire fraud (five counts). Michael J. Mulcahey was acquitted of all 23 counts against him. The jury found Michael J. Rigas not guilty of conspiracy and wire fraud, but remained undecided on the securities fraud and bank fraud charges against him. On July 9, 2004, the court declared a mistrial on the remaining charges against Michael J. Rigas after the jurors were unable to reach a verdict as to those charges. The bank fraud charges against Michael J. Rigas have since been dismissed with prejudice. The District Court has set January 9, 2006 as the date for the retrial of Michael J. Rigas on the securities fraud charges. On March 17, 2005, the District Court denied the motion of John J. Rigas and Timothy J. Rigas for a new trial. On June 20, 2005, John J. Rigas and Timothy J. Rigas were convicted and sentenced to 15 years and 20 years in prison, respectively. John J. Rigas and Timothy J. Rigas have appealed their convictions and sentences and remain free on bail pending resolution of their appeals.

The indictment against the Rigas Family included a request for entry of a money judgment in an amount exceeding $2,500,000,000 and for entry of an order of forfeiture of all interests of the convicted Rigas defendants in the Rigas Family Entities. On December 10, 2004, the DoJ filed an application for a preliminary order of forfeiture finding John J. Rigas and Timothy J. Rigas jointly and severally liable for personal money judgments in the amount of $2,533,000,000.

On April 25, 2005, the Rigas Family and the U.S. Attorney entered into a settlement agreement (the "Government-Rigas Settlement Agreement"), pursuant to which the Rigas Family agreed to forfeit: (i) all of the Rigas Co-Borrowing Entities with the exception of Coudersport and Bucktail; (ii) certain specified real estate and (iii) all securities in the Company directly or indirectly owned by the Rigas Family. The U.S. Attorney agreed: (i) not to seek additional monetary penalties from the Rigas Family, including the request for a money judgment as noted above; (ii) from the proceeds of certain assets forfeited by the Rigas Family, to establish the Restitution Fund for the purpose of providing restitution to holders of the Company's publicly traded securities; and (iii) to inform the District Court of this agreement at the sentencing of John J. Rigas and Timothy J. Rigas.

Pursuant to the Forfeiture Order, all right, title and interest of the Rigas Family and Rigas Family Entities in the Rigas Co-Borrowing Entities (other than Coudersport and Bucktail), certain specified real estate and any securities of the Company were forfeited to the United States on June 8, 2005, and such assets and securities are expected to be conveyed (subject to forfeiture proceedings before a federal judge to determine if there are any superior claims) to the Company pursuant to the Non-Prosecution Agreement. On August 19, 2005, the Company filed a petition with the District Court seeking an order conveying title to these assets and securities to the Company. A status report from the government to the District Court regarding the forfeiture proceedings is due on November 4, 2005. To date, one other petition has been filed, asserting a claim against certain real property.

The Company was not a defendant in the Rigas Criminal Action, but was under investigation by the DoJ regarding matters related to alleged wrongdoing by certain members of the Rigas Family. Upon approval of the Non-Prosecution Agreement, Adelphia and specified subsidiaries are no longer subject to criminal prosecution (other than for criminal tax violations) by the U.S. Attorney for any conduct related to the Rigas Criminal Action or the allegations contained in the SEC Civil Action so long as the Company complies with its obligations under the Non-Prosecution Agreement.

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

In particular, beginning on April 2, 2002, various groups of plaintiffs filed more than 30 class action complaints, purportedly on behalf of certain of the Company's shareholders and bondholders or classes thereof in federal court in Pennsylvania. Several non-class action lawsuits were brought on behalf of individuals or small groups of security holders in federal courts in Pennsylvania, New York, South Carolina and New Jersey, and in state courts in New York, Pennsylvania, California and Texas. Seven derivative suits were also filed in federal and state courts in Pennsylvania, and four derivative suits were filed in state court in Delaware. On May 6, 2002, a notice and proposed order of dismissal without prejudice was filed by the plaintiff in one of these four Delaware derivative actions. The remaining three Delaware derivative actions were consolidated on May 22, 2002. On February 10, 2004, the parties stipulated and agreed to the dismissal of these consolidated actions with prejudice.

The complaints, which named as defendants the Company, certain former officers and directors of the Company and, in some cases, the Company's former auditors, lawyers, as well as financial institutions who worked with the Company, generally allege that, among other improper statements and omissions, defendants misled investors regarding the Company's liabilities and earnings in the Company's public filings. The majority of these actions assert claims under Sections 10(b) and 20(a) of the Exchange

Act and SEC Rule 10b-5. Certain bondholder actions assert claims for violation of Section 11 and/or Section 12(a) (2) of the Securities Act of 1933. Certain of the state court actions allege various state law claims.

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

On September 15, 2003, proposed lead plaintiffs and proposed co-lead counsel in the consolidated class action were appointed in the MDL Proceedings. On December 22, 2003, lead plaintiffs filed a consolidated class action complaint. Motions to dismiss have been filed by various defendants. On May 27, 2005 and August 16, 2005, the District Court granted in part and denied in part some of the pending motions and provided the plaintiffs limited ability to replead the dismissed claims. As a result of the filing of the Chapter 11 Cases and the protections of the automatic stay, the Company is not named as a defendant in the amended complaint, but is a non-party. The consolidated class action complaint seeks monetary damages of an unspecified amount, rescission and reasonable costs and expenses and such other and future relief as the court may deem just and proper. The individual actions against the Company also seek damages of an unspecified amount.

