

**UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK
CHAPTER 11**

RE: ADELPHIA COMMUNICATIONS CORPORATION, et al., Debtors


Case No. 02-41729 (REG)

**REBUTTAL EXPERT WITNESS REPORT
OF LAURENCE A. MILLS**

Submitted by:

**Laurence A. Mills
Freeman & Mills, Inc.
350 South Figueroa Street
Suite 900
Los Angeles, California 90071**

CONFIDENTIAL: SUBJECT TO PROTECTIVE ORDER


**Laurence A. Mills
January 6, 2006**

REBUTTAL EXPERT WITNESS REPORT

Laurence A. Mills
Freeman & Mills, Incorporated

QUALIFICATIONS, PRIOR TESTIMONY AND PUBLICATIONS

1. I have been retained by the law firm of Hennigan, Bennett & Dorman LLP in connection with its representation of the Ad Hoc Committee of Adelphia Communications Corp. Senior Noteholders in the chapter 11 bankruptcy cases of Adelphia Communications Corporation (“ACC”) and related entities, Case No. 02-41729 (REG).¹ This Rebuttal Report is in response to the Expert Reports of Daniel Scouler and Michael Henkin, both filed in this matter on December 7, 2005. I filed an Expert Witness Report on the same day in which my qualifications, prior testimony and publications were set forth under Tab 1.

DATA OR OTHER INFORMATION CONSIDERED IN FORMING OPINIONS

2. My opinions are based on information of the type reasonably relied upon by experts in my field in forming opinions, judgments or inferences, including my own education, knowledge and experience. In the preparation of my December 7, 2005 Report I reviewed and relied upon documents which were listed under Tab 2. In preparing this Rebuttal Report, I have reviewed and relied upon additional documents, which are listed under the attached Tab 1.

3. In support of my opinions at any proceeding in this matter, I may use the exhibits and information listed in this disclosure as well as other exhibits or demonstrative aides made or derived from the exhibits or information listed in this disclosure, or other materials obtained in discovery or otherwise in this matter.

¹ Capitalized terms not defined herein are defined in my original Report in this matter.

STATEMENT OF OPINIONS AND BASES AND REASONS THEREFOR

4. It is my opinion that almost all of Mr. Scouler's claimed "material errors" in the Debtors' May 2005 intercompany schedules (the "May 2005 Schedules") are based on inappropriate or erroneous analyses or incorrect information. Specifically,

- Mr. Scouler's discussion of the concept of "Push-Down Accounting" is not relevant to Adelphia's actual accounting treatment of its acquisitions;
- Adelphia's accounting for indebtedness incurred under the CCH LLC co-borrowing facility was reasonable;
- In the absence of any adjustment to Adelphia's accounting for acquisitions or its accounting for co-borrowing debt, there is no adjustment required for intercompany interest;
- Mr. Scouler's analysis of the so-called X0 transactions is based on transactions that are unrelated to the X0 cost centers; and
- Adelphia's Bank of Adelphia Convention is necessary to accurately reflect transactions made pursuant to Adelphia's prepetition centralized cash management system ("CMS").

As a consequence, it remains my opinion that no adjustments to the May 2005 Schedules, other than the adjustment with respect to Historic Entries described in my prior Report are necessary or appropriate.

The bases for these opinions are discussed below.

ANALYSIS

I. General

5. In his Report, Mr. Scouler claims that the May 2005 Schedules contain “material errors” aggregating over \$4.77 billion. Mr. Scouler categorizes these claimed errors as follows:

- The Company’s application of push-down accounting was not GAAP compliant;
- The accounting for indebtedness incurred under the co-borrowing facility is incorrect;
- As a result of the two preceding errors, Arahova was overcharged for intercompany interest;
- The X0 Transactions did not have any economic substance; and,
- The Historic Entries were improperly recharacterized.

In addition to the claimed errors, Mr. Scouler also contends the Debtors’ treatment of intercompany transactions as being with the Bank of Adelpia is an error, but claims he has insufficient information to quantify the effect of the error. Other than disagreeing with Mr. Macdonald’s testimony, Mr. Scouler provides no analysis of why the Debtors’ treatment is an error.

The balance of this rebuttal Report discusses each of these claimed errors.

II. “Push Down Accounting”

6. Mr. Scouler’s discussion of “Push-Down Accounting” is not relevant to the accounting for Adelpia’s intercompany liabilities associated with its acquisition of Prestige² and Cablevision,³ the acquisitions specifically discussed by Mr. Scouler. The

² Adelpia Prestige’s acquisition of Prestige Communications of NC, Inc. and the Rigases’s acquisition of Prestige Communications, Inc. in July 2000.

term Push-Down Accounting refers to the practice of revaluing the assets and liabilities of an acquired company directly on the financial records of the acquired company, based on the acquisition cost. Push-Down Accounting does not involve the accounting for asset purchases or for acquisition transactions among related entities. The intercompany liabilities included in the May 2005 Schedules related to the Prestige APA and the Cablevision APA are not the result of Push-Down Accounting, since Push-Down Accounting does not apply to asset purchases like the Prestige and Cablevision transactions. Rather, these intercompany liabilities reflect the accounting for the asset acquisition by the relevant Adelphia subsidiary which was the assigned “Purchaser” under the APAs. The intercompany liabilities related to the Prestige SPA and the Cablevision Merger are not the result of Push-Down Accounting; they are the product of accounting for acquisitions of stock by an affiliate of Adelphia, and the transfer of assets among Adelphia’s subsidiaries.

7. Mr. Scouler appears to confuse the concept of Push-Down Accounting (which becomes an issue only when an acquired company issues separate, post-acquisition financial statements) with the words “pushed down” as used in a presentation prepared by the Debtors to describe the Debtors’ practice of financing acquisitions by subsidiaries through intercompany liabilities. As Mr. Macdonald testified, the Debtors’ prepetition practice of using a subsidiary as the “purchaser” in an acquisition transaction is a common practice, and this practice is not related to the concept of Push-Down Accounting. Additionally, recording the financing for a subsidiary’s acquisition through intercompany liabilities is appropriate and not related to the concept of Push-Down Accounting. Based on my review of Adelphia’s intercompany liabilities, the intercompany liabilities reflected on the May 2005 Schedules related to acquisitions simply reflect the reality of the situation by making the subsidiary “purchasers” liable for the purchase price of the acquisitions.

³ Adelphia Cleveland’s acquisition of Cablevision of Cleveland, LP, Telerama, Inc. and Cablevision of the Midwest, Inc. in November 2000

8. Mr. Scouler apparently relies on the Debtors' October 7, 2003 Intercompany Balances Presentation for a description of Adelpia's accounting for acquisitions made in the prepetition period (or presentations with a similar description of Adelpia's prepetition acquisition accounting). This presentation describes two methods by which Adelpia recorded acquisitions:

“Recorded through the intercompany accounts (e.g., the purchase price is pushed down to the applicable legal entity from the parent). The pushdown of the purchase price creates an intercompany receivable on Adelpia Cablevision's books and an intercompany payable at the LE.

Recorded as an equity transaction. The parent records the acquisition or swap as an investment on the parent's books and as equity on the acquired LE's books. This treatment does not create an intercompany balance.”⁴ [Emphasis added.]

