CONSOLIDATED CLASS ACTION COMPLAINT

December 22, 2003
CONSORTIATED CLASS ACTION COMPLAINT

Plaintiffs, by their undersigned attorneys, for their consolidated class action complaint under the Securities Laws and applicable state law, allege the following upon personal knowledge as to themselves and their own acts, and upon information and belief as to all other matters, based upon the investigation made by and through their attorneys:

I. INTRODUCTION AND OVERVIEW

1. This case arises out of one of the most extensive financial frauds ever uncovered at a public company. From at least 1998 through March 2002, Adelphia Communications Corporation (“Adelphia” or the “Company”) -- the nation’s sixth largest cable-television company -- systematically and fraudulently failed to report billions of dollars in liabilities in its consolidated financial statements consisting, at December 31, 2001, of approximately $2.6 billion in loans drawn down by entities owned and controlled by the Rigas Family, Adelphia’s founders and controlling shareholders. Unbeknownst to investors, the Rigas Family used
approximately $1.9 billion of the proceeds of these off-balance sheet loans to purchase Adelphia securities. These purchases, financed with monies Adelphia was jointly liable to repay, masked the Company’s true capital structure. Billions of dollars in reported shareholder equity were in fact debt owed by Adelphia. The fraud did not stop there. Adelphia also inflated earnings to meet Wall Street’s expectations, falsified key operations statistics, and concealed blatant self-dealing by the Rigas Family. In contrast to the picture painted for investors by Adelphia’s SEC filings and other publicly disseminated statements, the Rigas Family ran Adelphia as if it were their personal piggy bank without regard for their obligations to investors or creditors. Misuse of corporate assets, commingling of corporate and Rigas Family assets and liabilities and self-dealing on the most massive scale imaginable were the order of the day at Adelphia. No avenue for fraud and misrepresentation remained unexplored.

2. Adelphia incurred off-balance sheet liabilities through several syndicated credit facilities entered into by certain Adelphia subsidiaries and various Rigas Family entities as co-borrowers. Any party to such credit facilities could draw down funds thereunder. Regardless of which party drew down funds, all the parties to such credit facilities remained jointly liable for the repayment of the debt.

3. During the Class Period, the Rigas Family caused the draw down of billions of dollars under such credit facilities for various improper uses by members of the Rigas Family, including the purchase of securities in Adelphia’s public offerings. The resultant debt either was not recorded on Adelphia’s books or, if properly recorded, was later removed improperly from Adelphia’s books and reclassified as debt of certain Rigas entities pursuant to fraudulent journal entries and other sham transactions in which various Rigas entities purported to “assume” such debt.
4. Such purported “reclassification” and/or “assumption” of debt by the Rigas entities did not change the underlying material undisclosed facts: Adelphia remained jointly and severally liable for all such amounts under the terms of such credit facilities. Not only was Adelphia liable ultimately for the repayment of such debt, pursuant to Generally Accepted Accounting Principles (“GAAP”), Adelphia was required to report such indebtedness as a liability on its balance sheet. Its failure to so report rendered its financial statements materially false and misleading.

5. As a result of such concealment which could not have been accomplished without the acquiescence and affirmative actions of its auditor Deloitte & Touche, LLP (“Deloitte”), during the Class Period Adelphia’s financial statements materially understated the total amount of Adelphia’s debt, overstated Adelphia’s equity capital, fundamentally misrepresented the Company’s capital structure, and concealed its source and flow of funds. From at least mid-1999 through the last quarter of 2001, Adelphia systematically and fraudulently understated its consolidated liabilities by up to $2.6 billion. As of June 26, 2002, those liabilities totaled $3.4 billion. The omission of these liabilities was a deliberate scheme to under-report Adelphia’s overall debt, falsely portray Adelphia as de-leveraging in response to market concerns, conceal Adelphia’s inability to comply with debt ratios in loan covenants and thus ensure the continued extension of debt and equity financing to Adelphia. The concealment of this misconduct artificially inflated the prices of Adelphia securities throughout the Class Period.

6. Defendants perpetrated this massive fraud through the employment of what in essence was a joint bank account called the Cash Management System (the “CMS”). Like a joint bank account, any “account holder” could deposit funds into or withdraw funds from the CMS. Unfortunately for Adelphia’s investors and unbeknownst to them until May 24, 2002, Adelphia
and its subsidiaries were not the only account holders in the CMS. The Rigas Family (including each of John Rigas and his three sons and the numerous entities directly or indirectly controlled by them) were also participants in the CMS with full and apparently unrestricted withdrawal privileges. The Company’s May 24, 2002 Form 8-K revealed the awful truth regarding the CMS:

Each Adelphia CMS Participant (i) deposits all or some of its cash generated or otherwise obtained from its operations, borrowings and other sources into the Adelphia CMS, (ii) withdraws cash from the Adelphia CMS to be used for its expenses, capital expenditures, repayments of debt and other uses, and (iii) engages in transfers of funds with other Adelphia CMS Participants. The operation of the Adelphia CMS results in the commingling of funds among the Adelphia CMS Participants, which include Company subsidiaries and Rigas Entities. These transactions create numerous related party payables and receivables among the Adelphia CMS Participants.

(emphasis added). Adelphia’s incurring of billions of dollars in unrecorded and undisclosed debt, the proceeds of which were funneled into the CMS for improper use by the Rigas Family, was further exacerbated by two key facts: (i) until the fraud was disclosed in May 2002 no formal agreements were ever executed that required the Rigas Family to repay the debt it was incurring and, more critically, (ii) the Rigas Family lacked the capacity to repay the massive amount of debt it incurred for which Adelphia was ultimately liable.

7. Moreover, as investors learned only at the conclusion of the Class Period, the members of the Rigas family used approximately $1.9 billion of the co-borrowed debt to purchase Adelphia securities for themselves during the Class Period. These purchases were materially misrepresented by the Rigas Family as equity investments in Adelphia designed to reduce the Company’s reliance on bank debt, thereby assuaging concerns of investors and Wall Street. In fact, however, these “purchases” of Adelphia securities were “paid for” by the Rigas
Family with money borrowed by Adelphia for which Adelphia remained liable. Thus, the “purchases” did not reduce the Company’s bank debt but instead, unbeknownst to investors, increased it. The undisclosed use of Adelphia’s own credit to finance the Rigas Family’s securities purchases artificially and deceptively inflated the prices of Adelphia securities because (i) public investors were misled about the source of funds being used and Adelphia’s capital structure and ever-increasing debt, and (ii) the purchases themselves constituted fabricated demand for Adelphia securities which artificially and deceptively inflated their prices in the marketplace during the Class Period.

8. The Individual Defendants’ fraudulent scheme continued even after Adelphia first acknowledged the existence of the undisclosed off-balance sheet liabilities on March 27, 2002. In the ensuing two months, the Rigas Family covered up its conduct and secretly diverted $174 million more in Adelphia funds to pay margin calls on personal loans of Rigas Family members.

9. This massive fraud could not have been carried off by Adelphia and the Rigas Family without the primary participation by auditors, underwriters, lawyers and other professionals on whom the investing public relies. Defendant Deloitte had long served as the Company’s auditors and concurrently provided audit services for Rigas Family entities. Given Deloitte’s dual roles, its access to the underlying books and records of both the Company and the Rigas Family entities, its involvement in the credit facilities and its approval of Adelphia’s debt covenant compliance calculations, the fraud alleged herein was certainly known to Deloitte. Aspects of the fraud were readily apparent to Deloitte from its work with the Company’s and the Rigas Family entities’ books and records. Deloitte certainly must have known or should have known of the existence of the CMS and the manner in which Company funds and assets were being commingled with Rigas Family assets. Deloitte failed to fulfill its professional
responsibilities and to conduct what it conceded were high risk audits of Adelphia’s financial statement in accordance with Generally Accepted Auditing Standards (“GAAS”) to determine whether those financial statements comported with GAAP. Plaintiffs and the Class sustained damages as a result of Deloitte’s abdication of its responsibility. Deloitte is currently the subject of a pending investigation by the Securities and Exchange Commission (“SEC”) in connection with services it provided to Adelphia.

10. The underwriter defendants were also primary participants in the alleged scheme. The underwriter defendants knew that the investing public would rely on the representations contained in Adelphia’s registration statements, prospectuses and public filings in making investment decisions. The underwriter defendants violated their duties to the investing public under the federal securities laws in order to collect lucrative underwriting fees throughout the Class Period as Adelphia repeatedly sought access to the capital markets to raise funds from the investing public.

11. The Rigas Family’s scheme was furthered by the participation of the lending bank defendants (the “Lending Bank Defendants” or “Lending Banks”) which banks arranged for and facilitated the use of various credit facilities to which Adelphia subsidiaries and certain Rigas Family entities were parties. The Lending Banks knowingly and/or recklessly turned a blind eye to the fact that the Rigas Family entities and Adelphia were utilizing the proceeds of the credit facilities to perpetrate this massive fraudulent scheme. In particular, the Lending Banks, with knowledge of Adelphia’s under-reporting of debt, continued to loan money under such credit facilities, knowing and/or recklessly disregarding that they were thereby funding an ongoing fraud. The Lending Banks’ participation enabled Adelphia to continue to raise money in the public securities markets to fund its cash needs and thereby to keep the scheme in operation. As
alleged below, the Lending Banks extended billions of dollars under such credit facilities knowing and/or recklessly disregarding that, although Adelphia was directly liable for all such indebtedness incurred, Adelphia’s consolidated financial statements omitted to disclose the existence of such debt.

12. By virtue of such conduct, the Lending Banks are liable as primary violators under the federal securities laws in that, with scienter, the Lending Banks participated in such fraudulent scheme extending credit to the Rigas Family and enabling it to artificially control and/or affect the market for, and thereby artificially inflated the prices of, Adelphia publicly traded securities during the Class Period. The Lending Banks are also liable for aiding and abetting in that they knowingly and/or with a high degree of awareness substantially assisted the commission of the fraudulent scheme alleged herein. The extension of credit by the Lending Banks under these circumstances constituted direct and/or indirect participation by them in manipulative and deceptive conduct in connection with the purchase and/or sale of securities.

13. The Bank of New York ("BONY") is named as a defendant in this action to redress its continuing violations during the Class Period of the requirements of the Trust Indenture Act and two qualified trust indentures executed by the Company. As set forth below, contrary to the requirements of the Trust Indenture Act and the indentures, BONY failed to: (i) notify Plaintiffs, Class members and the SEC of the existence and terms of loan agreements that BONY had entered into with the Company and of numerous different extensions of credit from time to time thereunder; (ii) disclose that the Company was in default under the indentures starting at least as early as December 3, 1999; (iii) disclose the existence of certain statutorily defined conflicting interests that BONY had throughout the Class Period which, under the Trust
Indenture Act, compelled BONY’s disqualification as trustee under the indentures, and; (iv) resign as trustee under the indentures.

14. Had BONY complied with the Trust Indenture Act and the indentures, Plaintiffs and the Class would have been alerted to the fact that the Company was in default under the indentures. Had class members been aware of this, they would not have purchased bonds of the Company issued under the indentures or would have purchased them only at materially lower prices.

15. Following the March 27, 2002 disclosure of the existence of Adelphia’s massive off-balance sheet debt, Adelphia failed to file its 2001 Form 10-K and fired Deloitte. The price of Adelphia’s stock -- which during the Class Period had traded as high as $73.77 per share -- collapsed from a closing price of $20.39 per share on March 26, 2002 to a closing price of $0.79 on June 3, 2002, when the National Association of Securities Dealers Automated Quotation System (“NASDAQ”) delisted the stock. By June 7, 2002, Adelphia stock closed in over-the-counter trading at $0.30 per share. The prices of Adelphia’s other publicly traded securities similarly collapsed. On June 26, 2002, Adelphia and its 227 subsidiaries and affiliates filed a voluntary petition under Chapter 11 of the Bankruptcy Code.