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

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

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

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

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

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

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

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

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

ML Media Litigation. Adelphia and ML Media have been involved in a longstanding dispute concerning Century/ML Cable's management, the buy/sell rights of ML Media and various other matters.

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

In connection with the December 13, 2001 settlement of the above dispute, Adelphia, Century/ML Cable, ML Media and Highland entered into the Recap Agreement, pursuant to which Century/ML Cable agreed to the Redemption on or before September 30, 2002 for a purchase price between $275,000,000 and $279,800,000 depending on the timing of the Redemption, plus interest. Among other things, the Recap Agreement provided that: (i) Highland would arrange debt financing for the Redemption; (ii) Highland, Adelphia and Century would jointly and severally guarantee debt service on debt financing for the Redemption on and after the closing of the Redemption; and (iii) Highland and Century would own 60% and 40% interests, respectively, in the recapitalized Century/ML Cable. Under the terms of the Recap Agreement, Century's 50% interest in Century/ML Cable was pledged to ML Media as collateral for the Company's obligations.

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

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

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

ML Media has alleged that it is entitled to elect recovery of either $279,800,000 plus costs and interest in exchange for its interest in Century/ML Cable, or up to the difference between $279,800,000 and the fair market value of its interest in Century/ML Cable, plus costs, interest and revival of the state court claims described above. Adelphia, Century and Century/ML Cable have disputed ML Media's claims, and the Plan contemplates that ML Media will receive no distribution until such dispute is resolved.

On June 3, 2005, Century and ML Media entered into the IAA to sell their interests in Century/ML Cable for $520,000,000 (subject to certain potential purchase price adjustments as defined in the IAA) to San Juan Cable. Consummation of the sale is subject to approval by the Bankruptcy Court in Century/ML Cable's separate Chapter 11 case, confirmation of a plan of reorganization of Century/ML Cable, the receipt of financing by the buyers and other customary conditions, many of which are outside the control of Century/ML Cable, Century and ML Media. There can be no assurance whether or when such conditions will be satisfied. The sale of Century/ML Cable will not resolve the pending litigation among Adelphia, Century, Highland, Century/ML Cable and ML Media.

On August 9, 2005, Century/ML Cable filed its Century/ML Plan and Century/ML Disclosure Statement with the Bankruptcy Court. By order dated August 18, 2005, the Bankruptcy Court approved the Century/ML Disclosure Statement. On September 7, 2005, the Bankruptcy Court confirmed the Century/ML Plan. The Century/ML Plan is designed to satisfy the conditions of the IAA with San Juan Cable and provides that all third-party claims will either be paid in full or assumed by San Juan Cable under the terms set forth in the IAA. Consummation of the Century/ML Plan is subject to certain conditions, including the concurrent sale of the interests in Century/ML Cable pursuant to the IAA. There can be no assurance whether or when such conditions will be satisfied. The Century/ML Plan, if consummated, will not resolve the pending litigation among Adelphia, Century, Highland, Century/ML Cable and ML Media.

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

The X Clause Litigation. On December 29, 2003, the Ad Hoc Committee of holders of Adelphia's 6% and 3.25% subordinated notes (collectively, the "Subordinated Notes"), together with the Bank of New York, the indenture trustee for the Subordinated Notes (collectively, the "X Clause Plaintiffs"), commenced an adversary proceeding against Adelphia in the Bankruptcy Court. The X Clause Plaintiffs' complaint sought a judgment declaring that the subordination provisions in the indentures for the Subordinated Notes were not applicable to an Adelphia plan of reorganization in which constituents receive common stock of Adelphia and that the Subordinated Notes are entitled to a share *pari passu* in the distribution of any common stock of Adelphia given to holders of senior notes of Adelphia. Recently, the X Clause Plaintiffs have asserted that the subordination provisions in the indentures for the Subordinated Notes also are not applicable to an Adelphia plan of reorganization in which constituents receive common stock of Time Warner and that the Subordinated Notes would therefore be entitled to share *pari passu* in the distribution of any such Time Warner stock given to holders of senior notes of Adelphia. The Debtors dispute this position and have agreed to present the issue to the Bankruptcy Court prior to confirmation of a plan of reorganization.

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

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

Verizon Franchise Transfer Litigation. On March 20, 2002, the Company commenced an action (the "California Cablevision Action") in the United States District Court for the Central District of California, Western Division, seeking, among other things, declaratory and injunctive relief precluding the City of Thousand Oaks, California (the "City") from denying permits on the grounds that the Company failed to seek the City's prior approval of an asset purchase agreement (the "Asset Purchase Agreement"), dated December 17, 2001, between the Company and Verizon Media Ventures. Pursuant to the Asset Purchase Agreement, the Company acquired certain Verizon Media Ventures cable equipment and network system assets (the "Verizon Cable Assets") located in the City for use in the operation of the Company's cable business in the City.