The reference to “pushed down” or “pushdown” in this presentation, and other similar descriptions, does not indicate that intercompany liabilities related to acquisitions resulted from Push-Down Accounting, as Mr. Scouler suggests.

9. As discussed in my initial Report, the characterization and recording of transactions among wholly-owned subsidiaries is within the discretion of the management of those subsidiaries. The Prestige Acquisition is a perfect example of this principle. ACC agreed to acquire the assets of Prestige Communications of NC, Inc. pursuant to the Prestige APA in December 1999. In July 2000, however, ACC assigned its rights under the Prestige APA to its wholly-owned, indirect subsidiary, Adelpia Prestige. The Prestige APA contained provisions enabling this assignment and Adelpia's accounting records reflect that Adelpia Prestige was treated as the “purchaser” in the transaction.

10. I am aware of no evidence to suggest that the assignment of the Prestige APA to Adelpia Prestige should not be honored. Adelpia Prestige received the assets

⁴ See Exhibit 6 to the Dibella deposition, Bates WDC001101383.

purchased under the Prestige APA and has intercompany liabilities, as appropriately reflected in the May 2005 Schedules, indicating its obligation to pay for those assets. This treatment is appropriate and consistent with the information publicly disclosed in Arahova's prepetition financial statements.

11. Adelpia could have engaged in a transaction with a similar end result (acquiring the assets of Prestige Communications of NC, Inc.), but with a different impact on Adelpia's financial records. For example, Adelpia could have completed the acquisition and retained the acquired assets at the parent level; Adelpia could have completed the acquisition, retained certain assets at the ACC level and sold other assets to various subsidiaries (reflecting the sale through intercompany liabilities); Adelpia could have completed the acquisition, retained certain assets at the ACC level and contributed other assets to various subsidiaries (reflecting the contributions through equity accounts); Adelpia could have assigned the Prestige APA to an ACC subsidiary which was not a subsidiary of Arahova; Adelpia could have completed the acquisition and contributed all of the assets to one or more subsidiaries; etc. Records reflecting the Prestige Acquisition indicate that management did not choose any of these transactions.

12. Mr. Scouler's analysis of the Prestige Acquisition requires rewriting the records reflecting that acquisition. According to Mr. Scouler's treatment of the Prestige Acquisition, ACC would not have assigned its rights under the Prestige APA. Instead, (a) ACC would have acquired the assets, (b) ACC would have transferred the acquired assets to ACC Operations, Inc. through an equity contribution, (c) ACC Operations, Inc. would have transferred the acquired assets to Arahova through an equity contribution, (d) Arahova would have transferred the acquired assets to CCC through an equity contribution, (e) CCC would have transferred the acquired assets to CCHC through an equity contribution, (f) CCHC would have transferred the acquired assets to CCH LLC through an equity contribution and, finally, (g) CCH LLC would have transferred the acquired assets to Adelpia Prestige through an equity contribution. Theoretically, this series of transactions could have been structured by Adelpia's prepetition management.

The flaw in Mr. Scouler's analysis is that they were not. It is not appropriate, under GAAP, to change the structure of transactions simply because the historical structure of the transaction has a negative impact on Mr. Scouler's clients.

13. To support his theoretical series of transactions, Mr. Scouler erroneously references documents reflecting transfers made between ACC and certain of its subsidiaries in April 2000. As discussed in my initial Report, in April 2000 ACC and certain of its subsidiaries did transfer various assets and liabilities to CCH LLC through a series of contributions. Although Adelpia Prestige was included in this series of transfers, it was merely a shell entity in April 2000 with no substantial assets or liabilities: based on Adelpia's prepetition financial records as of June 30, 2000, Adelpia Prestige reported assets of only \$1,000 (See Tab 2). Further, the restated financial records of Adelpia Prestige as of June 30, 2000 also do not include the assets it acquired in July 2000 through the Prestige Acquisition. Adelpia Prestige acquired those assets in July 2000 and it was not until this point that Adelpia Prestige became liable for payment for those assets. The documentation for the April 2000 transfers is not relevant to the accounting for the Prestige Acquisition three months later.

14. Mr. Scouler does not provide a detailed analysis of his preferred treatment of the affiliate liabilities created by Prestige Georgia's acquisition of the stock of Prestige Communications, Inc., or how Push-Down Accounting relates to these affiliate liabilities. Since Prestige Georgia was a Rigas owned entity, not a subsidiary of ACC, Push-Down Accounting is irrelevant to Adelpia's accounting for this transaction. The affiliate liabilities related to Prestige Georgia's acquisition of the stock of Prestige Communications, Inc. evidence Prestige Georgia's obligation to pay for those assets. I am not aware of any evidence, or any contention, suggesting that the Rigas-owned entity, Prestige Georgia, was not obligated to pay for the assets it received from ACC. In fact,

Prestige Georgia's liability for this obligation is included in Adelphia's restated debt as disclosed in Adelphia's 10-K filed in December 2004, which was audited by PwC.⁵

15. The flaws outlined above regarding Mr. Scouler's treatment of the Prestige Acquisition also apply to the Cablevision acquisition. Mr. Scouler again references the April 2000 transfer to support his preferred accounting for the Cablevision Acquisition, notwithstanding the fact that the Cablevision acquisition did not occur until November 2000. Similarly, Mr. Scouler's series of theoretical transactions is not supported by the actual transaction documents, which include ACC's assignment of the Cablevision APA to Adelphia Cleveland, LLC. Similar to the Prestige Acquisition, this assignment resulted in the acquisition of assets by an indirect subsidiary of ACC.

16. I am aware of no evidence to suggest that the assignment of the Cablevision APA to Adelphia Cleveland, LLC should not be honored. Adelphia Cleveland, LLC received the assets purchased under the Cablevision APA and has intercompany liabilities, as appropriately reflected in the May 2005 Schedules, indicating its obligation to pay for those assets. This treatment is appropriate and consistent with the information publicly disclosed in Arahova's prepetition financial statements.

17. Mr. Scouler's discussion of Push-Down Accounting is also inapplicable to Adelphia's accounting for the Cablevision Merger, through which ACC acquired the stock of Cablevision of the Midwest, Inc. As discussed in my initial Report, the net assets acquired in the Cablevision Merger were transferred through a series of transactions to Adelphia of the Midwest, Inc. Adelphia's records show that certain transactions in this series were equity contributions, while others were sales. When responding to an inquiry from Mr. Macdonald regarding why certain transactions related to the Cablevision Merger were recorded as equity contributions while others were recorded as sales, Mr. Chambers, Adelphia's Vice President of Taxation, explained that decisions regarding the use of intercompany liabilities for certain acquisitions were

⁵ See footnote 14(d) to ACC's December 31, 2003 10-K and Exhibit 34 to the Donovan deposition.

based, in part, on state tax regulations.⁶ Mr. Chamber's deposition testimony regarding the basis for recording the acquisition of the stock of Cablevision of the Midwest, Inc. through intercompany liabilities is consistent with his prior explanation. The concept of Push-Down Accounting does not address whether or not transactions between a parent and its subsidiaries should be treated as intercompany liabilities. Those decisions are necessarily made by the management of the respective entities. In the case of the Cablevision Merger, the evidence indicates that intercompany liabilities were recorded, in part, to obtain tax benefits. As with the Prestige acquisition, the May 2005 Schedules appropriately reflect intercompany liabilities associated with the Cablevision Merger based on the manner in which Adelpia's prepetition management determined to structure the transaction. There is no accounting basis for recharacterizing those transactions today.