16. As of the date of this complaint, Adelphia has preliminarily restated certain of its financial results for the years ended December 31, 1999 and December 31, 2000. Though Adelphia has stated its intention to restate its financial statements for the years ended December 31, 1999 and December 31, 2000 and its interim statements for 2001 and “possibly other periods,” it has not accomplished such restatements. These announcements constitute admissions by Adelphia that the financial statements issued for those periods are materially false and misleading. Additionally, Adelphia has not completed its financial statements for the years
ended December 31, 2001 and December 31, 2002 or received an opinion from its auditors on such financial statements, or completed its quarterly reports on Forms 10Q for any of the quarterly periods during 2002 or 2003. Though new management took control from the Rigas Family in May 2002 and retained new outside auditors following the termination of Deloitte’s engagement, as of December 3, 2003, the date of Adelphia’s most recent Form 8-K filing, the Company was “unable to predict” when all of the foregoing financial statements would be completed.

II. JURISDICTION AND VENUE

17. The claims asserted herein arise under Sections 11, 12(a)(2) and 15 of the Securities Act of 1933 (the “Securities Act”), 15 U.S.C. §§77k, 77l(a)(2), and 77o, and Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 (the “Exchange Act”), 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5, 17 C.F.R. §240.10b-5, and the Trust Indenture Act of 1939 (the “Trust Indenture Act”), 15 U.S.C. §77jjj, 77mmm, 77ooo and 77www et seq., and the rules promulgated thereunder by the SEC and the common law of the state of New York.


19. Venue is proper in this Judicial District pursuant to Section 22 of the Securities Act, 15 U.S.C. §77v, Section 27 of the Exchange Act, 15 U.S.C. §78aa, 15 U.S.C. §77vvv which incorporates Section 22(a) of the Securities Act, and 28 U.S.C. §1391(b) and (c). Many of the acts and transactions alleged herein, including among others, the preparation and dissemination to the investing public of false and misleading information by means of misrepresentations or omissions
of material fact in this district to credit agencies and market analysts, occurred in substantial part in this Judicial District. Moreover, some defendants’ corporate headquarters are located in this Judicial District. Moreover, 28 U.S.C. §1407 necessarily confers jurisdiction on this Court over the parties in this Multidistrict proceeding. In re Adelphia Communs. Corp. Secs. & Derivative Litig. (No. II), 273 F. Supp.2d 1353, 03 MDL 1529, (S.D.N.Y. July 23, 2003). Finally, the SEC’s civil action against certain defendants is pending in this Judicial District. SEC v. Adelphia Communications Corp., et al., 02 Civ. 5776 (KMW) (S.D.N.Y.).

In connection with the acts, transactions and conduct alleged herein, defendants directly and indirectly, used the means and instrumentalities of interstate commerce, including the United States mails, interstate telephone communications and the facilities of a national securities exchange.

III. THE PARTIES

A. Lead Plaintiffs

21. Plaintiff Eminence Capital, LLC (“Eminence”) purchased Adelphia securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. During the Class Period, Eminence purchased shares of Adelphia Class A common stock. As a result of these purchases of Adelphia stock, Eminence suffered losses in the amount of $22,310,000.


1 All plaintiffs have previously submitted certifications to the Court evidencing their purchases of Adelphia securities.
Group”) purchased Adelphia securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. During the Class Period, the Argent/UBS Group purchased Adelphia debt securities. As a result of these purchases of Adelphia debt securities, Argent/UBS Group suffered losses in the amount of $43,000,000.

23. By order dated December 5, 2003, the Honorable Lawrence McKenna appointed Eminence and the Argent/UBS Group as Lead Plaintiffs in accordance with the provisions of the Private Securities Litigation Reform Act.

B. Additional Named Plaintiffs

24. Plaintiffs Alan Garner (“Garner”) and PAX World High Yield Fund Inc. (“PAX”) purchased Adelphia debt and equity securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. During the Class Period, Garner purchased Adelphia Class A common stock. PAX purchased Adelphia 10 1/4% Senior Notes due June 15, 2011 (“10 1/4% Notes”), Adelphia’s 3.25% Convertible Subordinated Notes due May 1, 2021 (“3.25% Notes”) and Adelphia’s 6% Convertible Subordinated Notes due February 15, 2006 (“6% Notes”). Garner and PAX, who are not Lead Plaintiffs in this Action, have joined in this action as Named Plaintiffs and Proposed Class Representatives.

25. Plaintiffs the Louisiana State Employees’ Retirement System (“LASERS”), Fresno County Employees’ Retirement Association (“FCERA”) and the Louisiana Sheriffs’ Pension and Relief Fund (“LSPRF”) purchased Adelphia debt and equity securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. LASERS purchased Adelphia’s 10 1/4% Notes, 10 7/8% Senior Notes due October 1, 2010 (“10 7/8% Notes”), 9 3/8% Senior Notes due November 15, 2009 (“9 3/8% Notes”), 7.875% Senior Notes due May 1, 2009 (“7.875% Notes”), 8.375% Senior Notes due February 1,
2008 (“8.375% Notes”) and 9.875% Senior Notes due March 1, 2007 (“9.875% Notes”). During the Class Period, FCERA purchased Adelphia Class A common stock. During the Class Period, LSPRF purchased Adelphia Class A common stock. LASERS, FCERA and LSPRF, which are not Lead Plaintiffs in this Action, have joined in this action as Named Plaintiffs and Proposed Class Representatives.

26. Plaintiffs Alvin Victor and Harriet G. Victor (the “Victors”) and William D. Huhn (“Huhn”) purchased Adelphia debt securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. During the Class Period, the Victors purchased 6% Notes. During the Class Period, Huhn purchased 6% Notes. The Victors and Huhn, who are not Lead Plaintiffs in this Action, have joined in this action as Named Plaintiffs and Proposed Class Representatives.

27. Plaintiff Charles Seebacher (“Seebacher”) purchased Adelphia securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. During the Class Period, Seebacher purchased Adelphia Class A common stock. Seebacher, who is not a Lead Plaintiff in this Action, has joined in this action as a Named Plaintiff and Proposed Class Representative.

28. Plaintiff Jerrold Ruskin (“Ruskin”) purchased Adelphia securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. During the Class Period Ruskin purchased Adelphia Class A common stock and 9.875% Notes. Ruskin, who is not a Lead Plaintiff in this Action, has joined in this action as a Named Plaintiff and Proposed Class Representative.

29. Plaintiff Ardsley Partners (“Ardsley”) purchased Adelphia securities during the Class Period and suffered damages as a result of the federal securities law violations alleged
Ardsley purchased Adelphia 7.5% Series E Mandatory Convertible Preferred Stock due
November 15, 2004. Ardsley, which is not a Lead Plaintiff in this Action, has joined in this
action as a Named Plaintiff and Proposed Class Representative.

30. Plaintiff Richard I. Burstein ("Burstein") purchased Adelphia securities during the
Class Period and suffered damages as a result of the federal securities law violations alleged
herein. Burstein purchased Adelphia 9.25% Senior Notes due October 1, 2002 ("9.25% Notes").
Burstein, who is not a Lead Plaintiff in this Action, has joined in this action as a Named Plaintiff
and Proposed Class Representative.

31. Plaintiff Maud Eichel ("Eichel") acquired Adelphia securities during the Class
Period and suffered damages as a result of the federal securities law violations alleged herein.
Eichel had 222 shares of Century Communications Corp. ("Century") common stock which she
exchanged for Adelphia Class A common stock pursuant to a merger consummated on or about
October 1, 1999. Eichel, who is not a Lead Plaintiff in this Action, has joined in this action as a
Named Plaintiff and Proposed Class Representative.

32. Plaintiff Robert Lowinger ("Lowinger") acquired Adelphia securities during the
Class Period and suffered damages as a result of the federal securities law violations alleged
herein. Lowinger acquired 151 shares of Adelphia common stock in exchange for 196 shares of
Century common stock. Lowinger, who is not a Lead Plaintiff in this Action, has joined in this
action as a Named Plaintiff and Proposed Class Representative.

33. Plaintiff Lewis Thomas Hardin ("Hardin") purchased Adelphia securities during the
Class Period and suffered damages as a result of the federal securities law violations alleged
herein. Hardin acquired shares of Adelphia Class A common stock. Hardin, who is not a Lead
Plaintiff in this Action, has joined in this action as a Named Plaintiff and Proposed Class Representative.

34. Plaintiff VR Associates (“VR”) purchased Adelphia securities during the Class Period and suffered damages as a result of the federal securities law violations alleged herein. VR purchased Adelphia 9.875% Notes. VR, which is not a Lead Plaintiff in this Action, has joined in this action as a Named Plaintiff and Proposed Class Representative.

C. **Non-Party Adelphia**

35. (a) Non-party Adelphia Communications Corporation (“Adelphia” or the “Company”), founded by defendant John J. Rigas (“John Rigas”) in 1952, was, at all times relevant to the action, the sixth largest cable provider in the United States. Adelphia is incorporated in the State of Delaware and maintains its corporate headquarters at One North Main Street, Coudersport, PA 16915. During the Class Period (defined below), the Company owned and operated cable television systems located mainly in suburban areas of large and medium-sized cities throughout the United States. Adelphia also owned certain local telephone operations in the Eastern United States. Adelphia’s operations consist of providing telecommunication services, primarily over broadband networks which can transmit large quantities of voice, video and data by way of digital or analog signals.

(b) At all times relevant to this action, Adelphia had outstanding two classes of common stock: Class A common stock listed on NASDAQ and Class B common stock which did not trade publicly. Adelphia Class A common stock had one vote per share; Adelphia Class B common stock, though convertible into Class A common stock on a one-for-one basis, had ten votes per share. During the Class Period, Adelphia Class A common stock was actively traded on NASDAQ under the ticker symbol “ADLAC,” and then “ADLAE.” Currently, Adelphia
trades in the over-the-counter market under the ticker symbol “ADELQ.” As of May 24, 1999, the Company had outstanding approximately 50 million shares of Class A Common Stock and 10.8 million shares of Class B Common Stock. As of June 1, 2002, the Company had outstanding approximately 228 shares of Class A Common Stock and 25 million shares of Class B Common Stock.

(c) John Rigas, Adelphia’s founder, is the father of defendants Timothy J. Rigas (“Timothy Rigas”), Michael J. Rigas (“Michael Rigas”), and James J. Rigas (“James Rigas”), (collectively, the “Rigas Family”) and is the father-in-law of defendant Peter L. Venetis (“Peter Venetis”). Throughout the Class Period, the Rigas Family had and maintained a controlling position in the Company through its members’ management positions, directorships and existing holdings and additional purchases of the Company’s Class A and Class B common stock. As of December 2001, the Rigas Family owned 100 percent of Adelphia’s Class B common stock and approximately 15% of Adelphia’s Class A common stock. Because Adelphia Class B common stock has ten votes per share, the Rigas Family controlled a majority of Adelphia’s voting power without owning a majority of the Company’s outstanding stock. Under Adelphia’s certificate of incorporation, holders of Adelphia Class A common stock elect only one of Adelphia’s nine directors. Thus, at all relevant times prior to May 2002, as a result of the Rigas Family’s stock ownership, the Rigas Family had the power to elect, and did elect, all but one of the members of Adelphia’s board of directors.