On March 25, 2002, the City and Ventura County (the "County") commenced an action (the "Thousand Oaks Action") against the Company and Verizon Media Ventures in California State Court alleging that Verizon Media Ventures' entry into the Asset Purchase Agreement and conveyance of the Verizon Cable Assets constituted a breach of Verizon Media Ventures' cable franchises and that the Company's participation in the transaction amounted to actionable tortious interference with those franchises. The City and the County sought injunctive relief to halt the sale and transfer of the Verizon Cable Assets pursuant to the Asset Purchase Agreement and to compel the Company to treat the Verizon Cable Assets as a separate cable system.

On March 27, 2002, the Company and Verizon Media Ventures removed the Thousand Oaks Action to the United States District Court for the Central District of California, where it was consolidated with the California Cablevision Action.

On April 12, 2002, the district court conducted a hearing on the City's and County's application for a preliminary injunction and, on April 15, 2002, the district court issued a temporary restraining order in part, pending entry of a further order. On May 14, 2002, the district court issued a preliminary injunction and entered findings of fact and conclusions of law in support thereof (the "May 14, 2002 Order"). The May 14, 2002 Order, among other things: (i) enjoined the Company from integrating the Company's and Verizon Media Ventures' system assets serving subscribers in the City and the County; (ii) required the Company to return "ownership" of the Verizon Cable Assets to Verizon Media Ventures except that the Company was permitted to continue to "manage" the assets as Verizon Media Ventures' agent to the extent necessary to avoid disruption in services until Verizon Media Ventures chose to reenter the market or sell the assets; (iii) prohibited the Company from eliminating any programming options that had previously been selected by Verizon Media Ventures or from raising the rates charged by Verizon Media Ventures; and (iv) required the Company and Verizon Media Ventures to grant the City and/or the County access to system records, contracts, personnel and facilities for the purpose of conducting an inspection of the then-current "state of the Verizon Media Ventures and the Company systems" in the City and the County. The Company appealed the May 14, 2002 Order and on April 1, 2003, the U.S. Court of Appeals for the Ninth Circuit reversed the May 14, 2002 Order, thus removing any restrictions that had been imposed by the district court against the Company's integration of the Verizon Cable Assets, and remanded the actions back to the district court for further proceedings.

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

Accordingly, on October 2, 2003, the Company filed a motion for a preliminary injunction in the district court seeking to enjoin the City from refusing to grant the Company's construction permit requests. On November 3, 2003, the district court granted the Company's motion for a preliminary injunction, finding that the Company had demonstrated "a strong likelihood of success on the merits." Thereafter, the parties agreed to informally stay the litigation pending negotiations between the Company and the City for the Company's renewal of its cable franchise, with the intent that such negotiations would also lead to a settlement of the pending litigation. However, on September 16, 2004, at the City's request, the court set certain procedural dates, including a trial date of July 12, 2005, which has effectively re-opened the case to active litigation. Subsequently, the July 12, 2005 trial date was vacated pursuant to a stipulation and order. On July 11, 2005, the district court referred the matter to a United States magistrate judge for settlement discussions. On September 6, 2005, the magistrate judge scheduled a settlement conference for October 20, 2005.

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

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

On or about December 13, 2002, Adelphia moved to dismiss the adversary proceeding on several bases, including that the complaint fails to state a claim for which relief can be granted and that the matters alleged therein should be resolved in the claims process. The Bankruptcy Court granted Adelphia's motion to dismiss and dismissed the adversary proceeding on May 3, 2005. In the Bankruptcy Court, Mr. Dibbern has also objected to the provisional disallowance of his proofs of claim which comprised a portion of the Bankruptcy Court's May 3, 2005 order. Mr. Dibbern appealed the May 3, 2005 order dismissing his claims to the District Court. In an August 30, 2005 decision, the District Court affirmed the dismissal of Mr. Dibbern's claims for violation of the Pennsylvania Consumer Protection Law, a constructive trust and an accounting, but reversed the dismissal of Mr. Dibbern's breach of contract, fraud and unjust enrichment claims. These three claims will proceed in the Bankruptcy Court and an answer is due from Adelphia by October 7, 2005.

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

Tele-Media Examiner Motion. By motion filed in the Bankruptcy Court on August 5, 2004, Tele-Media Corporation of Delaware ("TMCD") and certain of its affiliates sought the appointment of an examiner for the following Debtors: Tele-Media Company of Tri-States, L.P., CMA Cablevision Associates VII, L.P., CMA Cablevision Associates XI, L.P., TMC Holdings Corporation, Adelphia Company of Western Connecticut, TMC Holdings, LLC, Tele-Media Investment Limited Partnership, L. P., Eastern Virginia Cablevision, L.P., Tele-Media Company of Hopewell Prince George, and Eastern Virginia Cablevision Holdings, LLC (collectively, the "JV Entities"). Among other things, TMCD alleged that management and the Board breached their fiduciary obligations to the creditors and equity holders of those entities. Consequently, TMCD sought the appointment of an examiner to investigate and make recommendations to the Bankruptcy Court regarding various issues related to such entities.