18. With respect to the funding of the cash portion of the Prestige and Cablevision acquisitions, Mr. Scouler states that both were funded through draws on the CCH LLC credit facility. He is not correct.

19. For the Prestige acquisition, Mr. Scouler states "On July 31, 2000, a net advance of approximately \$301 million was advanced from the CCH Facility to fund Highland Georgia's acquisition of Prestige Communications, Inc."⁷ There was no advance from the CCH credit facility at that time. What did occur was the Rigas-owned entity, Prestige Georgia, which was also the co-borrower under the CCH credit facility, was allocated \$300,855,529 representing the acquisition cost of Prestige Communications, Inc., as discussed below under "Co-Borrowing." In fact, this allocation to Prestige Georgia of the cost of its acquisition is one component of the "reclassifications" of co-borrowing debt that Mr. Scouler claims was "fraudulent" and should not have been made.

⁶ See Exhibit 27 to the Donovan deposition.

⁷ Scouler report, page 12.

20. For the Adelphia portion of the Prestige acquisition, Mr. Scouler claims "...it is likely that the funds were obtained from the initial advance of \$750 million from the CCH Facility term loan which occurred approximately two and one-half months prior to the Prestige acquisition."⁸ As Mr. Scouler states, this is an unproven assumption for which Mr. Scouler provides no factual support.

21. In fact, Mr. Scouler's assumption is contrary to available evidence. The initial draw on the CCH credit facility was made on April 14, 2000. Since cash is fungible, once the funds were received into Adelphia's CMS, they lost all identity. I reviewed the cash activity for the four months of April through July 2000 and found that approximately \$17 billion moved through the cash accounts during that period. While this figure includes the movement of cash among Adelphia accounts and restatement entries, it is clear that given the magnitude of cash activity and Adelphia's cash balance on any given date, it is not possible to identify the source of funds used for any particular disbursement from the CMS. Therefore, a tracing of the funds drawn in April 2000 from the CCH LLC credit facility to the funds disbursed in July 2000 for the Prestige Acquisition can not be established.

22. For the Cablevision acquisition Mr. Scouler states "[t]he acquisition was funded by \$990 million in cash advanced from the CCH Facility..."⁹ In this case there were draws on the CCH credit facility on November 1, 2000 aggregating \$1.05 billion. While this is a closer match than in the Prestige acquisition, I do not believe it is proper, given the fungibility of cash and the magnitude of Adelphia's cash activity, to conclude that any specific disbursement was funded by any specific source. Additionally Mr. Scouler fails to note that \$120 million of the \$1.05 billion drawn on November 1, 2000 was specifically allocated to Adelphia Business Solutions, Inc. ("ABIZ"), not CCH LLC.

⁸ Scouler Report, page 12.

⁹ Scouler Report, page 10.

III. Co-Borrowing

23. Mr. Scouler, in his discussion of co-borrowing, notes what he apparently considers to be improper “reclassifications” of the co-borrowing debt liabilities recorded in the financial records of the Adelphia co-borrowers¹⁰ and the Rigas owned co-borrower, and the supposed “corrective” entries made as part of the restatement process. He then concludes that CCH LLC (and therefore Arahova) has in its restated financial records at June 30, 2002, approximately \$1.161 billion in intercompany payables that should never have been recorded. This conclusion is not consistent with Adelphia’s audited financial statements and the contractual obligations of the parties to the co-borrowing facilities. Notwithstanding Mr. Scouler’s admission that “[t]hese credit facilities were used by both the Company and the Rigases to fund acquisitions, for operational cash needs and to fund the Rigases’ purchases of Adelphia securities,”¹¹ Mr. Scouler misrepresents the “reclassification” entries in Adelphia’s audited financial records as “fraudulent.” These entries were not fraudulent; they were made to allocate the co-borrowed funds between Rigas owned co-borrowers and Adelphia co-borrowers and have been maintained in Adelphia’s financial records throughout the restatement process.

24. First, there appears to be no dispute that each of the co-borrowers under the co-borrowing facilities was jointly and severally liable for the full amount borrowed under the credit facilities.¹² There also appears to be no dispute that one of the misrepresentations in Adelphia’s prepetition financial statements was Adelphia’s failure to report the full amount outstanding (i.e. amounts borrowed by Adelphia co-borrowers and amounts borrowed by Rigas co-borrowers) under the co-borrowing credit facilities. This error was corrected in the Debtors’ restatement process and Adelphia’s 10-K filed in December 2004.

¹⁰ Mr. Scouler only discusses CCH LLC, but the same issues would exist for the other Adelphia co-borrower under the CCH LLC co-borrowing facility, Ft. Myers Cablevision, LLC, and the other co-borrowing facilities.

¹¹ Scouler Report, page 14.

¹² The one exception was ABIZ, which became a party to the CCH co-borrowing agreement. It borrowed \$500 million under an amendment to the original co-borrowing agreement, but was not liable for any borrowings under the co-borrowing facility beyond the \$500 million it borrowed.

25. Mr. Scouler also appears to concede that the Rigases borrowed billions of dollars from the co-borrowing facilities, including \$1.161 billion from the CCH LLC co-borrowing facility. Mr. Scouler's discussion of the co-borrowing facilities, however, ignores this fact, as well as the difference between the entries that were made in Adelphia's financial records to allocate the borrowed funds among the co-borrowers and GAAP's requirement to record the full amount of the co-borrowed funds on each and every co-borrowing entity's financial statements. Additionally, because funds obtained from the co-borrowing facilities were deposited into Adelphia's CMS, any allocation of those funds among co-borrowers necessarily results in an allocation of the intercompany liabilities at the Bank of Adelphia related to those borrowings. The May 2005 Schedules appropriately include these allocations. As testified to by Mr. Macdonald, the May 2005 Schedules do not reflect the entries required to record the full amount of the co-borrowing debt in the Adelphia co-borrower's records because these entries did not involve the CMS or the Bank of Adelphia.

26. To understand the interrelationship of the CMS and borrowings under the co-borrowing facilities, it is helpful to first understand the accounting for transactions in which amounts are borrowed under a single borrower credit facility (i.e., not a co-borrowing facility). For example, when funds are drawn under a single borrower arrangement, the funds would be sent to the Bank of Adelphia in accordance with Adelphia's CMS. Cash received is recorded in the Bank of Adelphia financial records, along with an offsetting liability to the entity that borrowed the funds. In turn, a receivable from the Bank of Adelphia is recorded in the financial records of the borrowing entity, along with an offsetting liability to the lender(s). Ignoring interest payments, no further accounting entries would be made until the principal amount of the loan, or any portion thereof, is repaid. The journal entries for this transaction would be as follows:

Legal entity XYZ borrows \$100, which is deposited into the CMS

XYZ

Debit I/C Receivable from Bank of Adelpia	\$100	
Credit Debt		(\$100)

Bank of Adelpia

Debit Cash	\$100	
Credit I/C Payable to XYZ		(\$100)

27. After the initial borrowing, the funds received by the Bank of Adelpia become part of the total cash available to Adelpia to fund its operations; the Bank of Adelpia would dispense the funds as needed for Adelpia's corporate purposes, including any advances made on behalf of Rigas owned entities. None of these subsequent transactions affect the original intercompany balance between the Bank of Adelpia and the borrowing entity.