(d) As a result of the June 25, 2002 Chapter 11 filing and the protections of the automatic stay, Adelphia is not named as a defendant in this complaint.
D. Defendants

1. The Individual Defendants and the Rigas Family Entities

36. Defendant John Rigas, a citizen of the Commonwealth of Pennsylvania, at all relevant times until May 2002, served as the Chairman of Adelphia’s Board of Directors, Chief Executive Officer and President. On May 15, 2002, he resigned as an officer of the Company and, on May 22, 2002, he resigned his position on the Adelphia board. In addition to his positions at the Company, John Rigas was also a director and an executive officer of Adelphia Business Solutions, Inc., (“ABIZ”) both prior to and after its January 2002 spin off to ABIZ public shareholders. John Rigas is the sole owner of Coudersport Television Cable Company (“CTCC”), Eleni Interiors, Inc. (“EI”) and Wending Creek Farms, Inc. (“Wending Creek”). During the Class Period, John Rigas held a 99% limited partner interest in Niagara Frontier Hockey, L.P. (“NFHLP”) a Delaware limited partnership which owned the National Hockey League franchise for the Buffalo Sabres, and, together with his sons, owned 100% of Patmos, Inc., which held a 1% general partner interest in NFHLP. During the Class Period, together with his daughter, Ellen Venetis, he owned ErgoArts, Inc. (“ErgoArts”) and had an equity interest in Songcatcher Films, L.L.C. (“Songcatcher”).

37. Defendant Timothy Rigas, a citizen of the Commonwealth of Pennsylvania, at all relevant times, served as Adelphia’s Chief Financial Officer (“CFO”), Chief Accounting Officer, Executive Vice President and Treasurer, until his resignation from these positions on May 16, 2002. He also served as a director of the Company from 1986 until he resigned as a Board member on May 22, 2002. Notwithstanding the fact that he was a member of management, Timothy Rigas also served as Chairman (and a member) of the Audit Committee of the Adelphia Board of Directors until June 13, 2001. At all relevant times he was also a director and an
executive officer of ABIZ. Timothy Rigas graduated from the University of Pennsylvania, Wharton School, with a B.S. degree in Economics (cum laude) in 1978.

38. Defendant Michael Rigas, a citizen of the Commonwealth of Pennsylvania, at all relevant times, served as Executive Vice President, Operations, Secretary and a member of the Adelphia board until his resignation from these positions on May 22, 2002. At all relevant times he was also a director and an executive officer of ABIZ. Michael Rigas graduated from Harvard University (magna cum laude) in 1976 and received his Juris Doctor degree from Harvard Law School in 1979.

39. Defendant James Rigas, a citizen of the Commonwealth of Pennsylvania, at all relevant times served as Adelphia’s Executive Vice President of Strategic Planning and a member of the Adelphia board until his resignation from these positions on May 22, 2002. At all relevant times he was also a director and an executive officer of ABIZ. James Rigas graduated from Harvard University (magna cum laude) in 1980 and received a Juris Doctor degree and an M.A. degree in Economics from Stanford University in 1984.

40. Defendants John Rigas, Timothy Rigas, Michael Rigas and James Rigas are sometime referred to hereinafter as the “Rigas Defendants.” Defendants John Rigas, Timothy Rigas and Michael Rigas were arrested on July 24, 2002, in connection with a criminal complaint filed by the US Attorney and were charged with various counts of bank, securities and wire fraud. On September 23, 2002, each of them was indicted.

41. Defendant Peter Venetis, a citizen of the State of New York, served as a director of Adelphia from 1999 until he resigned from the Board of Directors of the Company on June 11, 2002. Peter Venetis was also the Managing Director of non-party Praxis Capital Partners, LLC, (“Praxis Capital”), the general partner of Praxis Capital Ventures, L.P., (“Praxis”), an
investment partnership which is a subsidiary of Adelphia. Praxis Capital Management, LLC, ("Praxis Management"), owned by defendant Peter Venetis, is the management company of Praxis Capital Ventures, L.P. At all relevant times, Peter Venetis was also a director and an executive officer of ABIZ. Peter Venetis graduated from Columbia University (cum laude) in 1979 and received his MBA in Finance and International Business from the Columbia University Graduate School of Business in 1981.

42. (a) Defendants Highland Holdings ("Highland Holdings"), a Pennsylvania general partnership, Highland 2000, L.P. ("Highland 2000"), a Delaware limited partnership and Highland Holdings II, a Pennsylvania general partnership ("Highland II") (sometimes referred to as the "Highland Entities"), at all relevant times, are or were partnerships and/or other pass-through entities organized by members of the Rigas Family to hold and control their interest in Adelphia. By virtue of their equity interest in Adelphia and the Adelphia board and management positions held by their partners and/or owners, the Highland Entities were control persons of Adelphia.

(b) At all relevant times, the Rigas Defendants and Ellen Venetis, the general partners of defendant Highland Holdings, directly, or indirectly through Highland Holdings, owned all of the partnership interests in Highland Video Associates, L.P. ("Highland Video Associates"), a Pennsylvania limited partnership. Highland Video Associates owned substantially all of the partnership interests in a number of entities that own or operate cable systems, including Adelphia Cablevision Associates of Radnor, L.P., a Pennsylvania limited partnership, Adelphia Cablevision of West Palm Beach II, LLC, a Florida limited liability company, Montgomery Cablevision Associates, L.P., a Pennsylvania limited partnership, Adelphia Cablevision of West Palm Beach, LLC, a Florida limited liability company, Bucktail
Broadcasting Corporation, a Pennsylvania corporation, and Henderson Community Antenna Television, Inc., a North Carolina corporation. Together with Highland Video Associates, these entities are collectively referred to herein as the “HVA Entities.”

(c) At all relevant times, the Rigas Defendants and Ellen Venetis constituted all of the limited partners of defendant Highland 2000 and the Rigas Defendants collectively owned the General Partner of Highland 2000.

(d) At all relevant times, the Rigas Defendants and Ellen Venetis directly or indirectly owned Doris Holdings, L.P. (“Doris Holdings”) a Delaware limited partnership, NCAA Holdings, Inc. (“NCAA Holdings”) a Delaware corporation, and Iliad Holdings, Inc. (“Iliad Holdings”), a Delaware corporation. These companies collectively owned Hilton Head Communications, L.P. (“Hilton Head”), a Delaware limited partnership, and Ionian Communications, L.P. (“Ionian Communications”), a Delaware limited partnership. The foregoing entities are collectively referred to hereinafter as the “HHC Entities.”

(e) At all relevant times, the Rigas Defendants and Ellen Venetis owned all of the equity interests in Highland Prestige Georgia, Inc. (“Highland Prestige”), a Delaware corporation. Highland Prestige is the parent company of Prestige Communications, Inc., a Georgia corporation, Highland Carlsbad Cablevision, Inc., a Delaware corporation, Highland Carlsbad Operating Subsidiary, Inc., a Delaware corporation, Desert Hot Springs Cablevision, Inc., a California corporation, and Cablevision Business Services, Inc., a Colorado corporation (collectively the “Highland Prestige Entities”).

(f) At all relevant times, the Rigas Defendants and Ellen Venetis were the general partners of Dorellenic Cable Partners (“Dorellenic”) a Pennsylvania general partnership,
and the owners of Wending Creek 3656, LLC (“Wending 3656”), a Delaware limited liability company, which owns certain real property near Coudersport, Pennsylvania.

43. The Highland Entities, Hilton Head, Doris Holdings, Ionian Communications, Highland Prestige, the Highland Prestige Entities, Highland Video Associates, the HVA Entities, Highland Communications, Highland Preferred, CTCC, NCAA Holdings, NFHLP, Coudersport Theatre (a sole proprietorship 100% owned by defendant John Rigas), Dobaire Designs (a sole proprietorship owned by Doris Rigas, the wife of defendant John Rigas), Dorellenic, EI, ErgoArts, Iliad Holdings, Songcatcher, Wending Creek and Wending 3656 and other entities wholly-owned by the Rigas Family are collectively referred to herein as the “Rigas Family Entities.” The Rigas Family Entities are partnerships and/or other pass through entities organized by the Rigas Defendants to hold and control their interests in Adelphia. Neither Adelphia nor any of its direct or indirect subsidiaries owned or owns any interest in any of the Rigas Family Entities. The Rigas Family Entities are, by virtue of their equity interest in Adelphia and the Adelphia directorships of their partners, control persons of Adelphia.

44. Defendant James R. Brown (“Brown”), a citizen of the Commonwealth of Pennsylvania, at all relevant times was the Vice President of Finance of Adelphia and its subsidiaries. He resigned as an officer of the Company on May 19, 2002. On July 24, 2002, Brown was arrested in connection with a criminal complaint filed by the US Attorney and on September 23, 2002, Brown was indicted. On November 14, 2002, Brown pleaded guilty to charges resulting from his participation in the Rigas Family’s fraud described herein.

45. Defendant Michael Mulcahey, a citizen of the Commonwealth of Pennsylvania, at all relevant times was Adelphia’s Vice President and its assistant treasurer and served as director of Internal Reporting for Adelphia, with responsibility for Adelphia’s treasury functions,
including the supervision of all money flowing into and out of Adelphia, its reporting to lenders and debt security holders regarding its financial condition, and its internal record keeping regarding expenditures on behalf of various Rigas Family Entities. Defendant Mulcahey oversaw the CMS. On July 24, 2002, Mulcahey was arrested in connection with a criminal complaint filed by the US Attorney and on September 23, 2002, Mulcahey was indicted.

46. Defendant Pete J. Metros (“Metros”) served as a director of Adelphia from 1986 until he resigned as a Board member on June 4, 2003. At all relevant times, he also served as a member of Adelphia’s Audit Committee. Metros was a designee of the Rigas Family.

47. Defendant Erland E. Kailbourne (“Kailbourne”) replaced John Rigas as Chairman of the Board and interim Chief Executive Officer on May 12, 2002. Kailbourne served as a director of Adelphia from 1999 until he resigned as a Board member on June 4, 2003. From June 13, 2001 until his June 2003 resignation, he also served as a member of Adelphia’s Audit Committee.

48. Defendant Leslie J. Gelber (“Gelber”) served as a director of Adelphia from 1999 until he resigned as a Board member on June 4, 2003. Gelber was a designee of the Rigas Family.

49. Defendant Dennis P. Coyle (“Coyle”) served as a director of Adelphia from 1995 until he resigned as a member of the Board on June 4, 2003. From June 13, 2001 until his June 2003 resignation, he also served as a member of Adelphia’s Audit Committee. Coyle was a designee of the Rigas Family.

50. Defendant Daniel R. Milliard (“Milliard”) at all relevant times, served as Adelphia’s Senior Vice President and Secretary as well as ABIZ’s President and Vice Chairman until he resigned from these positions on September 20, 1999. He also served as a director of the
Company and as a director of ABIZ at all relevant times until October 25, 1999. Milliard was a
designee of the Rigas Family.

51. The Rigas Defendants, Venetis, Brown, Mulcahey, Metros, Kailbourne, Gelber,
Coyle and Milliard (collectively, the “Individual Defendants”), because of their positions with
Adelphia, had access to the material adverse undisclosed information about the Company’s
business, operations, products, growth, financial statements, and financial condition, as alleged
herein. The Individual Defendants were involved in drafting, producing, reviewing and/or
disseminating the false and misleading statements and information alleged herein, were aware, or
recklessly disregarded, that the false and misleading statements were being issued regarding the
Company, and approved or ratified these statements, in violation of the federal securities laws.

52. The Individual Defendants signed numerous materially false statements filed with
the SEC, including Forms 10-K, 10-Q and 8-K, as described below. Further, throughout the
Class Period until April, 2002, the Rigas Defendants along with others, prepared, issued,
reviewed and approved the press releases that Adelphia caused to be disseminated publicly at the
end of each quarter, which purported to outline Adelphia’s operating results for the preceding
quarter. It was the policy and practice of Adelphia, instituted by Timothy Rigas and Michael
Rigas, that, prior to release, each and every press release announcing quarterly results be
reviewed and approved by each of the Rigas Defendants.