On April 14, 2005, the Debtors filed a motion with the Bankruptcy Court seeking approval of a global settlement agreement (the "Tele-Media Settlement Agreement") by and among the Debtors and TMCD and certain of its affiliates (the "Tele-Media Parties"), which, among other things: (i) transfers the Tele-Media Parties' ownership interests in the JV Entities to the Debtors, leaving the Debtors 100% ownership of the JV Entities; (ii) requires the Debtors to make a settlement payment to the Tele-Media Parties of $21,650,000; (iii) resolves the above-mentioned examiner motion; (iv) settles two pending avoidance actions brought by the Debtors against certain of the Tele-Media Parties; (v) reconciles 691 separate proofs of claim filed by the Tele-Media Parties, thereby allowing claims worth approximately $5,500,000 and disallowing approximately $1.9 billion of claims; (vi) requires the Tele-Media Parties to make a $912,500 payment to the Debtors related to workers' compensation policies; and (vii) effectuates mutual releases between the Debtors and the Tele-Media Parties. The Tele-Media Settlement Agreement was approved by an order of the Bankruptcy Court dated May 11, 2005 and closed on May 26, 2005.

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

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

The Bank Complaint contains 52 claims for relief to redress the claimed wrongs and abuse committed by the agents, lenders and other entities. The Bank Complaint seeks to, among other things: (i) recover as fraudulent transfers the principal and interest paid by the Company to the defendants; (ii) avoid as fraudulent obligations the Company's obligations, if any, to repay the defendants; (iii) recover damages for breaches of fiduciary duties to the Company and for aiding and abetting fraud and breaches of fiduciary duties by the Rigas Family; (iv) equitably disallow, subordinate or recharacterize each of the defendants' claims in the Chapter 11 Cases; (v) avoid and recover certain allegedly preferential transfers made to certain defendants; and (vi) recover damages for violations of the Bank Holding Company Act.

Numerous motions seeking to defeat the Pre-petition Lender Litigation were filed by the defendants and the Bankruptcy Court held a hearing on such issues. The Equity Committee has filed a motion seeking authority to bring additional claims against the pre-petition lenders pursuant to the RICO Act. The Bankruptcy Court heard oral argument on these motions on December 20 and December 21, 2004. The Bankruptcy Court has not yet ruled on the motions to dismiss. In a memorandum decision dated August 30, 2005, the Bankruptcy Court granted the motions of both the Creditors' Committee and the Equity Committee for standing to prosecute these claims.

Under the Plan, the Debtors may seek to compromise and settle, in part, the Pre-petition Lender Litigation, including through the dismissal of certain claims and the release of certain defendants.

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

Devon Mobile Claim. Pursuant to the Devon Mobile Limited Partnership Agreement, the Company owned a 49.9% limited partnership interest in Devon Mobile, which, through its subsidiaries, held licenses to operate regional wireless telephone businesses in several states. Devon Mobile had certain business and contractual relationships with the Company and with former subsidiaries or divisions of the Company, which were spun off as TelCove in January 2002.

In late May 2002, the Company notified Devon G.P., the general partner of Devon Mobile, that it would likely terminate certain discretionary operational funding to Devon Mobile. On August 19, 2002, Devon Mobile and certain of its subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code with the Devon Mobile Bankruptcy Court.

On January 17, 2003, the Company filed proofs of claim and interest against Devon Mobile and its subsidiaries for approximately $129,000,000 in debt and equity claims, as well as an additional claim of approximately $35,000,000 relating to the Company's guarantee of certain Devon Mobile obligations (collectively, the "Company Claims"). By order dated October 1, 2003, the Devon Mobile Bankruptcy Court confirmed Devon Mobile's First Amended Joint Plan of Liquidation (the "Devon Plan"). The Devon Plan became effective on October 17, 2003, at which time the Company's limited partnership interest in Devon Mobile was extinguished.

On or about January 8, 2004, Devon Mobile filed proofs of claim in the Chapter 11 Cases seeking, in the aggregate, approximately $100,000,000 in respect of, among other things, certain cash transfers alleged to be either preferential or fraudulent and claims for deepening insolvency, alter ego liability and breach of an alleged duty to fund Devon Mobile operations, all of which arose prior to the commencement of the Chapter 11 Cases (the "Devon Claims"). On June 21, 2004, Devon Mobile commenced an adversary proceeding in the Chapter 11 Cases (the "Devon Adversary Proceeding") through the filing of a complaint (the "Devon Complaint"), which incorporates the Devon Claims. On August 20, 2004, the Company filed an answer and counterclaim in response to the Devon Complaint denying the allegations made in the Devon Complaint and asserting various counterclaims against Devon Mobile, which encompassed the Company Claims. On November 22, 2004, the Company filed a motion for leave (the "Motion for Leave") to file a third party complaint for contribution and indemnification against Devon G.P. and Lisa-Gaye Shearing Mead, the sole owner and President of Devon G.P. By endorsed order entered January 12, 2005, Judge Robert E. Gerber, the judge presiding over the Chapter 11 Cases and the Devon Adversary Proceeding, granted a recusal request made by counsel to Devon G.P. On January 21, 2005, the Devon Adversary Proceeding was reassigned from Judge Gerber to Judge Cecelia G. Morris. By an order dated April 5, 2005, Judge Morris denied the Motion for Leave and a subsequent motion for reconsideration. On May 13, 2005, the court entered an Amended Pretrial Scheduling Order extending the time for discovery and scheduled a pretrial conference for March 1, 2006, with a five day trial to be scheduled thereafter. Discovery is ongoing.