28. In addition, the Bank of Adelpia may receive cash or make payments on behalf of the borrowing entity (e.g. for operating purposes). These transactions would be recorded in the financial records of the Bank of Adelpia as an increase of, or a reduction of, cash, offset by an increase in, or a reduction in, its liability to the borrowing entity. In turn, an increase in, or a reduction in, the receivable from the Bank of Adelpia, offset by whatever revenue or sale generated the cash, or whatever expense or purchase used the cash, would be recorded in the financial records of the borrowing entity. These transactions would affect the intercompany balance, up or down, between the Bank of Adelpia and the borrowing entity. The journal entries for these transactions would be as follows:

1. Bank of Adelpia receives \$50 attributable to entity XYZ's subscriber, which is deposited into the CMS

XYZ

Debit I/C Receivable from Bank of Adelpia	\$50	
Credit Revenue		(\$50)

Bank of Adelpia

Debit Cash	\$50	
Credit I/C Payable to XYZ		(\$50)

2. Bank of Adelpia pays \$20 attributable to programming expense incurred by XYZ, which is paid from the CMS

XYZ

Debit Programming Expense	\$20	
Credit I/C Payable to Bank of Adelpia		(\$20)

Bank of Adelpia

Debit I/C Receivable from XYZ	\$20	
Credit Cash		(\$20)

At this stage, XYZ would have a net receivable from the Bank of Adelpia of \$130 (\$100 + \$50 - \$20) and the Bank of Adelpia would have a corresponding payable to XYZ.

29. Under a co-borrowing situation, the same accounting entries outlined above would occur between the Bank of Adelpia and the co-borrowing entities, in the aggregate. The only difference is that in a co-borrowing situation there is a group of co-borrowers, instead of a single entity. Since no specific co-borrowing entity is the “named” borrower, Adelpia has to allocate the funds received from the co-borrowing facility to, or among, the co-borrowing entities. The offsetting receivable from the Bank of Adelpia recorded in the financial records of the co-borrowing entities is equal to this allocation. The payable from the Bank of Adelpia would be adjusted among the co-borrowing entities whenever there is a change in the designated allocation of debt among those entities. This reallocation is not a violation of GAAP.

30. The “reclassification” of \$300,855,529 of the outstanding balance under the CCH LLC co-borrowing facility from CCH LLC to Prestige Georgia in July 2000 is a perfect example of the entries required to reflect the allocation of co-borrowing debt on the financial records of the Bank of Adelpia. As discussed in my original Report, in July 2000, Prestige Georgia purchased the stock of Prestige Communications, Inc. from Adelpia for \$300,855,529. A “reclassification” entry recorded that Prestige Georgia had

been allocated this amount under the co-borrowing facility. This \$300,855,529 is a component of the \$1.161 billion consistently reported as being owed by the Rigases under the CCH LLC co-borrowing facility.¹³ If Prestige Georgia is allocated this amount under the co-borrowing facility, and the original funds from the CCH LLC co-borrowing facility were deposited into the CMS, it is appropriate that Prestige Georgia receive a corresponding receivable from the Bank of Adelpia.

31. Immediately prior to the Prestige Acquisition, \$1.645 billion was outstanding under the CCH LLC co-borrowing facility -- \$1.5 billion of this amount had been allocated to CCH LLC and \$145 million had been allocated to Prestige Georgia, which borrowing apparently was not deposited into the CMS. A summary of the entries recorded by Adelpia to reflect the allocation of the amounts outstanding under the CCH LLC co-borrowing facility prior to the Prestige Acquisition, Prestige Georgia's acquisition of the stock of Prestige Communications, Inc., and the reallocation of co-borrowing amounts to reflect the allocation of those amounts after the Prestige Acquisition is included below (\$ in millions):¹⁴

1. Allocation of \$1,645 outstanding under co-borrowing facility¹⁵-- \$1,500 allocated to CCH LLC and deposited into the Bank of Adelpia, \$145 allocated to Prestige Georgia (which borrowing was not deposited into the Bank of Adelpia and is assumed to have been deposited into a bank account owned by Prestige Georgia).

<u>CCH LLC</u>	
Debit I/C Receivable from Bank of Adelpia	\$1,500
Credit Debt	(\$1,500)

¹³ See Exhibit 34 to the Donovan deposition, Bates ACI 265450.

¹⁴ As discussed more fully below, the following analysis treats intercompany and affiliate receivables and payables recorded in the prepetition general ledger and the restatement database as liabilities to or from the Bank of Adelpia (i.e. the Bank of Adelpia Convention) unless evidenced by documentation to the contrary.

¹⁵ When funds were drawn on the CCH LLC co-borrowing facility, the funds were drawn based on a "Form of Notice of Borrowing" that was executed by all three co-borrowing entities (CCH LLC, Prestige Georgia and Ft. Myers Cablevision, LLC).

<u>Prestige Georgia</u>	
Debit Cash	\$145
Credit Debt	(\$145)
<u>Bank of Adelpia</u>	
Debit Cash	\$1,500
Credit I/C Payable to CCH LLC	(\$1,500)

2. Prestige Georgia purchases stock of Prestige Communications Inc. from Adelpia for \$300.9.

<u>Prestige Georgia</u>	
Debit Assets	\$300.9
Credit Affiliate Payable to Bank of Adelpia	(\$300.9)
<u>Bank of Adelpia</u>	
Debit Affiliate Receivable from Prestige Georgia	\$300.9
Credit Cash	(\$300.9)

3. Prestige Georgia is allocated \$300.9 of the co-borrowing debt to pay for its purchase of the stock of Prestige Communications, Inc.

<u>Prestige Georgia</u>	
Debit Affiliate Payable to Bank of Adelpia	\$300.9
Credit Debt	(\$300.9)
<u>Bank of Adelpia</u>	
Debit IC Payable to CCH LLC	\$300.9
Credit Affiliate Payable to Prestige Georgia	(\$300.9)
<u>CCH LLC</u>	
Debit Debt	\$300.9
Credit IC Payable to Bank of Adelpia	(\$300.9)

32. At this point, \$445.9 million of the \$1,645 million outstanding balance under the CCH LLC co-borrowing facility was allocated to Prestige Georgia and \$1,199.1 million was allocated to CCH LLC. The Bank of Adelpia had received \$1,500 million in cash and Prestige Georgia had received \$145 million in cash, directly. The Bank of Adelpia recorded payables totaling \$1,500 million, \$300.9 million to Prestige Georgia and \$1,199.1 million and CCH LLC, to reflect the amounts of the borrowings

allocated to each entity. Since Prestige Georgia was allocated these amounts under the CCH LLC co-borrowing facility, which allocation was confirmed by the restatement process, it is appropriate that the Bank of Adelpia reflect the inter-entity payables in the manner described above.