53. According to Adelphia employees interviewed by various government authorities,
from in or about 1999 through May 2002, the Rigas Defendants, Brown and other Adelphia
employees participated in preparing, reviewing and certifying consolidated financial statements
for Adelphia that purported to conform with applicable regulatory requirements. The financial
statements were filed with the SEC, and disseminated to the public, through press releases,
quarterly reports on Forms 10-Q and annual reports on Forms 10-K, and in other communications with investors, credit rating agencies, bank lenders and securities analysts. The financial statements filed with Adelphia’s Forms 10-Q and Forms 10-K purported to disclose, among other things, Adelphia’s outstanding debt, its earnings before interest, taxes, depreciation and amortization (“EBITDA”), net income, capital expenditures and other information about its performance, including its “basic cable subscriber” count.

54. Defendants Metros, Kailbourne, and Coyle were members of the Audit Committee at various times during the Class Period and are referred to herein as the “Audit Committee Defendants.” The Audit Committee met once to review the Company’s financial condition and results of operation for the year ended December 31, 1999. The Audit Committee met four times during the year ended December 31, 2000. As disclosed in Adelphia’s Schedule 14A filed with the SEC on or about July 6, 2000, on June 12, 2000 Adelphia’s Board adopted a written charter (the “Charter”) for the Audit Committee defining its primary duties and responsibilities. According to the Charter, the Audit Committee Defendants’ primary duties and responsibilities were to (i) monitor the integrity of the Company’s financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance; (ii) monitor the independence and performance of the Company’s independent auditors and internal auditing department; and (iii) provide an avenue of communication among the Company’s auditors, management, the internal auditing department, and the Board of Directors. Furthermore, the Audit Committee Defendants were provided with the authority to conduct any investigation appropriate to fulfilling the Audit Committee’s responsibilities, and had direct access to the Company’s auditors as well as anyone else at the Company. The Audit Committee
Defendants had the ability to retain, at the Company’s expense, special legal, accounting, or other consultants or experts it deemed necessary in the performance of its duties.

55. The Charter assigned to the Audit Committee Defendants the following specific duties among others:

a. review the Company’s annual audited financial statements and unaudited quarterly financial results prior to filing or distribution, including a discussion with management and the Company’s outside auditors of major issues regarding accounting principles, practices, and judgments that could significantly affect the Company’s financial statements and discuss the results of the audit and/or any significant changes to the Company’s accounting principles and any items required to be communicated by the outside auditors in accordance with Statement on Auditing Standards No. 61 (“SAS 61”);

b. in consultation with management, the outside auditors, and the internal auditors, consider the integrity of the Company’s financial reporting processes and controls, discuss any significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures, review significant findings prepared by the outside auditors and the internal auditing department together with management’s responses;

c. review the independence and performance of the outside auditors and annually recommend to the Board of Directors the appointment of the outside auditors or approve any discharge of auditors when circumstances warrant;

d. review and discuss with the outside auditors all significant relationships they have with the Company that could impair the auditors’ independence; and

e. review the independent auditors’ audit plan and discuss scope, staffing, reliance upon management, and internal audit and general audit approach.
56. The Audit Committee Defendants, the watchdog of the Adelphia Board in overseeing the financial and ethical issues described herein for Adelphia, either intentionally or recklessly failed in their duties enabling the Rigas Family to perpetrate a massive fraud. The Audit Committee Defendants were aware of the scope and the magnitude, if not all of the details, of the Rigas Defendants’ self-dealing. As signatories on the Company’s annual proxy statements and other SEC filings, they were aware of the growth in size of the related party transactions and associated payable to Adelphia from the Rigas Defendants and the Rigas Family Entities. Additionally, the Audit Committee Defendants and defendant Gelber were aware that the Company had entered into indenture agreements, pursuant to which the Company’s debt was issued, that imposed restrictions on transactions between Adelphia or its subsidiaries, on the one hand, and the Rigas Family Entities, on the other. Such transactions were prohibited, if the terms would be less favorable than those Adelphia could obtain in an arms-length transaction with someone other than an affiliate. Indeed, this covenant required Adelphia to obtain Board approval, as well as a fairness opinion, for the very transactions that it routinely entered into with the Managed Entities without these protections. Given the Audit Committee Defendants’ and defendant Gelber’s awareness of the increase in the related party transactions and of the broad restrictions in the Indenture covenants and of the fact that few, if any, related party transactions were submitted to the Board for approval (with or without fairness opinions) the Audit Committee Defendants and Gelber intentionally or recklessly failed in their duties thus enabling the Rigas Defendants to perpetrate this fraud.

57. As officers and/or directors and controlling persons of a publicly-held company whose common stock was, and is, registered with the SEC pursuant to the Exchange Act, and was traded on the NASDAQ, and governed by the provisions of the federal securities laws, the
Individual Defendants each had a duty to disseminate promptly accurate and truthful information with respect to the Company’s financial condition and performance, growth, operations, financial statements, business, products, markets, management, earnings and present and future business prospects, and to correct any previously-issued statements that was known to have become materially false or misleading, so that the market price of the Company’s publicly-traded securities would be based upon truthful and accurate information.

58. The Individual Defendants participated in the drafting, preparation, and/or approval of the various registration statements, prospectuses, shareholder and investor reports and other communications complained of herein and were aware of or recklessly disregarded the misstatements contained therein and omissions therefrom, and were aware of or recklessly disregarded their materially false and misleading nature. Because of their Board membership and/or executive and managerial positions with Adelphia, each of the Individual Defendants had access to the material adverse undisclosed information about Adelphia’s business prospects and financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Adelphia and its business issued or adopted by the Company materially false and misleading.

59. The Individual Defendants, because of their positions of control and authority as officers and/or directors of the Company, were able to and did control the content of the various registration statements, prospectuses, SEC filings, press releases and other public statements pertaining to the Company discussed herein. Each Individual Defendant was provided with copies of the documents alleged herein to be misleading prior to or shortly after their issuance and/or had the ability and/or opportunity to prevent their issuance or cause them to be corrected. Accordingly, each Individual Defendant is responsible for the accuracy of the registration
statements, prospectuses, public reports and releases detailed herein and is therefore primarily 
liable for the representations contained therein.

2. **Deloitte & Touche**

60. Defendant Deloitte, a “Big 4” international accounting and consulting firm, is a 
Delaware limited liability partnership with its principal place of business located at 1633 
Broadway, New York, New York 10019. Deloitte served as Adelphia’s outside auditors at all 
times relevant to this action until Adelphia terminated its engagement on June 9, 2002. Deloitte 
also contemporaneously served as auditor and/or accountant for certain entities controlled by the 
Rigas Defendants, which entities engaged in extensive self-dealing with the Company. As 
described below, Deloitte, as Adelphia’s purported “independent auditor,” falsely represented 
that the Company’s financial statements, reported in several of the Company’s SEC filings, fairly 
presented Adelphia’s financial condition in conformity with GAAP, and falsely represented that 
Deloitte had conducted its audits in accordance with GAAS. According to June 2002 news 
reports in the *New York Times* and the *Wall Street Journal*, on or about May 29, 2002, the SEC 
commenced an inquiry with respect to Deloitte’s role in the Adelphia debacle.

3. **The Underwriter Defendants and Lending Bank Defendants**

61. Defendant ABN AMRO Incorporated (“ABN AMRO”) is a New York 
corporation with its principal place of business located at 55 East 52nd Street, 36th Floor, New 
York, New York 10055. ABN AMRO is an investment bank that is affiliated, and under 
common ownership and control, with ABN AMRO Bank, N.V. ABN AMRO acted as an 
underwriter for the following public offering of Adelphia debt securities:

- $750,000,000 10 7/8% Notes issued September 20, 2000.
62. Defendant ABN AMRO Bank, N.V. ("ABN AMRO Bank") is a banking association organized under the laws of The Netherlands, with a principal place of business located in the State of Illinois. ABN AMRO Bank, a parent and affiliate of ABN AMRO, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, and a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000. ABN AMRO Bank was also a lender in connection with the $800 million credit facility entered into by certain Adelphia subsidiaries on or about December 19, 1997.

63. Defendant Banc of America Securities LLC ("Banc of America") is a Delaware limited liability company with its principal place of business located at 9 West 57th Street, New York, New York 10019. Banc of America is an investment bank that is affiliated, and under common ownership and control, with Bank of America, N.A. Banc of America acted as a lead underwriter for the following public offerings of Adelphia securities:

- $750,000,000 10 7/8% Notes issued September 20, 2000;
- $750,000,000 6% Notes issued January 23, 2001;
- 17,000,000 shares of Class A Common Stock issued January 23, 2001;
- $500,000,000 3.25% Notes issued April 25, 2001;
- $1,000,000,000 10 1/4% Notes issued June 12, 2001; and
- 30,000,000 shares of Class A Common Stock issued November 15, 2001.

In addition, Banc of America acted as an underwriter in connection with a public offering of 6,000,000 shares of Class A Common Stock issued October 6, 1999.
64. Defendant Bank of America, N.A. (“BOA”) is a national banking association with its principal place of business located in the State of Texas. BOA, an affiliate of Banc of America, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, was a lender and Co-Administrative Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender and Managing Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. BOA was also a lender and Documentation Agent in connection with a $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

65. Defendant Barclay’s Capital Inc. (“Barclay”) is a Connecticut corporation with its principal place of business located at 222 Broadway, New York, New York 10038. Barclay is an investment bank that is affiliated, and under common ownership and control, with Barclay’s Bank PLC. Barclay acted as an underwriter for the following public offering of Adelphia debt securities:

- $750,000,000 10 7/8% Notes issued September 20, 2000.

66. Defendant Barclay’s Bank PLC (“Barclay’s Bank”) is a banking association organized under the laws of the United Kingdom, with a principal place of business located in the State of New York. Barclay’s Bank, an affiliate of Barclay, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, and a lender and Arranging Agent in connection with
the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000. Barclay’s Bank was also a lender and Managing Agent in connection with the $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

67. Defendant BMO Nesbitt Burns Corp., f/k/a Nesbitt Burns Securities, Inc. (“BMO Nesbitt”), is a Delaware corporation with its principal place of business located at 3 Times Square, New York, New York 10036. BMO Nesbitt is an investment bank that is affiliated, and under common ownership and control, with Bank of Montreal. BMO Nesbitt acted as an underwriter for the following public offerings of Adelphia debt securities:

- $500,000,000 9 3/8% Notes issued November 16, 1999;
- $500,000,000 3.25% Notes issued April 25, 2001;
- $1,000,000,000 10 1/4% Notes issued June 12, 2001; and
- $500,000,000 10 1/4% Senior Notes due November 1, 2006 (“10 1/4% Notes due 2006”) issued October 25, 2001.

68. Defendant Bank of Montreal (“Bank of Montreal”) is a banking association organized under the laws of Canada, with a principal place of business located in the State of Illinois. Bank of Montreal, an affiliate of BMO Nesbitt, was a lender and Documentation Agent in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, was a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender and Administrative Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and
certain Managed Entities on or about September 28, 2001. Bank of Montreal was also a lender and Managing Agent in connection with a $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

69. Defendant BNY Capital Markets, Inc. (“BNY”) is a New York corporation with its principal place of business located at One Wall Street, New York, New York 10015. BNY is an investment bank that is affiliated, and under common ownership and control, with BONY. BNY acted as an underwriter for the following public offerings of Adelphia debt securities:

- $500,000,000 9 3/8% Notes issued November 16, 1999;
- $500,000,000 3.25% Notes issued April 25, 2001; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

70. Defendant Bank of New York Co., Inc. (“BONY”) is a national banking association with a principal place of business located in the State of New York. BONY, an affiliate of BNY, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, was a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender and Documentation Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. BONY was also a lender in connection with the $800 million credit facility entered into by certain Adelphia subsidiaries on or about December 19, 1997, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December
3, 1999. In addition, BONY, directly or indirectly through its affiliate BNY, acted as an underwriter for the following public offerings of Adelphia securities:

- $500,000,000 9 3/8% Notes issued November 16, 1999;
- $500,000,000 3.25% Notes issued April 25, 2001; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

71. Defendant CIBC World Markets Corp., f/k/a CIBC Oppenheimer (“CIBC World”), is a Delaware corporation with its principal place of business located at 425 Lexington Avenue, New York, New York 10017. CIBC World is an investment bank that is affiliated, and under common ownership and control, with CIBC, Inc. CIBC World acted as an underwriter for the following public offerings of Adelphia securities:

- 6,000,000 shares of Class A Common Stock issued October 6, 1999;
- $1,000,000,000 10 1/4% Notes issued June 12, 2001; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

CIBC acted as the “qualified independent underwriter” for pricing and conducting due diligence with respect to the $1,000,000,000 10 1/4% Notes offering.