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

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

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

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

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

Adelphia's Lawsuit Against Deloitte. On November 6, 2002, Adelphia sued Deloitte & Touche LLC ("Deloitte"), Adelphia's former independent auditors, in the Court of Common Pleas for Philadelphia County. The lawsuit seeks damages against Deloitte based on Deloitte's alleged failure to conduct an audit in compliance with generally accepted auditing standards, and for providing an opinion that Adelphia's financial statements conformed with GAAP when Deloitte allegedly knew or should have known that they did not conform. The complaint further alleges that Deloitte knew or should have known of alleged misconduct and misappropriation by the Rigas Family, and other alleged acts of self-dealing, but failed to report these alleged misdeeds to the Board or others who could have and would have stopped the Rigas Family's misconduct. The complaint raises claims of professional negligence, breach of contract, aiding and abetting breach of fiduciary duty, fraud, negligent misrepresentation and contribution.

Deloitte filed preliminary objections seeking to dismiss the complaint, which were overruled by the court by order dated June 11, 2003. On September 15, 2003, Deloitte filed an answer, a new matter and various counterclaims in response to the complaint. In its counterclaims, Deloitte asserted causes of action against Adelphia for breach of contract, fraud, negligent misrepresentation and contribution. Also on September 15, 2003, Deloitte filed a related complaint naming as additional defendants John J. Rigas, Timothy J. Rigas, Michael J. Rigas, and James P. Rigas. In this complaint, Deloitte alleges causes of action for fraud, negligent misrepresentation and contribution. The Rigas defendants, in turn, have claimed a right to contribution and/or indemnity from Adelphia for any damages Deloitte may recover against the Rigas defendants. On January 9, 2004, Adelphia answered Deloitte's counterclaims. Deloitte moved to stay discovery in this action until completion of the Rigas Criminal Action, which Adelphia opposed. Following the motion, discovery was effectively stayed for 60 days but has now commenced. Deloitte and Adelphia have exchanged documents and have begun substantive discovery. On June 9, 2005, the court entered a case management order stating that (i) all discovery shall be completed by December 5, 2005 and (ii) the case be ready for trial by April 3, 2006.

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

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

Adelphia has subsequently entered into several stipulations further postponing, to the extent applicable, the conversion date of the Series E Preferred Stock. Adelphia has also entered into several stipulations postponing, to the extent applicable, the conversion date of the Series F Preferred Stock which was initially convertible into shares of Class A Common Stock on February 1, 2005.

EPA Self Disclosure and Audit. On June 2, 2004, the Company orally self-disclosed potential violations of environmental laws to the United States Environmental Protection Agency ("EPA") pursuant to EPA's Audit Policy, and notified EPA that it intended to conduct an audit of its operations to identify and correct any such violations. The potential violations primarily concern reporting and recordkeeping requirements arising from the Company's storage and use of petroleum and batteries to provide backup power for its cable operations. This matter is at an early stage, but based on current facts, the Company does not anticipate that this matter will have a material adverse effect on the Company's results of operations or financial condition.

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

Note 18: Other Financial Information

Supplemental Cash Flow Information

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

	December 31,		
	2004	2003	2002
Cash paid for interest	$ 392,053	$ 379,423	$ 660,801
Capitalized interest	$ (10,401)	$ (21,643)	$ (37,010)
Cash paid for income taxes	$ 100	$ 461	$ 175

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,	
	2004	2002
Net property and equipment distributed to TelCove in the Global Settlement (Note 7)	$ 37,144	—
Net assets of entities acquired in exchange for issuance of Class A Common Stock (Note 8)	$ —	46,470
Purchase of Adelphia 3.25% Notes by Other Rigas Entities (Note 6)	$ —	393,569
Increase in additional paid-in capital due to TelCove Spin-off (Note 7)	$ —	1,346,500
Assets acquired under capital leases	$ —	11,244

Cost and Other Investments

The Company's investments in available-for-sale securities, common stock and other cost investments aggregated $3,569,000 and $8,188,000 at December 31, 2004 and 2003, respectively and are included in other noncurrent assets, net in the accompanying consolidated balance sheets.

The fair value of the Company's available-for-sale equity securities and the related unrealized holding gains and losses are summarized below. Such unrealized gains and losses are included as a component of accumulated other comprehensive loss, net in the accompanying consolidated balance sheets (amounts in thousands):

	December 31,		
	2004	2003	2002
Fair value	$ 1,966	$ 2,159	$ 739
Gross unrealized holding gains	$ 1,388	$ 1,495	$ 15
Gross unrealized holding losses	$ (7)	$ (7)	$ —

The Company recognized impairment losses as a result of other-than-temporary declines in the fair value of the Company's investments in available-for-sale securities, common stock and other cost investments of $3,801,000, $8,544,000 and $6,531,000 in 2004, 2003 and 2002, respectively. The Company recognized gains (losses) of $292,000, $3,574,000 and ($4,077,000) in 2004, 2003 and 2002, respectively, related to the sale of cost and other investments. Such impairments and gains (losses) are reflected in other expense, net in the accompanying consolidated statements of operations.