33. I have reviewed the Adelpia's restated general ledger regarding the allocation of the CCH LLC co-borrowing facility to Prestige Georgia and reconciliations of how the Rigases used the approximate \$3 billion allocated to them under the co-borrowing facilities.¹⁶ Based on this review, these allocations do not appear random, but rather correspond to actual transactions. The Prestige Acquisition example above is one of the transactions involved where the allocation of co-borrowing amounts can be tied to the dollar. This is not the only example. In July 2000, the Rigases used \$145 million to purchase ACC securities in a direct placement of securities, which can be tied exactly to the amounts allocated under the CCH LLC co-borrowing facility to Prestige Georgia. Additionally, the restated 10-K states that in 2001, the Rigases used \$345,251,000 to acquire cable systems. This amount agrees with the amount allocated to Prestige Georgia under the CCH LLC co-borrowing facility in July 2001, and appears to be directly attributable to and for the same dollar amount as the Rigases' cost of the Daniels acquisition.¹⁷

34. The entries required at the Bank of Adelpia to reflect the allocation of the funds received pursuant to a co-borrowing facility should not be confused with the requirement, under GAAP, for each co-borrower to record the full amount outstanding under the co-borrowing facility. This requirement exists under GAAP because each co-borrower is jointly and severally liable for the full amount of the co-borrowing debt.

35. As stated above, the allocation entries did not result in the prepetition misrepresentation regarding Adelpia's responsibility for the full amount of the co-

¹⁶ See Exhibit 34 to the Donovan deposition, Bates ACI 265450 and document ACC IC2 000767-68.

¹⁷ See Exhibit 34 to the Donovan deposition, Bates ACI 265450.

borrowing debt. The misrepresentation resulted from the failure to comply with GAAP by providing necessary entries to record each co-borrower's liability for the amounts allocated to other co-borrowers. These entries were made in the restatement process. It is important to recognize that these entries do not eliminate the co-borrowing debt allocated to the individual co-borrowers, but rather record the full amount of the co-borrowing debt on each co-borrower's financial statements. This is a requirement under GAAP due to the joint and several liability of the co-borrowers pursuant to the borrowing agreements. These entries do not, and should not, impact the Bank of Adelpia which is not a party to those agreements.

36. Based on deposition testimony and my review of Adelpia's General Ledger and Restatement Database, Adelpia corrected the misrepresentation regarding the amount of co-borrowing debt outstanding by recording a one-sided affiliate receivable related to Prestige Georgia's obligation to pay its allocated portion of the CCH LLC credit facility and an offsetting entry to debt.¹⁸ A similar entry was made to record the full amount of the co-borrowing debt in Prestige Georgia's financial records, recording a one-sided affiliate receivable from CCH. The restated general ledger balances at December 31, 2001 and 2002 are included under Tab 3, which show both CCH LLC and Prestige Georgia reporting the full balance of the co-borrowing debt, offset by a balance recorded in a capital account equal to the difference between the full balance of co-borrowing debt outstanding and the amount already recorded on each entity's financial records.¹⁹ The entries necessary to correct the misrepresentations regarding the amount of co-borrowing debt outstanding on Adelpia's restated consolidated financial statements did not involve the Bank of Adelpia. Additionally, the entries necessary to correct the misrepresentations regarding the amount of co-borrowing debt outstanding on Adelpia's restated consolidated financial statements did not and

¹⁸ The entries to record the full amount of the co-borrowing debt on each co-borrower's financial statements are required to present GAAP compliant financial statements; the entries do not represent that the co-borrowing entities engaged in additional transactions among themselves.

¹⁹ This amount is recorded as a "contra-equity" amount rather than an affiliate receivable because both CCH LLC and Prestige Georgia were under common control. See footnote 6 to ACC's December 31, 2003 10-K.

should not include an entry on Prestige Georgia’s financial statements which eliminates any co-borrowing debt from that entity’s financial statements.

37. The journal entries, in summary form, to record the full amount of CCH LLC’s co-borrowing debt on ACC’s consolidated financial statements and on Prestige Georgia’s financial statements as of the petition date would be as follows (\$ in millions):

<u>CCH LLC</u>	
Debit Affiliate Receivable Prestige Georgia	\$1,161
Credit Debt	(\$1,161)
<u>Prestige Georgia</u>	
Debit Affiliate Receivable from CCH LLC	\$1,319
Credit Debt	(\$1,319)

Each entity records in its financial records the difference between the total co-borrowing debt outstanding and the amount of debt already recorded in its own financial records through the allocation process.

38. Mr. Scouler’s analysis incorrectly indicates that the “corrective” entries made by Adelphia to record the full amount of the CCH LLC co-borrowing debt eliminated the co-borrowing debt altogether from Prestige Georgia’s financial statements (see page 21 of Mr. Scouler’s initial Report, entry “5”). This is incorrect. As of the petition date, Prestige Georgia had been allocated \$1.161 billion of the CCH LLC co-borrowing debt. This amount was not changed by the restatement process and is included in Adelphia’s restated 10-K filed in December 2004. Adelphia’s restated financial statements as of December 2002, reflect Prestige Georgia’s allocation of \$1.161 billion of the CCH LLC co-borrowing debt. Those financial statements also reflect CCH LLC’s obligation to pay that amount if Prestige Georgia does not. As indicated by the maintenance of the “reclassification” entries in Adelphia’s restated financial statements, Mr. Scouler’s repeated allegations that these entries were “fraudulent” is not supportable.

39. Mr. Scouler’s analysis regarding Adelphia’s treatment of the co-borrowing debt in Adelphia’s restated financial statements continues on an errant path. Mr. Scouler “assumes” that Adelphia reclassified the Prestige Georgia affiliate receivable to equity to

reflect its being written-off as uncollectible. This is not correct. The affiliate receivable from Prestige Georgia was reported as a contra-equity account on Adelphia's consolidated financial statements because ACC and Prestige Georgia were under common control during the periods in which the affiliate transactions in question occurred. (See footnote 6 to Adelphia's restated 10-K filed in December 2004.)

40. Reporting CCH LLC's affiliate receivable from Prestige Georgia relating to the allocation of the co-borrowing debt as a contra-equity account does not equate to a reclassification of that amount as uncollectible as indicated by Mr. Scouler. To the contrary, Adelphia's restated 10-K clearly states that the amount owed to Adelphia by the co-borrowing entities, including Prestige Georgia, was not written off as uncollectible as of the petition date. In fact, Adelphia's restated 10-K indicates that in excess of 80% of the amounts due from Rigas Co-Borrowing Entities were deemed collectible as of December 31, 2002. Adelphia's internal impairment model, developed by Mr. Dibella during Adelphia's restatement process, and Adelphia's summary for issue G-3 ("Accounting for Rigas Family Entities") indicate that in excess of 85% of the net affiliate receivable from Prestige Georgia was deemed collectible as of June 30, 2002.²⁰ Based on my review of Adelphia's postpetition monthly financial reports, the co-borrowing debt allocated to Prestige Georgia was not written-off until June 2005. I have been informed that Adelphia entered into a settlement agreement with the SEC and the Rigases on or about this time.