72. Defendant CIBC, Inc. (“CIBC”) is a corporation organized under the laws of the State of Delaware, with its principal place of business located in the State of New York. CIBC, an affiliate of CIBC World, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. CIBC was also a lender and Documentation Agent in connection with the $800 million credit
facility entered into by certain Adelphia subsidiaries on or about December 19, 1997, a lender and Managing Agent in connection with the $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

73. Defendant Citigroup Global Markets Holdings, Inc. (f/k/a Salomon Smith Barney Holdings, Inc., f/k/a Salomon Smith Barney, Inc.) (“SSB”), is a corporation organized under the laws of the State of New York, with its principal place of business located at 388 Greenwich St., New York, New York 10013. SSB is an investment bank that is affiliated, and under common ownership and control with Citibank, N.A. and Citicorp USA, Inc. SSB acted as a lead underwriter for the following public offerings of Adelphia securities:

- 6,000,000 shares of Class A Common Stock issued October 6, 1999;
- $500,000,000 9 3/8% Notes issued November 16, 1999;
- $750,000,000 10 7/8% Notes issued September 20, 2000;
- $750,000,000 6% Notes issued January 23, 2001;
- 17,000,000 shares of Class A Common Stock issued January 23, 2001;
- $500,000,000 3.25% Notes issued April 25, 2001;
- $1,000,000,000 10 1/4% Notes issued June 12, 2001;
- 20,000,000 units 7.5% Series E Mandatory Convertible Preferred Stock issued January 22, 2002; and
- 40,000,000 shares of Class A Common Stock issued January 22, 2002.

In addition, SSB acted as an underwriter for a public offering of 30,000,000 shares of Class A Common Stock issued November 15, 2001. SSB also acted as a lender and Lead Arranger in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or
about December 3, 1999.

74. Defendant Citicorp USA, Inc. (“Citicorp”) is a corporation organized under the laws of the State of Delaware, with its principal place of business located in the State of New York. Citicorp, a wholly owned subsidiary of Citigroup, Inc, and an affiliate of Citibank, N.A., was a lender and Managing Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001.

75. Defendant Citibank, N.A. (“Citibank”) is a national banking association with its principal place of business located at 399 Park Avenue, New York, New York 10022. Citibank, a wholly owned subsidiary of Citigroup, Inc. and an affiliate of Citicorp, was a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000. Citibank was also a lender and Administrative Agent in connection with a $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

76. Defendant Credit Lyonnais Securities (USA), Inc. (“Credit Lyonnais Securities”) is a New York corporation with its principal place of business located at 1301 Avenue of the Americas, New York, New York 10019. Credit Lyonnais Securities is an investment bank that is affiliated, and under common ownership and control, with Credit Lyonnais, New York Branch. Credit Lyonnais Securities acted as an underwriter for the following public offerings of Adelphia securities:

- 6,000,000 shares of Class A Common Stock issued October 6, 1999;
- $750,000,000 10 7/8% Notes issued September 20, 2000;
- $500,000,000 3.25% Notes issued April 25, 2001 and;
• $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

77. Defendant Credit Lyonnais, New York Branch (“Credit Lyonnais”) is a banking association organized under the laws of France, with a principal place of business located in the State of New York. Credit Lyonnais, an affiliate of Credit Lyonnais Securities, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999 and the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender and Managing Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. Credit Lyonnais was also a lender in connection with the $800 million credit facility entered into by certain Adelphia subsidiaries on or about December 19, 1997, a lender and Managing Agent in connection with the $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

78. Defendant Credit Suisse First Boston Corporation (“Credit Suisse”) is a Delaware corporation with a principal place of business located at 11 Madison Avenue, New York, New York 10010. Credit Suisse is an investment bank that is affiliated, and under common ownership and control, with Credit Suisse First Boston, New York Branch. Credit Suisse acted as a lead underwriter for the following public offerings of Adelphia securities:

• 6,000,000 shares of Class A Common Stock issued October 6, 1999;
• $500,000,000 9 3/8% Notes issued November 16, 1999;
• 17,000,000 shares of Class A Common Stock issued January 23, 2001; and
• $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.
In addition, Credit Suisse acted as an underwriter for a public offering of $1,000,000,000 of 10 1/4% Notes issued June 12, 2001.

79. Defendant Credit Suisse First Boston, New York Branch ("CSFB") is a banking association organized under the laws of Switzerland, with a principal place of business located in the State of New York. CSFB, an affiliate of Credit Suisse, was a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000 and in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. CSFB was also a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999. CSFB was also a lender and Managing Agent in connection with a $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998.

80. Defendant Deutsche Bank Alex. Brown Inc. (f/k/a BT Alex Brown, Inc.) ("Deutsche Bank") is a Delaware corporation with a principal place of business located at 280 Park Avenue, New York, New York 10017. Deutsche Bank is an investment bank that is affiliated, and under common ownership and control, with Deutsche Bank AG. Deutsche Bank acted as an underwriter for the following public offerings of Adelphia securities:

- $1,000,000,000 10 1/4% Notes issued June 12, 2001; and
- 30,000,000 shares of Class A Common Stock issued November 15, 2001.

81. Defendant Deutsche Bank AG (f/k/a Bankers Trust Company) ("Deutsche Bank AG") is a banking association organized under the laws of Germany, with a principal place of business located in the State of New York. Deutsche Bank AG, an affiliate of Deutsche Bank,
was a lender and Managing Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001.

82. Defendant Fleet Securities, Inc. ("Fleet") is a New York corporation with a principal place of business located at 26 Broadway, New York, New York 10004. Fleet is an investment bank that is affiliated, and under common ownership and control with Fleet National Bank. Fleet acted as an underwriter for the following public offerings of Adelphia debt securities:

- $750,000,000 10 7/8% Notes issued September 20, 2000; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

Fleet acted as the “qualified independent underwriter” for pricing and conducting due diligence in connection with the $500,000,000 10 1/4% Senior Notes October 25, 2001 offering.

83. Fleet National Bank ("Fleet National") is a banking association organized under the laws of the Commonwealth of Massachusetts. Fleet National, an affiliate of Fleet, was a lender and Documentation Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001.

84. Defendant J. P. Morgan Securities Inc., f/k/a Chase Securities, Inc. ("J. P. Morgan") is a Delaware corporation with its principal place of business located at 270 Park Avenue, New York, New York 10017. J. P. Morgan is the product of a merger between J. P. Morgan Securities Inc. and Chase Securities Inc. ("Chase Securities"). As such, J. P. Morgan is a successor-in-interest to both of those companies. J. P. Morgan is an investment bank that is
affiliated, and under common ownership and control, with J.P. Morgan Chase & Co. Chase
Securities acted as an underwriter for the following public offerings of Adelphia debt securities:

- $500,000,000 9 3/8% Notes issued November 16, 1999; and
- $750,000,000 10 7/8% Notes issued September 20, 2000.

85. In addition, J. P. Morgan acted as an underwriter for the following public
offerings of Adelphia securities:

- $500,000,000 3.25% Notes issued April 2001;
- $1,000,000,000 10 1/4% Notes issued June 12, 2001; and
- 30,000,000 shares of Class A Common Stock issued November 2001.

86. Defendant JP Morgan Chase & Co. f/k/a Chase Manhattan Corp. (“Chase Bank”) is a national banking association with its principal place of business located in the State of New
York. Chase Bank, a parent and affiliate of J. P. Morgan and Chase Securities, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, a lender and Co-Administrative Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender and Managing Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. Chase Bank was also a lender and Administrative Agent in connection with the $800 million credit facility entered into by certain Adelphia subsidiaries on or about December 19, 1997, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

87. Defendant PNC Capital Markets, Inc. (“PNC”) is a Pennsylvania corporation with a principal place of business located at One PNC Plaza, 249 5th Avenue, Pittsburgh,
Pennsylvania 15222. PNC is an investment bank that is affiliated, and under common ownership and control, with PNC Bank Corp. PNC acted as an underwriter for the following public offerings of Adelphia debt securities:

- $500,000,000 9 3/8% Notes issued November 16, 1999; and
- $750,000,000 10 7/8% Notes issued September 20, 2000.

88. Defendant PNC Bank Corp. (“PNC Bank”) is a national banking association, with a principal place of business located in the Commonwealth of Pennsylvania. PNC Bank, an affiliate of PNC, was a lender and Syndication Agent in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999. PNC Bank was also a lender in connection with the $800 million credit facility entered into by certain Adelphia subsidiaries on or about December 19, 1997, a lender and Managing Agent in connection with the $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

89. Defendant Scotia Capital (USA) Inc. (“Scotia Capital”) is a New York corporation with a principal place of business located at One Liberty Plaza, 165 Broadway, New York, New York 10006. Scotia Capital is an investment bank that is affiliated, and under common ownership and control, with The Bank of Nova Scotia. Scotia Capital acted as an underwriter for the following public offerings of Adelphia debt securities:

- $500,000,000 9 3/8% Notes issued November 16, 1999;
- $750,000,000 10 7/8% Notes issued September 20, 2000;
- $500,000,000 3.25% Notes issued April 25, 2001; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.
90. Defendant The Bank of Nova Scotia (“BNS”) is a banking association organized under the laws of Nova Scotia, with a principal place of business located in the State of New York. BNS, an affiliate of Scotia Capital, was a lender in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender, Syndication Agent, Lead Arranger and Joint Book Manager in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. BNS was also a lender and Administrative Agent in connection with the $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

91. Defendant SG Cowen Securities Corporation (“Cowen”) is a New York corporation with a principal place of business located at 1221 Avenue of the Americas New York, New York 10020. Cowen is an investment bank that is affiliated, and under common ownership and control, with Societe Generale, S.A. Cowen acted as an underwriter for the following public offerings of Adelphia securities:

- 6,000,000 shares of Class A Common Stock issued October 6, 1999;
- $750,000,000 10 7/8% Notes issued September 20, 2000;
- $500,000,000 3.25% Notes issued April 25, 2001; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

92. Defendant Societe Generale, S.A. (“Societe Generale”) is a banking association organized under the laws of France, with a principal place of business located in the State of
New York. Societe Generale, an affiliate of Cowen, was a lender and Managing Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. Societe Generale was also a lender and Co-Syndication Agent in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999. In addition, Societe Generale, directly or indirectly through its affiliate Cowen, acted as an underwriter for the following public offerings of Adelphia securities:

- 6,000,000 shares of Class A Common Stock issued October 1999;
- $750,000,000 10 7/8% Notes issued September 20, 2000;
- $500,000,000 3.25% Notes issued April 2001; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

93. Defendant SunTrust Equitable Securities (“SunTrust”) is a Tennessee corporation with a principal place of business located at 511 Union Street, Suite 800, Nashville, Tennessee 37219. SunTrust is an investment bank that is affiliated, and under common ownership and control, with SunTrust Banks, Inc. SunTrust acted as an underwriter for the following public offerings of Adelphia debt securities:

- $750,000,000 10 7/8% Notes issued September 20, 2000.