Accrued Liabilities

The details of accrued liabilities are set forth below (amounts in thousands):

	December 31, 2004	December 31, 2003
Programming costs	$ 106,511	$ 82,100
Interest	67,671	29,642
Payroll	62,591	46,868
Franchise fees	58,178	53,653
Other	240,973	199,808
Total	$ 535,924	$ 412,071

Accumulated other comprehensive loss

Accumulated other comprehensive loss, net included in the Company's consolidated balance sheets and consolidated statements of stockholders' equity reflect the aggregate of foreign currency translation adjustments and unrealized holding gains and losses on securities. The change in the components of accumulated other comprehensive income (loss), net of taxes, is set forth below (amounts in thousands):

	Foreign currency translation adjustments	Unrealized gains (losses) on securities	Total
Balance at January 1, 2002	$ (8,453)	$ (242)	$ (8,695)
Other comprehensive income (loss)	(10,310)	251	(10,059)
Balance at December 31, 2002	(18,763)	9	(18,754)
Other comprehensive income	8,193	881	9,074
Balance at December 31, 2003	(10,570)	890	(9,680)
Other comprehensive loss	(1,821)	(64)	(1,885)
Balance at December 31, 2004	$ (12,391)	$ 826	$ (11,565)

Transactions With Other Officers and Directors

In a letter agreement between Adelphia and FPL Group, Inc. ("FPL Group") dated January 21, 1999, Adelphia agreed to (i) repurchase 20,000 shares of Series C Preferred Stock and 1,091,524 shares of Class A Common Stock owned by Telesat Cablevision, Inc., a subsidiary of FPL Group ("Telesat") and (ii) transfer all of the outstanding common stock of West Boca Security, Inc. ("WB Security"), a subsidiary of Olympus Communications, L.P. ("Olympus"), to FPL Group in exchange for FPL Group's 50% voting interest and 1/3 economic interest in Olympus. The Company owned the economic and voting interests in Olympus that were not then owned by FPL Group. At the time this agreement was entered into, Dennis Coyle, then a member of the Adelphia Board of Directors, was the General Counsel and Secretary of FPL Group. WB Security was a subsidiary of Olympus and WB Security's sole asset was a $108,000,000 note receivable (the "WB Note") from a subsidiary of Olympus that was secured by the FPL Group's ownership interest in Olympus and due September 1, 2004. On January 29, 1999, Adelphia purchased all of the aforementioned shares of Series C Preferred Stock and Class A Common Stock described above from Telesat for aggregate cash consideration of $149,213,000, and on October 1, 1999, the Company acquired FPL Group's interest in Olympus in exchange for all of the outstanding common stock of WB Security. The acquired shares of Class A Common Stock are presented as treasury stock in the accompanying consolidated balance sheets. The acquired shares of Series C Preferred Stock were returned to their original status of authorized but unissued. On June 24, 2004, the Creditors' Committee filed an adversary proceeding in the Bankruptcy Court, among other things, to avoid, recover and preserve the cash paid by Adelphia pursuant to the repurchase of its Series C Preferred Stock and Class A Common Stock together with all interest paid with respect to such repurchase. A hearing date relating to such adversary proceeding has not yet been set. Interest on the WB Note is calculated at a rate of 6% per annum (or after default at a variable rate of LIBOR plus 5%). FPL Group has the right, upon at least 60 days prior written notice, to require repayment of the principal and accrued interest on the WB Note on or after July 1, 2002. As of December 31, 2004 and 2003, the aggregate principal and interest due to the FPL Group pursuant to the WB Note was $127,537,000. The Company has not accrued interest on the WB Note for periods subsequent to the Petition Date. To date, the Company has not yet received a notice from FPL Group requiring the repayment of the WB Note.

From May 2002 until July 2003, the Company engaged Conway, Del Genio, Gries & Co., LLC ("CDGC") to provide certain restructuring services pursuant to an engagement letter dated May 21, 2002 (the "Conway Engagement Letter"). During that time, Ronald F. Stengel, Adelphia's former and interim Chief Operating Officer and Chief Restructuring Officer, was a Senior Managing Director of CDGC. The Conway Engagement Letter provided for Mr. Stengel's services to Adelphia while remaining a full-time employee of CDGC. In addition, other employees of CDGC were assigned to assist Mr. Stengel in connection with the Conway Engagement Letter. Pursuant to the Conway Engagement Letter, the Company paid CDGC a total of $4,298,000 for its services in 2002 and, $2,827,000 for its services in 2003 (which includes the services of Mr. Stengel). The Company also paid CDGC a total of $173,000 in 2002 and $104,000 in 2003 for reimbursement of CDGC's out-of pocket expenses incurred in connection with the engagement. These amounts are included in reorganization expenses due to bankruptcy in the accompanying consolidated statements of operations.

Sale of Security Monitoring Business

In November 2004, the Company entered into an asset purchase agreement to sell its security monitoring business in Pennsylvania, Florida and New York for approximately $38,000,000. Pursuant to the bidding procedures order filed with the Bankruptcy Court on November 22, 2004, qualified bidders had the opportunity to submit higher or otherwise better offers with a bid deadline of January 17, 2005. The Company received a better offer within the bid deadline and, as a result, conducted an auction for the sale of the security monitoring business on January 21, 2005. The sale of the security monitoring business to the winning bidder was approved by the Bankruptcy Court on January 28, 2005. On February 28, 2005, the transaction closed based on a preliminary adjusted purchase price of $40,200,000.