41. Mr. Scouler's proposed entries to reverse the "fraudulent intercompany payable to Rigas not corrected during restatement" are based on a flawed analysis of Adelphia's actual treatment of the co-borrowing debt. Once the flaws in Mr. Scouler's analysis are corrected, Mr. Scouler's proposed entry to "correct" the situation is also flawed. Mr. Scouler's Report does not provide a complete analysis of the entries required by his proposed analysis, particularly his disregard of the fact that each co-borrower must record the full amount of co-borrowing debt outstanding. These entries are directly

²⁰ See "RFP_Impairment_Analysis_101404_Round_7.xls"

attributable to the parties' contractual requirements under the co-borrowing credit facility, not transactions involving the Bank of Adelpia.

42. Mr. Scouler's analysis of the impact on CCH LLC from the CCH LLC co-borrowing facility is tantamount to an argument that, since there is a negative impact on Arahova from CCH LLC's joint and several obligation to repay the co-borrowing amount allocated to Prestige Georgia, Adelpia's treatment should be changed. Mr. Scouler's analysis provides no factual basis for changing Adelpia's postpetition treatment of the co-borrowing debt. The treatment adopted by Adelpia is based on an extensive review of the facts surrounding Adelpia's transactions with the Rigases and has been audited.

43. In addition to his claim regarding Prestige Georgia, Mr. Scouler also claims that CCH LLC should not have been responsible for a \$500 million loss resulting from the write-off of an affiliate receivable from ABIZ. The ABIZ transactions are similar to the Prestige Georgia transactions discussed above. As noted previously in this Report, ABIZ became a party to the CCH co-borrowing agreement, under which it borrowed \$500 million under an amendment to the original co-borrowing agreement. Unlike the other co-borrowers, ABIZ was not liable for any borrowings under the co-borrowing facility beyond the \$500 million it borrowed. When the \$500 million was borrowed, the proceeds were deposited in the Bank of Adelpia in accordance with Adelpia's CMS. In addition, ABIZ was allocated \$500 million of the co-borrowing debt liability representing its responsibility for the amount it had borrowed and for which it was responsible.²¹ Similar to Prestige Georgia, the accounting entries would be (\$ in millions):

²¹ See Issue Summary for Issue E-6, Bates ACC I/C 0000847-57.

1. \$500 borrowed under the co-borrowing facility and deposited into the Bank of Adelpia under Adelpia's CMS

CCH LLC

Debit I/C Receivable from Bank of Adelpia	\$500
Credit Debt	(\$500)

Bank of Adelpia

Debit Cash	\$500
Credit I/C Payable to CCH LLC	(\$500)

2. \$500 paid to, or on behalf of, ABIZ.

ABIZ

Debit Assets	\$500
Credit Affiliate Payable to Bank of Adelpia	(\$500)

Bank of Adelpia

Debit Affiliate Receivable from ABIZ	\$500
Credit Cash	(\$500)

3. ABIZ is allocated \$500 of the co-borrowing

ABIZ

Debit Affiliate Payable to Bank of Adelpia	\$500
Credit Debt	(\$500)

Bank of Adelpia

Debit IC Payable to CCH LLC	\$500
Credit Affiliate Payable to ABIZ	(\$500)

CCH, LLC

Debit Debt	\$500
Credit IC Payable to Bank of Adelpia	(\$500)

44. In early 2002 ABIZ was spun-off from Adelpia. The \$500 million owed under the co-borrowing agreement was among the debts spun-off to the new company. Unlike CCH LLC and Prestige Georgia, ABIZ did not have to reflect the full balance of the obligations under the co-borrowing facility because its liability was limited to \$500 million. CCH LLC and Prestige Georgia, however, did have to include ABIZ's \$500

million in their co-borrowing obligations since they were jointly and severally liable for ABIZ's debt.

45. In March 2002 ABIZ filed for bankruptcy protection. Adelphia concluded ABIZ could not repay the debt and the \$500 million was written-off.²² The obligation to assume ABIZ's obligations to the co-borrowing lenders falls to the other co-borrowers under their joint and several liability. It is not the responsibility of the Bank of Adelphia, as claimed by Mr. Scouler, because the Bank of Adelphia is not a party to the co-borrowing agreement. Mr. Scouler's analysis would enable CCH LLC's to avoid the responsibility it assumed as a co-borrower under the co-borrowing facility.

IV. Intercompany Interest

46. Mr. Scouler does not quantify his claim for intercompany interest, but notes that it would represent interest charges relating to the errors he claims for Push-Down Accounting and for the recording of co-borrowing debt. It is my opinion that neither of these claims by Mr. Scouler is valid and, therefore, this element of his claim would be zero. However, as noted in my initial Report, I understand the intercompany balances presented in the May 2005 Schedules include intercompany balances that existed between entities prior to Adelphia's acquisition of the entities. I believe these are the same transactions Mr. Scouler discusses as "Historic Balances." If intercompany interest charges or credits would have been different had these intercompany balances not been considered to involve the Bank of Adelphia, intercompany interest charges or credits should be adjusted for such differences.

V. X0 Transactions

47. Mr. Scouler identifies three transactions as constituting X0 transactions. Mr. Scouler's analysis suggests that these transactions involve the transfer of \$1.5 billion

²² *Ibid.*

of debt among Arahova, CCC and CCH LLC. He states on page 30 of his Report “...there is no evidence to suggest that these transactions did not represent actual economic value to either of the entities involved and were fraudulent.” At page 31, however, he concludes “The X0 Transactions, if they occurred as described, did not have any economic or legal substance to the entities involved and were, therefore, fraudulent.” In his overall summary at page 3 of his Report, Mr. Scouler notes the effect of the “X0 transactions and interest” is \$82 million, which he cites to an Excel spreadsheet prepared by Lazard Freres. Mr. Scouler does not explain how the \$1.5 billion transactions he identifies result in the \$82 million in adjustments that he quantifies. Finally, Mr. Scouler notes that on November 29, 2005 he received information that the X0 transactions he describes may not have occurred. From Mr. Scouler’s statements, I’m not sure what Mr. Scouler has concluded, nor am I sure of his bases for concluding that the three transactions he identifies had any relationship to the X0 transactions, or that these transactions were fraudulent.

48. Based on the deposition testimony of Ms. Wittman, Mr. Macdonald and Mr. Donovan, my understanding of what is referred to as the X0 transactions is that they relate to entries involving cost centers with an “X0” prefix. I reviewed Adelphia’s intercompany database and summarized all such transactions, which I have included under Tab 4 to this Report. The net impact of these entries to Arahova and its subsidiaries is \$82 million. The entries discussed by Mr. Scouler do not appear among the entries in the X0 cost centers under Tab 4.

49. The description of many of the “X0” cost center entries appears to refer to APB 20, which likely stands for the 20th opinion of the Accounting Principles Board²³ which was issued in July 1971. That opinion is titled “Accounting Changes” and relates to how changes are presented in financial statements, including changes in accounting principles being applied, changes in previous accounting estimates, changes in the entity

²³ The predecessor to the Financial Accounting Standards Board and the body that specified GAAP at the time.

that is reporting, and changes that result from the correction of an error in previously issued financial statements. None of these descriptions appears to apply to the entries identified by Mr. Scouler.