94. Defendant SunTrust Banks, Inc. (“SunTrust Bank”) is a corporation organized under the laws of the State of Delaware, with a principal place of business located in the State of Georgia. SunTrust Bank, a parent and affiliate of SunTrust, was a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000. SunTrust Bank was also a lender in connection with the $800 million credit facility entered into by certain Adelphia subsidiaries on
or about December 19, 1997 and the $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998.

95. Defendant TD Securities (USA) Inc. (“TD Securities”) is a New Jersey corporation with a principal place of business located at 31 West 52nd Street, New York, New York 10019. TD Securities is an investment bank that is affiliated, and under common ownership and control, with Toronto Dominion, Inc. TD Securities acted as an underwriter for the following public offerings of Adelphia debt securities:

- $500,000,000 9 3/8% Notes issued November 16, 1999;
- $750,000,000 10 7/8% Notes issued September 20, 2000;
- $1,000,000,000 10 1/4% Notes issued June 12, 2001; and
- $500,000,000 10 1/4% Notes due 2006 issued October 25, 2001.

96. Defendant Toronto Dominion, Inc. (“TDI”) is a corporation organized under the laws of the State of Delaware, with a principal place of business located in the State of Texas. TDI, an affiliate of TD Securities, was a lender and Syndication Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender and Managing Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. TDI was also a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999.

97. Defendant Wachovia Securities, Inc. (f/k/a First Union Securities, Inc.) (“Wachovia Securities”) is a corporation organized under the laws of the State of North Carolina, with its principal place of business located at 301 South College Street, One Wachovia Center, Charlotte, North Carolina 28288. Wachovia Securities is an investment bank that is affiliated,
and under common ownership and control, with Wachovia Bank, National Association.

Wachovia Securities acted as an underwriter for the following public offering of Adelphia securities:

- 6,000,000 shares of Class A Common Stock issued October 6, 1999;
- $500,000,000 3.25% Notes issued April 25, 2001;
- 30,000,000 shares of Class A Common Stock issued November 15, 2001.

98. Defendant Wachovia Bank, National Association ("Wachovia") is a national banking association with a principal place of business located in the State of Illinois. Wachovia, a parent and affiliate of Wachovia Securities, was a lender and Administrative Agent in connection with the $850 million co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about May 6, 1999, a lender and Managing Agent in connection with the $2.25 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about April 14, 2000, and a lender and Syndication Agent in connection with the $2.03 billion co-borrowing facility entered into by Adelphia subsidiaries and certain Managed Entities on or about September 28, 2001. Wachovia was also a lender in connection with the $800 million credit facility entered into by certain Adelphia subsidiaries on or about December 19, 1997, a lender and Managing Agent in connection with the $700 million credit facility entered into by certain Adelphia subsidiaries on or about December 30, 1998, and a lender in connection with the $1 billion credit facility entered into by certain Adelphia subsidiaries on or about December 3, 1999. In addition, Wachovia, at all relevant times, maintained Adelphia’s “Cash Management System” or “CMS” (described below in Section V, B, 2 and V, E, 3). The CMS was maintained under the banking facilities of defendant Wachovia, by and through its First Union of Florida division.
99. ABN AMRO, Banc of America, Barclay’s, BMO Nesbitt, BNY, CIBC World, SSB, Credit Lyonnais Securities, Credit Suisse, Deutsche Bank, Fleet, J. P. Morgan, PNC, Scotia Capital, Cowen, SunTrust, TD Securities, and Wachovia Securities are collectively referred to herein as the “Underwriter Defendants.”

100. The Underwriter Defendants participated in the drafting, preparation, and/or approval of the various registration statements, prospectuses, public, shareholder and investor reports and other communications complained of herein and were aware of or recklessly disregarded the misstatements contained therein and omissions therefrom, and were aware of or recklessly disregarded their materially false and misleading nature. Because of their position as underwriters for various public offerings of securities by Adelphia, each of the Underwriter Defendants had access to the material adverse undisclosed information about Adelphia’s business prospects and financial condition and performance as particularized herein and knew (or recklessly disregarded) that these adverse facts rendered the positive representations made by or about Adelphia and its business issued or adopted by the Company materially false and misleading.

101. In their capacity as underwriters, the Underwriter Defendants owed Plaintiffs a duty to conduct due diligence in connection with Adelphia’s offerings of debt and equity securities and to confirm that the prospectuses and registration statements issued in connection with those offerings disclosed all material information and did not contain any material misrepresentations. In connection with public offerings of Adelphia equity and debt securities between April 23, 1999 and January 2002, the Underwriter Defendants received in excess of $150 million in underwriter fees and discounts. The Underwriter Defendants also received
additional fees from Adelphia for financial advisory and investment banking services they provided.

102. ABN AMRO Bank, BOA, Barclay’s Bank, Bank of Montreal, BONY, CIBC, Citicorp, Citibank, Credit Lyonnais, CSFB, Deutsche Bank AG, Fleet National, Chase Bank, PNC Bank, BNS, Societe Generale, SunTrust Bank, TDI and Wachovia are collectively referred to herein as the “Lending Bank Defendants.”

103. The Lending Bank Defendants arranged for and facilitated the use of various credit facilities to which Adelphia subsidiaries and/or certain Rigas Family entities were parties. The Lending Bank Defendants, with knowledge of Adelphia’s under-reporting of debt, continued to loan money under such credit facilities, knowing and/or recklessly disregarding that they were thereby funding an ongoing fraud. The Lending Bank Defendants’ participation enabled Adelphia to continue to raise money in the public securities markets to fund its cash needs and thereby to keep the scheme in operation.

4. Buchanan Ingersoll

104. Defendant Buchanan Ingersoll Professional Corporation (“Buchanan”) is a Pennsylvania professional corporation with a principal place of business located at One Oxford Centre, 301 Grant Street, 20th Floor, Pittsburgh, Pennsylvania 15219. At all relevant times, Buchanan acted as legal counsel to Adelphia, was responsible for reviewing the prospectuses and registration statements for Adelphia and provided an expert legal opinion as to the validity of bonds issued in public offerings made by Adelphia in June and November 1999, September 2000, and June and October 2001, as expressly represented in the prospectuses for those offerings.
5. **The Indenture Trustee**

105. Defendant The Bank of New York (“BONY”) is a corporation organized under the laws of the State of New York. BONY is the Indenture Trustee of the 2001 Indenture (defined below) and, as successor Trustee for Bank of Montreal Trust Company, is the Indenture Trustee of the 1999 Indenture (defined below). In addition, BONY was a creditor of Adelphia under a credit agreement dated December 3, 1999 (the “December 1999 Credit Agreement”) and under the two of the three Co-Borrowing Credit Facilities (defined below). At all times relevant herein, BONY directly or indirectly controlled or was commonly controlled with its affiliates, defendants BNY Capital Markets and BMO Nesbitt Burns, co-representative underwriters on offerings of Adelphia bonds during the Class Period under the Indentures.

IV. **CLASS ALLEGATIONS**

106. Plaintiffs bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and (b)(3) on behalf of all persons who purchased or otherwise acquired Adelphia securities (the “Class”) from 1999 through June 10, 2002, inclusive (the “Class Period”). Excluded from the Class are Adelphia, ABIZ, the Individual Defendants, any member of the families of the Individual Defendants, any entity in which any Individual Defendant has a controlling interest, any other defendant or any entity which is a parent or subsidiary of, or which is controlled by, such defendant, and the officers, directors, employees, affiliates, legal representatives, heirs, predecessors, successors and assigns of defendants.

107. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, Adelphia’s common stock was actively traded on the NASDAQ in a well-developed and efficient market. While the exact number of Class members is unknown to Lead Plaintiffs at this time and can only be ascertained through
appropriate discovery, Lead Plaintiffs believe there are, at a minimum, hundreds, if not
thousands of members of the Class. The Company had approximately 228 million shares of its
Class A common stock outstanding as of June 1, 2002. The Company also had billions of dollars
of publicly traded debt securities outstanding as of the close of the Class Period. Record owners
and other members of the Class and subclasses may be identified from records maintained by
Adelphia or its transfer agent and may be notified of the pendency of this action by mail or
otherwise, using a form of notice similar to that customarily used in securities class actions.

108. Common questions of law and fact exist as to all members of the Class and
predominate over any questions affecting solely individual members of the Class. Among the
questions of law and fact common to the Class are:

(i) whether the federal securities laws were violated by defendants’ acts
    as alleged herein;

(ii) whether defendants acted with scienter in issuing false and
    misleading financial statements;

(iii) whether the market prices of the Company’s securities during the
    Class Period were artificially inflated because of the material
    nondisclosures and/or defendants’ conduct of complained of herein;
    and

(iv) whether the members of the Class and subclasses have sustained
    damages and, if so, what is the proper measure of damages.

109. Lead Plaintiffs’ and named plaintiffs’ claims are typical of the claims of the
members of the Class they seek to represent because Lead Plaintiffs, the named plaintiffs and the
Class members each sustained damages arising out of defendants’ wrongful conduct in violation
of federal or state law as complained of herein.

110. Lead Plaintiffs and named plaintiffs will fairly and adequately protect the interests
of the members of the Class and have retained counsel competent and experienced in class
actions and securities litigation. Lead Plaintiffs and named plaintiffs have no interests
antagonistic to or in conflict with those of the other Class members they seek to represent.

111. A class action is superior to other available methods for the fair and efficient
adjudication of the controversy since joinder of all members of the Class is impracticable.
Furthermore, because the damages suffered by the individual Class members may be relatively
small, the expense and burden of individual litigation make it impracticable for the Class
members individually to redress the wrongs done to them. Lead Plaintiffs and named plaintiffs
anticipate no unusual difficulties in the management of this action as a class action.

112. With respect to claims asserted under the 1934 Act, Lead Plaintiffs will rely, in
part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

(i) defendants made public misrepresentations or failed to disclose
material facts during the Class Period;

(ii) such omissions and misrepresentations were material;

(iii) the securities of the Company traded in an efficient market;

(iv) the misrepresentations and omissions alleged would tend to induce
a reasonable investor to misjudge the value of the Company’s
securities; and

(v) plaintiffs and the other members of the Class purchased Adelphia
securities between the time the defendants failed to disclose
or misrepresented material facts and the time the true facts
were disclosed, without knowledge of the omitted or
misrepresented facts.

Based upon the factors set forth above, Lead Plaintiffs, named plaintiffs and the other members
of the Class are entitled to the presumption of reliance upon the integrity of the market.
V. SUBSTANTIVE ALLEGATIONS

A. The Founding of the Company and Rapid Expansion Through Leveraged Acquisitions

113. Adelphia means “brothers” in Greek, and, from the time it was founded by John Rigas and his brother Gus with a $300 investment a half century ago, the Company was run like a family business. At the start, Adelphia was a small “mom and pop” cable company with a small number of cable subscribers. Until 1986, Adelphia remained a closely-held company. In 1986, Adelphia issued stock through an initial public offering and became a public company with commensurate SEC reporting and disclosure obligations. By the end of 1999, Adelphia had become one of the largest cable providers in the United States, reportedly serving well over five million subscribers.

114. As Adelphia grew, defendant John Rigas continued to treat Adelphia as an extension of his own family. When John Rigas’s sons, defendants Timothy, Michael and James obtained graduate degrees, each of them returned home to assume a senior executive position at and a seat on board of directors of the family company.

115. Long after Adelphia ceased to be a closely-held family business and throughout the Class Period, defendant John Rigas and his sons dominated and controlled the Adelphia board of directors and its senior management. The Rigas Family owned all of the outstanding Adelphia Class B common stock which shares were convertible into Class A common stock on a one-for-one basis. Unlike Adelphia Class A common stock which had the right to one vote per share, the Class B common stock was super voting stock with ten votes per share. Thus, the Rigas Family retained the ability to control the Company even though it owned only a minority of the Class A common stock. Through that voting control, the Rigas Family had the right to elect all but one of the members of Adelphia’s board of directors. The Rigas Defendants
exercised that right and installed themselves and their cohorts as a majority on the Adelphia board.