Note 19: Quarterly Financial Information (unaudited) (amounts in thousands, except per share amounts)

	Quarter Ended 2004			
	March 31	June 30	September 30	December 31
Revenue	$ 1,007,330	$ 1,036,470	$ 1,041,366	$ 1,058,222
Operating income (loss)	$ (42,981)	$ (28,346)	$ (107,961)	$ 14,284
Loss from continuing operations before cumulative effects of accounting changes(1)	$ (503,442)	$ (168,147)	$ (260,797)	$ (126,287)
Gain (loss) from discontinued operations	$ 499	$ (1,070)	$ —	$ —
Loss before cumulative effects of accounting changes	$ (502,943)	$ (169,217)	$ (260,797)	$ (126,287)
Cumulative effects of accounting changes(2)	$ (851,629)	$ —	$ —	$ —
Net loss	$(1,354,572)	$ (169,217)	$ (260,797)	$ (126,287)
Basic and diluted loss per weighted average share of common stock:				
From continuing operations before cumulative effect of accounting change	$ (1.99)	$ (0.67)	$ (1.04)	$ (0.50)
Cumulative effects of accounting changes	$ (3.36)	$ —	$ —	$ —
Net loss applicable to common stockholders	$ (5.35)	$ (0.67)	$ (1.04)	$ (0.50)

ADELPHIA COMMUNICATIONS CORPORATION AND SUBSIDIARIES
(Debtors-In-Possession)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—Continued

	Quarter Ended 2003			
	March 31	June 30	September 30	December 31
Revenue	$ 841,573	$ 886,467	$ 901,334	$ 939,643
Operating loss	$ (41,000)	$ (7,691)	$ (20,501)	$ (79,297)
Loss from continuing operations before cumulative effect of accounting change	$(174,880)	$(136,410)	$(173,016)	$(240,354)
Loss from discontinued operations	$ (4,245)	$ (4,948)	$ (4,154)	$ (94,605)
Loss before cumulative effect of accounting change	$(179,125)	$(141,358)	$(177,170)	$(334,959)
Net loss(3)	$(179,125)	$(141,358)	$(177,170)	$(334,959)
Basic and diluted loss per weighted average share of common stock:				
From continuing operations before cumulative effect of accounting change	$(0.69)	$(0.54)	$(0.70)	$(0.95)
Loss from discontinued operations	$(0.02)	$(0.02)	$(0.01)	$(0.38)
Net loss applicable to common stockholders	$(0.71)	$(0.56)	$(0.71)	$(1.33)

(1) The Company recorded a $425,000,000 charge during the quarter ended March 31, 2004 related to the Government Settlement Agreements.

(2) As a result of the consolidation of the Rigas Co-Borrowing Entities, the Company recorded a $588,782,000 charge as a cumulative effect of a change in accounting principle during the quarter ended March 31, 2004. The application of the new amortization method to customer relationships acquired prior to 2004 resulted in an additional charge of $262,847,000 which has been reflected as a cumulative effect of a change in accounting principle.

(3) The Company recorded a $97,902,000 charge related to the Global Settlement with TelCove during the quarter ended December 31, 2003. This charge has been included in discontinued operations in the consolidated statement of operations.

Note 20: Subsequent Events (unaudited)

On October 31, 2005, the sale of Century/ML Cable to San Juan Cable was consummated and the Century/ML Plan became effective. Neither the sale of Century/ML Cable to San Juan Cable nor the effectiveness of the Century/ML Plan resolves the pending litigation among Adelphia, Century, Highland, Century/ML Cable and ML Media.

CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include controls and procedures designed to ensure that such information is accumulated and communicated to our management, including our CEO, CFO and CAO, as appropriate, to allow timely decisions regarding required financial disclosure.

Our management, under the supervision and with the participation of our CEO, CFO and CAO, has completed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the fiscal year ended December 31, 2004. Based on our evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, which included consideration of the material weaknesses described below and our inability to file this Annual Report on Form 10-K within the statutory time period, our management, including our CEO, CFO and CAO, concluded that as of December 31, 2004, the Company's disclosure controls and procedures were not effective. In light of the material weaknesses, we performed additional analyses and other post-closing procedures to ensure the consolidated financial statements were prepared in accordance with GAAP. Accordingly, we believe that the consolidated financial statements included in this Annual Report on Form 10-K fairly present, in all material respects, the Company's financial position, results of operations and cash flows for the periods presented.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, the Company's CEO and CFO and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The process includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with the authorization of management and the Board of Directors, and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions.

Our management, under the supervision and with the participation of our CEO, CFO and CAO, has completed an evaluation of the effectiveness of the design and operation of the Company's internal control over financial reporting as of December 31, 2004. In assessing the Company's internal control over financial reporting, management used the criteria established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control - Integrated Framework.

Pursuant to the auditing and related professional practice standards of the Public Company Accounting Oversight Board and the rules of the SEC, a "control deficiency" exists when the design or operation of an internal control over financial reporting does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A "material weakness" is a control deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected. As of December 31, 2004, we identified the following material weaknesses in the Company's internal control over financial reporting.