50. Changes made in accordance with APB 20 are changes that are required by GAAP and are certainly not “fraudulent” as described by Mr. Scouler. Further, I am aware of no testimony or analysis that indicates the transactions referred to as X0 are inappropriate. In fact, Mr. Donovan’s testimony indicates that the entries were appropriately made to comply with APB 20. My analysis of the X0 entries is continuing; as noted above, the potential impact of excluding these entries on Arahova and its subsidiaries is no more than approximately \$82 million, assuming all intercompany liabilities are with the Bank of Adelphia.

51. What Mr. Scouler attached as exhibit 13 to his Report, and what he discusses as being the X0 transactions, are actually a series of entries made by Adelphia relating to the initial draws on the CCH LLC co-borrowing credit facility in April 2000. Adelphia’s initial entry recording these draws was incorrect, and the problem was compounded by attempts to correct the original error. While having nothing to do with the X0 cost centers, Mr. Scouler’s analysis is instructive as to why the Bank of Adelphia Convention is necessary and appropriate.

52. The initial entry in this series of entries, Journal Identification Number (“JID”) UG453, was made on May 1, 2000 with an effective date of April 30, 2000, as follows (\$ in millions):

Entries posted May 1, 2000 to record a \$750 draw on April 14, 2000 and a \$750 draw on April 17, 2000²⁴

<u>CCC</u>		
Debit I/C Receivable from Bank of Adelpia	\$1,500	
Credit Debt		(\$1,500)
<u>Bank of Adelpia</u>		
Debit Cash	\$1,500	
Credit I/C Receivable to CCC		(\$1,500)

This entry was an error because CCC was not the named borrower on the CCH LLC credit facility. Therefore, neither the debt nor the intercompany receivable from the Bank of Adelpia should have been recorded in CCC's financial records.

53. The next entry, JID UG407, posted May 3, 2000, was apparently the first attempt at correcting the erroneous entry made on May 1, 2000. The entry recorded \$1.5 billion of debt in Arahova's financial records with an offsetting intercompany receivable from CCC (\$ in millions):

<u>Arahova</u>		
Debit I/C Receivable from CCC	\$1,500	
Credit Debt		(\$1,500)
<u>CCC</u>		
Debit Debt	\$1,500	
Credit I/C Payable to Arahova		(\$1,500)

This entry incorrectly recorded the debt and an intercompany receivable in Arahova's financial records. Additionally, while the entry removed the debt from CCC's financial records, it failed to remove the intercompany receivable from the Bank of Adelpia in CCC's financial records.

54. The third entry, JID MG125, posted June 23, 2000, was apparently a second attempt at correcting the erroneous entry made on May 1, 2000. This entry recorded \$1.5 billion of debt in CCH LLC's financial records with an offsetting intercompany receivable from CCC, and eliminated

²⁴ The entries aggregate \$1,484,600,000 coming into the Bank of Adelpia. The nature of the \$15,400,000 difference between this amount and the \$1,500,000,000 recorded as debt has not been verified, although it may relate to fees.

the \$1.5 billion debt erroneously recorded on May 3, 2000 on Arahova's financial statements. This appears to be the entry identified in exhibit 13 to Mr. Scouler's Report as the X0 transactions (\$ in millions):²⁵

<u>CCC</u>	
Debit I/C Receivable from Arahova	\$1,500
Credit I/C Payable to CCH LLC	(\$1,500)
<u>Arahova</u>	
Debit Debt	\$1,500
Credit I/C Payable to CCC	(\$1,500)
<u>CCH LLC</u>	
Debit I/C Receivable from CCC	\$1,500
Credit Debt	(\$1,500)

This entry correctly recorded the debt in CCH LLC's financial records. The entry also correctly eliminated the debt from Arahova's financial records and reversed Arahova's intercompany receivable from CCC that was recorded by the May 3rd entry. However, the entry did not correct the error made in the original May 1st intercompany entry reflecting a payable from the Bank of Adelpia to CCC. Instead, this entry recorded a new intercompany payable in CCC's financial records, this time to CCH LLC. While on a net basis, this entry corrected the amount of CCC's intercompany/affiliate liabilities, the intercompany/affiliate counterparties identified in CCC's and CCH LLC's financial records were incorrect.

55. Without the Bank of Adelpia Convention, Adelpia's general ledger would reflect, in relation to the April 14, 2000 and April 17, 2000 draws on the CCH LLC co-borrowing facility, \$1.5 billion of debt at CCH LLC, offset by an intercompany receivable from CCC. CCC would reflect a payable to CCH LLC offset by a receivable from the Bank of Adelpia. CCC's presence in this transaction is an error. CCC did not receive the cash from the CCH LLC credit facility; the Bank of Adelpia did. CCH LLC should have a direct receivable from the Bank of Adelpia and the entries

²⁵ The diagram on Mr. Scouler's Exhibit 13 includes a column entitled "Nellp Adjusting Entry." I am unaware of any support for the adjusting entries in this column. Additionally, these entries do not appear to have been entered in the Adelpia's Restatement database.

related to CCC should have been completely reversed. The Bank of Adelpia Convention accomplishes both of these corrections.

56. Under the Bank of Adelpia Convention, the series of entries described above results in CCH LLC properly reflecting \$1.5 billion of debt and a corresponding \$1.5 billion receivable from the Bank of Adelpia for the cash deposited into the CMS. The erroneous intercompany receivable from the Bank of Adelpia, and the intercompany payable to CCH LLC recorded in CCC's financial records properly cancel. This results in, for the purposes of this transaction, no net activity being reported for CCC. As testified to by Mr. Macdonald, reversing entries could have been manually made to correct the erroneous entries, however, it was far more efficient to correct the entries and reflect appropriate balances through schedules such as the May 2005 Schedules.

VI. The Bank of Adelpia

57. Mr. Scouler's discussion of the Bank of Adelpia is flawed in that he fails to address the central question: "Do the May 2005 Schedules, which treat intercompany liabilities as being payables to and receivables from the Bank of Adelpia, accurately reflect transactions pursuant to Adelpia's prepetition CMS?" The testimony of Adelpia employees that I have reviewed is consistent on this point-- the methodology underlying the May 2005 Schedules depicts the working of the CMS. Adelpia maintained a CMS which closely resembled the CMS approved by the Bankruptcy Court, postpetition, and it is reasonable to treat transactions among Adelpia entities, other than transactions evidenced by individual notes or agreements, as being intercompany liabilities to or receivables from the Bank of Adelpia.