116. During the 1990’s, Adelphia grew through numerous acquisitions of other cable companies that the Company financed primarily through loans and the sale of debt and equity securities. In particular, in the fall of 1999, the character of the Company changed dramatically through a series of transactions in which it acquired three other cable companies: Century Communications Corporation, FrontierVision Partners, L.P., and Harron Communications Corp.: 

(a) On or about October 1, 1999, Adelphia acquired Century Communications Corp. (“Century”), which served approximately 1.61 million basic cable subscribers located primarily in California and Puerto Rico. As consideration for the acquisition of Century, Adelphia paid approximately $811 million in cash, issued approximately 47.8 million shares of Adelphia Class A common stock to Century stockholders, and assumed approximately $1.7 billion of debt.

(b) On or about October 1, 1999, Adelphia acquired Frontier Vision Holdings, L.P. (“Frontier Vision”), which served approximately 710,000 basic cable subscribers located primarily in Ohio, Kentucky, New England and Virginia. As consideration for the acquisition of Frontier Vision, Adelphia paid approximately $543 million in cash, issued approximately 6.9 million shares of Adelphia Class A common stock, and assumed approximately $1.15 billion of debt.

(c) On or about October 1, 1999, Adelphia acquired Harron Communications Corp. (“Harron”), which served approximately 296,000 basic cable subscribers located primarily in southeastern Pennsylvania, Michigan, Massachusetts and New Hampshire. In connection with the acquisition of Harron, Adelphia paid approximately $1.211 billion.
117. The aggregate purchase price for Adelphia’s acquisitions in or about 1999, including the foregoing three, was approximately $9.859 billion. As a result of these transactions, the number of Adelphia’s subscribers grew substantially and its revenues expanded significantly. From on or about December 31, 1998 through on or about December 31, 1999, Adelphia’s basic cable subscriber count – a key metric that the market uses to value cable companies – reportedly increased from approximately 2.2 million to approximately 5 million. In 1998, Adelphia owned cable systems in twelve states. By the end of 1999, the Company owned cable systems in 32 states and Puerto Rico and the Company’s broadband networks reportedly passed in front of 7.7 million homes. The Company’s stature in the burgeoning cable and high speed internet industry increased significantly.

118. As a result of its rapid expansion through leveraged acquisitions and the fact that it consistently spent more money on its operations than those operations generated, Adelphia’s capital structure became highly leveraged. From on or about December 31, 1998 through on or about December 31, 1999, Adelphia’s total reported debt increased from approximately $3.53 billion to approximately $9.29 billion. By December 31, 2000, Adelphia’s total reported debt increased to approximately $12.6 billion.

119. This rapid growth and the attendant leverage attracted the attention and concern of the investment and financial communities. Investors, lenders, securities analysts, and credit rating agencies publicly and repeatedly expressed concerns about Adelphia’s ability to service its debt. Adelphia’s publicly reported debt and financial ratios reflecting Adelphia’s debt including its debt-to-equity and cash-flow-to-debt ratios were therefore highly material and carefully watched by investors and creditors during the Class Period.
B. Adelphia’s Massive Undisclosed Off-Balance Sheet Debt and Defendants’ Fraudulent Scheme to Conceal it

1. The Co-Borrowing Credit Facilities

120. Between May 1999 and September 28, 2001, Adelphia entered into three co-borrowing credit facilities (the “Co-Borrowing Credit Facilities”) dated May 6, 1999, April 14, 2000, and September 28, 2001, respectively, pursuant to which certain Adelphia subsidiaries became co-borrowers with various Rigas Family Entities:

   (a) On May 6, 1999, UCA Corp., UCA LLC, National Cable Acquisition Associates, L.P., Grand Island Cable, Inc., SVHH Cable Acquisition, L.P. and Tele-Media Company of Hopewell-Prince George, each a subsidiary of the Company, and Hilton Head Communications, L.P., a Rigas Family Entity, closed on an $850 million co-borrowing credit facility with several banks (the “UCA Credit Facility”);

   (b) On April 14, 2000, Century Cable Holdings (“CCH”) and Ft. Myers Cablevision, LLC, each a subsidiary of the Company, and Highland Prestige Georgia, Inc. (“HPG”), a Rigas Family Entity, closed on a $2.25 billion co-borrowing credit facility with several banks. In addition, on September 28, 2000, the same entities, closed on a $500 million, 9 and 1/4 year term loan (collectively, the “CCH Credit Facility”); and

   (c) On September 28, 2001, Olympus Cable Holdings, LLC (“OCH”), Adelphia Company of Western Connecticut and Adelphia Holdings 2001, LLC, each a subsidiary of the Company, and Highland Video Associates, L.P. (“Highland Video”), and Coudersport Television Cable Company, each a Rigas Family Entity, closed on a $2.03 billion co-borrowing credit facility with several banks (the “OCH Credit Facility”).

121. Under the terms of the Co-Borrowing Credit Facilities, each co-borrower was entitled to borrow up to the entire amount of the available credit. Critically, each co-borrower
was jointly and severally liable for the entire amount of the indebtedness under the applicable Co-Borrowing Credit Facility regardless of whether that co-borrower actually borrowed that amount. Because of that feature, Adelphia, as the parent company of each of its subsidiaries that were parties to the Co-Borrowing Credit Facilities, was liable for any and all amounts drawn down by the Rigas Family Entities. As of December 31, 2001, the maximum aggregate amount available to the co-borrowers under the Co-Borrowing Credit Facilities was $5.63 billion.

122. As of June 26, 2002, the date of Adelphia’s Chapter 11 petition, the Rigas Family fraudulently had used at least $3.4 billion of the $5.63 billion available under the Co-Borrowing Credit Facilities for the personal enrichment of the Rigas Defendants and other Rigas family members.

2. The CMS and The Commingling of Funds By Adelphia and the Rigas Family Entities

123. Central to the perpetration of the scheme to conceal Adelphia’s debt was the fraudulent manipulation of the Company’s so-called “Cash Management System” or “CMS.” Under the CMS, Adelphia funds were consistently and regularly commingled with those of the Rigas Family Entities. The existence of the CMS was not disclosed to public investors during the Class Period.

124. At all relevant times, the CMS was maintained under the banking facilities of defendant Wachovia, by and through its First Union of Florida division. Under the CMS, all or some of the cash received by Adelphia, its subsidiaries and the Rigas Family Entities (including proceeds of draw-downs on the Co-Borrowing Credit Facilities, as detailed below) was deposited into accounts maintained at Wachovia. All of the expenses of Adelphia, its subsidiaries and the Rigas Family Entities, including capital expenditures and repayment of debt, were paid out of the
cash in the CMS. Revenues and expenses of particular entities were accounted for through inter-
company payables and receivables within the CMS.

125. The effect of the CMS and the manner in which the Rigas Defendants and
defendants Mulcahey and Brown employed it was to commingle Adelphia’s funds with the funds of the Rigas Family Entities, as disclosed for the first time in Adelphia’s May 24, 2002 Form 8-
K. Despite the numerous accounting entries purporting to document inter-company payables and receivables and quarterly adjustments to such accounting entries, Adelphia had no regular policy for billing and collecting the receivable balances due to Adelphia from the Rigas Family Entities. Furthermore, the Rigas Defendants had unfettered access to the cash in those accounts and regularly availed themselves of that privilege as described below.

3. The Failure to Report the Borrowings of the Rigas Family Entities

126. Despite the fact that Adelphia and its subsidiaries were jointly and severally liable for all debt incurred under the Co-Borrowing Credit Facilities, throughout the Class Period, Adelphia reported in its consolidated financial statements only the portions of the debt purportedly incurred by its subsidiaries under the Co-Borrowing Credit Facilities. Throughout the Class Period and in violation of GAAP, amounts borrowed or purportedly borrowed by the Rigas Family Entities under the Co-Borrowing Credit Facilities were not recorded as liabilities in Adelphia’s consolidated financial statements, notwithstanding that Adelphia and its subsidiaries were primarily liable to the lenders for the repayment of the totality of that debt.

127. Between May 1999 and December 31, 2001, the Rigas Family Entities, for their own account borrowed roughly $2.6 billion under the Co-Borrowing Credit Facilities which Adelphia and its subsidiaries were liable to repay. Adelphia disclosed in its May 24, 2002 Form
8-K the co-borrowings attributable to Rigas Family Entities as of December 31, 2001 under the specific Co-Borrowing Credit Facilities:
<table>
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<tr>
<th>DATE OF AGREEMENT</th>
<th>COMPANY SUBSIDIARIES PARTY THERETO</th>
<th>RIGAS ENTITY (IES) PARTY THERETO</th>
<th>CO-BORROWINGS ATTRIBUTABLE TO COMPANY SUBSIDIARIES OUTSTANDING AS OF 12/31/01</th>
<th>C0-BORROWINGS ATTRIBUTABLE TO RIGAS ENTITY (IES) OUTSTANDING AS OF 12/31/01</th>
<th>AGGREGATE AMOUNT BORROWED UNDER AGREEMENT AS OF 12/31/01</th>
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2 This column sets forth the maximum liability of the Company and its subsidiaries under each co-borrowing agreement for the principal amount thereof, assuming the facility is fully drawn upon.
128. The Rigas Family Entities that were co-borrowers under the Co-Borrowing Credit Facilities lacked the wherewithal on their own to obtain credit facilities of the magnitude available to Adelphia and its subsidiaries. The Rigas Defendants used the Co-Borrowing Credit Facilities to obtain credit that they otherwise would not have been able to obtain for themselves and the Rigas Family Entities by causing Adelphia subsidiaries and, ultimately, Adelphia to assume the legal obligation to repay billions of dollars of indebtedness that did not benefit Adelphia and its shareholders. Indeed, unbeknownst to the public during the Class Period, neither the Rigas Defendants nor the Rigas Family Entities had the ability to repay the full amount of the credit facilities themselves. Until on or about May 6, 2002, neither the Rigas Defendants nor the Rigas Family Entities assumed any written contractual obligations to repay Adelphia in the event that Adelphia was liable for the repayment of the funds drawn down by or for the benefit of the Rigas Family Entities under the Co-Borrowing Credit Facilities. Too late, the Individual Defendants purported to remedy that defect by causing Adelphia to enter into Assumption Agreements dated as of May 6, 2002 pursuant to which certain Rigas Family Entities purportedly confirmed their prior unwritten agreements to repay co-borrowings drawn down on their behalf or otherwise recorded on their books. Such belated formalities did not change the underlying fact of Adelphia’s ultimate and theretofore undisclosed liability for the massive co-borrowings.

4. The Fraudulent Scheme to Conceal the Company’s Massive and Ballooning Debt

129. In addition to Adelphia’s failure to properly record and disclose the massive debt drawn down by the Rigas Family Entities under the Co-Borrowing Credit Facilities, throughout the Class Period Adelphia issued consolidated financial statements that created the impression that Adelphia was “deleveraging” or paying off some portion of the very substantial debt that it was carrying on its balance sheet. This aspect of the fraud was effectuated by means of journal
entries and/or sham transactions that purported to “reclassify” or otherwise move debt owed by Adelphia onto the books of the Rigas Family Entities that purported to “assume” debt of Adelphia and/or its subsidiaries. These journal entries masked the fact that Adelphia remained primarily liable for the debt drawn down under the Co-Borrowing Credit Facilities.