Access to Financial Applications and Data

The Company did not maintain effective controls over access to financial applications and data, including financial applications and data related to property and equipment, general ledger and financial reporting. Specifically, ineffective controls included unrestricted access for information technology and accounting personnel to programs and data, the lack of periodic, independent review and monitoring of such access, and a lack of policies and procedures that govern security and access. This control deficiency did not result in adjustments to the annual or interim financial statements. The existence of this control deficiency could result in a material misstatement of our annual or interim financial statements that would not be prevented or detected. Accordingly, management determined that this control deficiency constitutes a material weakness.

Property and Equipment Accounting

The Company did not maintain effective controls over the accounting for property and equipment. Specifically, the Company had (i) ineffective controls over its quarterly physical inventory of construction materials, repair and maintenance supplies and customer premise equipment, including lack of effective inventory count tag control, ineffective or inaccurate inventory counts, and instances of non-compliance with the Company's policy regarding the conduct of physical inventories, (ii) ineffective controls over the commencement of depreciation expense for capital assets placed in service, (iii) ineffective controls over the appropriate review and approval of contractor work and materials used in connection with capital projects, and (iv) inconsistent application of its limits of authority policy pursuant to which contractual or other payment obligations associated with capital projects are approved. These control deficiencies resulted in immaterial audit adjustments to the annual and interim financial statements. The existence of these control deficiencies could result in the misstatement of property and equipment, depreciation expense as well as repair and maintenance expense that could result in a material misstatement of our annual or interim financial statements that would not be prevented or detected. Accordingly, management determined that these control deficiencies, in the aggregate, constitute a material weakness.

Period-End Financial Reporting Process

The Company did not maintain effective controls over its period-end financial reporting process. Specifically, the Company had (i) ineffective controls over the documentation, authorization and review of journal entries, (ii) ineffective controls to ensure the accuracy of and restricted access to spreadsheets used to support journal entries reflected in our general ledger and in our financial reporting process, and (iii) ineffective controls to ensure the completeness of certain general ledger account reconciliations conducted in connection with the period-end financial reporting process. These control deficiencies resulted in immaterial audit adjustments to the annual and interim financial statements. These control deficiencies could result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has concluded that these control deficiencies, in the aggregate, constitute a material weakness.

Because of the material weaknesses described above, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2004 based on the criteria established in Internal Control – Integrated Framework issued by the COSO.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears elsewhere in this Annual Report on Form 10-K.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

In connection with our evaluation of the effectiveness of the Company's internal control over financial reporting at December 31, 2004, we have taken a number of steps that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Throughout 2004, the Company, assisted by significant outside resources that supplemented our accounting and internal audit functions, carried out documentation and testing of the Company's internal control over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 and Audit Standard No. 2 as promulgated by the Public Company Accounting Oversight Board. During this documentation and testing process, we preliminarily identified a substantial number of internal control deficiencies, including, to the extent they still existed, the material weaknesses and/or reportable conditions discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2003. As part of our Sarbanes-Oxley Section 404 efforts, we reviewed these deficiencies, including identification of those that relate to key internal controls over financial reporting, and determined the level of significance of each such key deficiency. As of the filing of this Annual Report, we have successfully remediated a portion of these control deficiencies. We will continue our efforts to remediate internal control deficiencies identified as part of management's assessment of internal control over financial reporting for 2004, including the material weaknesses described above. Following is a discussion of specific changes that we have made in the Company's internal control over financial reporting relating to the material weaknesses described above.

With respect to the access to financial applications and data material weakness described above, subsequent to December 31, 2004, we have substantially completed our remediation efforts. We have implemented controls, including policies and procedures that govern security and access to our IT systems, programs and data, including those supporting our financial data relating to property and equipment and our general ledger and financial reporting applications. In addition, all employees are currently required to complete training and acknowledge an understanding of the Company's Code of Business Conduct and Ethics, which addresses proper use of Company assets, including requirements for security/access controls.

With respect to the property and equipment accounting material weakness described above, subsequent to December 31, 2004, we have continued our remediation efforts. In December 2004, the Company's limits of authority policy was updated and communicated to all employees. In April 2005, through the execution of the Company's physical inventory procedures, we completed an accurate physical inventory of our construction materials, repair and maintenance supplies and customer premise equipment. In addition, during 2005, policies and procedures have been implemented to improve controls over capital projects. We will continue to monitor and test our property and equipment processes throughout the remainder of 2005 and will determine if additional remediation efforts are required.

With respect to the period-end financial reporting process material weakness described above, subsequent to December 31, 2004, we have substantially completed our remediation efforts. Controls have been implemented to ensure that all journal entries recorded in the Company's general ledger have adequate supporting documentation and are appropriately reviewed and approved prior to being recorded in the general ledger. In addition, all general ledger accounts have been assigned to specific accounting personnel who are accountable for ensuring that the general ledger accounts are reconciled and reviewed on a timely basis and that adequate supporting documentation is maintained for general ledger accounts. We are also in the process of completing an inventory of all spreadsheets used in our financial reporting process and implementing internal controls over spreadsheets, including requiring data integrity, version controls and restricted access.

We continue to dedicate substantial resources to this effort and believe that we have made considerable progress in establishing effective internal control over financial reporting. However, our management is unable to provide assurance as to when we and our independent registered public accountants will be able to determine that the Company's internal control over financial reporting is effective.