58. Mr. Scouler's example of "the appropriate use of a centralized cash management account" in which "the parent entity has disbursed cash for an expense on

behalf of their subsidiary,”²⁶ which hypothetically assumes Arahova Parent disburses cash, is factually incorrect. As repeatedly testified, in the Adelphia corporate structure, Arahova Parent could not have disbursed cash on behalf of its subsidiary -- it did not have a bank account to enable such a transaction. Rather, cash was disbursed on behalf of Arahova and its subsidiaries by the Bank of Adelphia, an indirect subsidiary of ACC, but not a subsidiary of Arahova. The intercompany liabilities reflected on the May 2005 Schedules reflect the obligation of Arahova and its subsidiaries to repay the Bank of Adelphia for its expenditures on their behalf. The example below, included in the Debtors’ October 2003 presentation on intercompany balances, illustrates the manner in which intercompany liabilities for expenses were incurred and recorded:

Step 1 – After an invoice is received and approved for payment by the subsidiary, the invoice is input into accounts payable:

<u>Subsidiary</u>	
Debit Expense	\$100
Credit Accounts Payable	(\$100)

Step 2a – Upon payment of the invoice [by Bank of Adelphia] accounts payable is relieved and replaced by an intercompany payable to the Bank of Adelphia:

<u>Subsidiary</u>	
Debit Accounts Payable	\$100
Credit I/C Payable to Bank of Adelphia	(\$100)

Step 2b – Bank of Adelphia pays the invoice and records an intercompany receivable from the subsidiary:

<u>Bank of Adelphia</u>	
Debit I/C Receivable from Subsidiary	\$100
Credit Cash	(\$100)

59. Mr. Scouler’s description of Adelphia’s accounting for intercompany liabilities through the Bank of Adelphia as “churning” is also inaccurate. Mr. Schuler statement, in relation to the accounting for the Cablevision acquisition, that “over \$5

²⁶ Scouler report, page 26.

billion of intercompany receivables and \$5 billion of intercompany payables were booked as part of a \$1.5 billion dollar [sic] transaction”²⁷ ignores Mr. Macdonald’s testimony regarding intercompany counterparties. Notwithstanding Mr. Scouler’s statement that “deposition testimony was less than clear,” Mr. Macdonald stated, in no uncertain terms, that including a counterparty in Adelphia’s intercompany entries other than the Bank of Adelphia (without documentation supporting such liability) is an error. Mr. Macdonald further testified, when asked to explain why the prepetition general ledgers were not changed to reflect all intercompany payables through the Bank of Adelphia: “We chose not to do all the journal entries it would have taken to do that and the months of work that it would have involved.”²⁸ As discussed in my initial Report, Mr. Macdonald’s decision to correct this error through the May 2005 Schedules, and not in the restatement database, is reasonable and not a violation of GAAP.

60. The May 2005 Schedules, which correct for counterparty errors, reflect only \$1.5 billion of intercompany liabilities related to the \$1.5 billion Cablevision Acquisition. Mr. Scouler’s reference to \$5 billion in intercompany receivables and payables booked in the general ledger, prior to correcting for counterparty errors cited by Mr. Macdonald, is a perfect example of why intercompany liabilities or receivables are appropriately recognized as being to or from the Bank of Adelphia, the manner in which the May 2005 Schedules were done.

61. Mr. Scouler’s final criticism of the appropriateness of recognizing intercompany liabilities or receivables as being to or from the Bank of Adelphia is that the “Bank of Adelphia Theory” negatively impacts the recovery of Arahova Noteholders, his client. Even if true, this observation does not provide a reasonable basis for ignoring the manner in which transactions actually occurred, and ignoring the correction of counterparty errors cited by Mr. Macdonald. As stated in my initial Report, an important element in determining the reliability of Adelphia’s restated financial records is that

²⁷ Scouler report, page 27.

²⁸ Macdonald Deposition, p. 225: 7-10.

Adelphia's postpetition management did not concern itself with which entities benefited from, or were harmed by, the restatement; their only concern was creating the most accurate financial records possible.

VII. Historic Balances

62. I believe this category represents the same intercompany balances which I described as "Acquired Historical Intercompany Balances" in my initial Report, representing balances presented in the May 2005 Schedules that were intercompany balances that existed between entities prior to Adelphia's acquisition of the entities. I concluded in my initial Report that since these pre-acquisition intercompany accounts could not have involved the Bank of Adelphia, and absent a formal agreement transferring the intercompany transactions to the Bank of Adelphia, they should retain the identity that existed at the time of acquisition.

VIII. Other Analyses

63. I have been asked to prepare a summary of the estimated monthly EBITDA²⁹ for Arahova, CCHC, CCH LLC, Century-TCI and Arahova Holdings, for each month from January 2000 through September 2001, both as originally recorded in Adelphia's prepetition general ledger and as restated through the restatement process. This summary included under Tab 5 to this Report was prepared as follows:

- First, the legal entities that make up each of the companies listed above were determined through reference to the "pre-bankruptcy combined organization chart," identified in my initial Report;
- Second, the cost centers relating to each of these entities were determined through reference to the "cost center map," identified in my initial Report;

²⁹ EBITDA is a common business acronym for "Earnings before Interest, Taxes, Depreciation and Amortization."

- Finally, I reviewed Adelphia's Chart of Accounts and determined that accounts in the "40000000" series appeared to encompass Adelphia's revenue accounts, accounts in the "50000000" series appeared to encompass Adelphia's operating expenses, accounts in the "60000000" series appeared to encompass Adelphia's programming expense accounts and accounts in the "70000000" series appeared to encompass Adelphia's selling, general and administrative expenses. I also determined that accounts in the "80000000" and "90000000" series appeared to contain interest expense, depreciation and amortization and tax expenses—the type expenses I wanted to exclude from the EBITDA balances.

64. I do not have access to Adelphia's consolidation program or a cross-reference to the accounts Adelphia includes in operating expenses, programming expenses or sales, general and administrative expenses. Therefore this analysis may not completely agree to the financial information that would be reported by Adelphia. However, I believe that this analysis provides a reasonable estimation of the restated EBITDA of the groups of entities identified above and is far more accurate than relying on an EBITDA based on financial statements filed by Adelphia prior to bankruptcy.

65. Since restated subsidiary financial statements were not filed by Adelphia with the SEC, I performed a reasonableness check of my estimation based on Adelphia's restated consolidated results filed in December 2004. This analysis is included under Tab 6. I estimated the impact of Adelphia's restatement process by comparing the latest publicly filed pre-petition consolidated financial information with Adelphia's restated consolidated financial information. This analysis indicates that Adelphia's reported EBITDA, based on pre-petition financial statements as of September 30, 2001, was more than double the actual EBITDA. This level of overstatement is consistent with my estimation of the impact of the restatement process on the restated EBITDA for the Adelphia subsidiaries identified above.

66. In Mr. Henkin's Report, he appears to include intercompany balance amounts based on data prior to the completion of the restatement process. Mr. Henkin's Report identifies analyses conducted by the Debtors' on or before December 22, 2003 and in the second quarter of 2004 (see page 26 of Mr. Henkin's Report, footnote 3 on ACC IC2 000052 and IRD00152026). Both of these data sources would have been based on information generated prior to the completion of the restatement process. In excess of 477,000 and 218,000 restatement entries are included in the Intercompany Database which were entered after December 22, 2003 and March 31, 2004, respectively. Since these restatement entries could have a material impact on the balances included in Mr. Henkin's analysis, I was asked to prepare summaries of Intercompany Balances as of August 31, 2001, September 28, 2001 and September 30, 2001 in the same format as the May 2005 Schedule. This was done by summing the balances in the intercompany database for each legal entity with an effective dates prior to these dates. These schedules are included under Tab 7.

CONTINUING OBLIGATIONS

67. I am aware of my continuing obligation under Rule 26, Fed.R.Civ.P to supplement this Report if additional information becomes available which would cause me to alter my opinions as expressed in this Rebuttal Report.