130. During the Class Period, hundreds of millions of dollars of debt borrowed under the Co-Borrowing Credit Facilities were removed from Adelphia’s books and allocated to the Rigas Family Entities. The Rigas Defendants and defendants Brown and Mulcahey reallocated co-borrowing liabilities among Adelphia’s subsidiaries and Rigas Family Entities through quarterly cash management reconciliations of inter-company receivables and payables. From the third quarter of 2000 through the third quarter of 2001, the Rigas Defendants and defendants Mulcahey and Brown caused Adelphia fraudulently to reallocate an aggregate of over $477 million of Co-Borrowing Credit Facilities debt to various Rigas Family Entities and to remove the same amount of debt from Adelphia’s books through a process that Adelphia management called the “quarterly reclassification.”

131. The “quarterly reclassification” process did not match the use of particular co-borrowings with specific Rigas Family Entities nor did it attribute portions of the outstanding debt to particular Co-Borrowing Credit Facilities. The allocation was performed at the whim of the Rigas Defendants and did not correspond to actual transfers of money. In some quarters, the Rigas Defendants caused Adelphia to reduce Adelphia’s Co-Borrowing Credit Facilities debt to the banks by the net inter-company balance and increased the debt of the Rigas Family Entities to the banks by the same amount. In other quarters, the Rigas Defendants caused Adelphia to compare the net inter-company balances between quarters and “reclassify” the difference as debt of Rigas Family Entities. At the same time, Adelphia reduced its bank debt by the same amount. This fraudulent quarterly debt reclassification was effectuated through the CMS.
132. For example, during the closing process for the third quarter of 2000, the Rigas Defendants caused Adelphia to reclassify $187 million of Co-Borrowing Credit Facilities debt, removing that amount from Adelphia’s books and placing the same amount of debt on the books of HPG, a Rigas Family Entity, as debt of HPG under the CCH Credit Facility. In making this allocation, Adelphia made no attempt to verify that HPG had itself drawn down, or otherwise benefited from, the reclassified debt, or that such an amount had been drawn down in that quarter under the CCH Credit Facility. Adelphia similarly reclassified its Co-Borrowing Credit Facility debt to HPG under the CCH Credit Facility at the close of each of the quarters ended on December 31, 2000, March 31, 2001, and June 30, 2001.

133. In another instance, during the closing process for the quarter ended September 30, 2001, the Rigas Defendants caused Adelphia to reclassify approximately $215 million of Adelphia’s Co-Borrowing Credit Facilities debt to the books of Highland Video, a Rigas Family Entity that was party to the OCH Credit Facility. Again, this was done without any attempt to verify that Highland Video had itself drawn down, or otherwise benefited from, the reclassified debt or that such an amount had been drawn down that quarter under the OCH Credit Facility.

134. Notwithstanding such purported “reclassification” of debt in the CMS and otherwise on Adelphia’s books, Adelphia remained jointly and severally liable for all such amounts under the terms of the Co-Borrowing Credit Facilities. Furthermore, pursuant to GAAP, Adelphia was required to report such indebtedness as a liability on its balance sheet. Nevertheless, under the guise of such “reclassification” and “assumption,” the Rigas Defendants and defendants Mulcahey and Brown caused Adelphia fraudulently to omit such liabilities from Adelphia’s balance sheet. Accordingly, these liabilities remained hidden from plaintiffs and the Class during the Class Period. As set forth in detail below Section V, B, 4 and V, D, 4, Adelphia’s Co-Borrowing Credit Facilities debt was never extinguished and, therefore, the
removal of massive amounts of such debt from Adelphia’s balance sheet was improper and contrary to GAAP.

135. Adelphia, at the direction of the Rigas Defendants and defendants Brown and Mulcahey, thus concealed Adelphia indebtedness during the Class Period as illustrated in the following chart:

<table>
<thead>
<tr>
<th>REPORTING PERIOD</th>
<th>ADELPHIA SUBSIDIARIES TOTAL REPORTED DEBT</th>
<th>ADELPHIA SUBSIDIARIES REPORTED BANK DEBT ONLY</th>
<th>ADELPHIA SUBSIDIARIES UNDISCLOSED BANK DEBT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q2 1999</td>
<td>$1,388,412,000</td>
<td>$535,340,000</td>
<td>$250,000,000</td>
</tr>
<tr>
<td>Q3 1999</td>
<td>$1,561,838,000</td>
<td>$697,589,000</td>
<td>$250,000,000</td>
</tr>
<tr>
<td>Q4 1999</td>
<td>$6,513,813,000</td>
<td>$3,088,477,000</td>
<td>$250,000,000</td>
</tr>
<tr>
<td>Q1 2000</td>
<td>$6,606,251,000</td>
<td>$3,145,897,000</td>
<td>$618,000,000</td>
</tr>
<tr>
<td>Q2 2000</td>
<td>$7,200,203,000</td>
<td>$3,690,589,000</td>
<td>$397,000,000</td>
</tr>
<tr>
<td>Q3 2000</td>
<td>$7,582,178,000</td>
<td>$4,181,253,000</td>
<td>$1,142,290,826</td>
</tr>
<tr>
<td>Q4 2000</td>
<td>$9,179,773,000</td>
<td>$5,708,529,000</td>
<td>$1,180,682,512</td>
</tr>
<tr>
<td>Q1 2001</td>
<td>$9,374,821,000</td>
<td>$5,881,795,000</td>
<td>$1,229,415,239</td>
</tr>
<tr>
<td>Q2 2001</td>
<td>$8,545,665,000</td>
<td>$5,022,460,000</td>
<td>$1,274,986,649</td>
</tr>
<tr>
<td>Q3 2001</td>
<td>$8,987,388,000</td>
<td>$5,435,157,000</td>
<td>$1,835,257,099</td>
</tr>
</tbody>
</table>

136. As a result of such concealment, Adelphia’s financial statements during the Class Period materially understated the total amount of Adelphia’s debt, overstated Adelphia’s equity capital, fundamentally misrepresented the Company’s capital structure, and concealed its source and flow of funds. Adelphia’s balance sheet during the Class Period publicly appeared to be getting stronger as Adelphia purportedly deleveraged its bank debt. In fact, however, the Company was falling deeper into debt and its financial condition was rapidly deteriorating. As a consequence, Adelphia’s publicly traded securities traded at artificially inflated prices during the Class Period.

137. Adelphia’s massive understatement of liabilities also meant that Adelphia was not, as falsely represented in public filings, in compliance with debt ratio requirements in loan
covenants. For instance, in the Management Discussion and Analysis sections of each of
Adelphia’s Form 10-K annual reports for the years ended December 31, 1999 and 2000 (the
“1999 10K” and the “2000 10K”), the Company stated that “[m]anagement believes the
Company is in compliance with the financial covenants and related financial ratio requirements
contained in its various credit agreements.” Adelphia’s representations concerning its
compliance with financial covenants and related financial ratio requirements were materially
false and misleading in that Adelphia was not, in fact, in compliance with such ratio
requirements. Rather, Adelphia had excluded substantial liabilities from its 1999 and 2000
balance sheets and either never performed the calculations, or manipulated the result of the
calculations, to show that Adelphia was in compliance when it was not.

138. The failure to report the full extent of Adelphia’s liability for the Co-Borrowing
Credit Facilities debt was no mere negligent oversight. Indeed, the Rigas Defendants and
defendants Brown and Mulcahey, and each of them, knew that such debt should have been
recorded and went to extraordinary lengths deliberately and fraudulently to understate materially
the amount of debt on Adelphia’s balance sheet and thereby deceive Adelphia’s public investors.
Moreover, as detailed below, the Rigas Defendants in fact used a substantial portion of the
proceeds of such debt for their own personal benefit.

139. During the Class Period, Adelphia consistently described aspects of the Co-
Borrowing Credit Facilities in footnotes to its publicly filed financial statements. Those footnotes
deceptively suggested that Adelphia was including its liabilities for Rigas Family Entity co-
borrowings in Adelphia’s reported debts. In fact, however, such liabilities were omitted. As
alleged in detail below, each and every one of Adelphia’s Class Period statements regarding the
amount of Adelphia’s debt was materially false and misleading in that each failed to disclose this
massive and ever-increasing off-balance sheet debt.
140. Adelphia’s financial statements for the year ended December 31, 1999, reported “Total subsidiary debt” of $6.513 billion, of which $3.088 billion was listed as “Notes to banks and institutions.” The accompanying footnote regarding such notes stated that “[c]ertain subsidiaries of Adelphia are co-borrowers with [Rigas Family Entities] under credit facilities for borrowings of up to $1,025,000[000].” The footnote never disclosed that some of the draw-downs under the Co-Borrowing Credit Facilities were being recorded on the books of the Rigas Family Entities, or that Adelphia’s total outstanding liability under these facilities was not fully reflected in the “Total subsidiary debt” or “Notes to banks and institutions” figures.

141. On its December 31, 2000 balance sheet, Adelphia listed “Total subsidiary debt” of $9.179 billion, of which $5.708 billion was listed as “Notes to banks and institutions.” The accompanying footnote entitled “Notes to banks and institutions” stated that:

“Certain subsidiaries of Adelphia are co-borrowers with [Rigas] Entities under credit facilities for borrowings of up to $3,751,250[000]. Each of the co-borrowers is liable for all borrowings under the credit agreements, and may borrow up to the entire amount of the available credit under the facility. The lenders have no recourse against Adelphia other than against Adelphia’s interest in such subsidiaries.”

The footnote failed to explain that the $9.179 billion in “Total subsidiary debt” and the $5.708 billion in subsidiary bank debt listed on Adelphia’s balance sheet did not reflect Adelphia’s liability for additional draw-downs under the Co-Borrowing Credit Facilities that had been recorded on the books of the Rigas Family Entities. In fact, by the close of 2000, almost $1.2 billion in co-borrowing liabilities had been omitted from Adelphia’s balance sheet and recorded on the books of Rigas Family Entities. Similar omissions were made in each of Adelphia’s quarterly reports during the Class Period.

142. Not until near the conclusion of the Class Period, on March 27, 2002, did Adelphia acknowledge publicly that a significant portion of debt from the Co-Borrowing Credit
Facilities had been omitted from Adelphia’s financial statements. Even then, however, Adelphia falsely represented that the Co-Borrowing Credit Facilities debt had been apportioned between the books of Adelphia and the books of the Rigas Family Entities based on which entity had borrowed the funds. In its March 27, 2002 press release, Adelphia described the purported apportionment of debt by stating: “[a]mounts borrowed under the facilities by the Company’s subsidiaries are included as debt on the Company’s consolidated balance sheet. Amounts borrowed by [Rigas Family] Entities under the facilities are not included on the Company’s consolidated balance sheet.”

143. This statement, however, was entirely false in that a significant portion of the Co-Borrowing Credit Facilities debt allocated to the Rigas Family Entities was either arbitrarily assigned to them in the fraudulent quarterly “reclassification” transactions designed to reduce Adelphia’s outstanding liabilities, or, as alleged in more detail below, removed from the Company’s books as part of sham transactions related to the issuance of Adelphia securities to the Rigas Defendants.

5. The Fraudulent Use of Co-Borrowed Debt to Purchase Adelphia Securities

144. One of the improper purposes for which the Rigas Defendants fraudulently utilized the proceeds of the Co-Borrowing Credit Facilities during the Class Period was the purchase of Adelphia securities for themselves. Specifically, from late 1998 until May 2002, the Rigas Defendants engaged in at least eleven transactions for the purchase of approximately $1.9 billion in securities issued by Adelphia, including common stock and convertible bonds. Four of these purchases were made by the Rigas Defendants in public offerings. The purchases, announced by the Company and various of the Individual Defendants with great fanfare, were publicly represented to be multi-hundred million-dollar equity investments by the Rigas Family that were helping to reduce the Company’s large outstanding bank debt, a matter of concern to
investors and Wall Street analysts at the time. In fact, however, the Rigas Family Entities’ “purchases” of Adelphia securities were “paid for” with the proceeds of the Co-Borrowing Credit Facilities for which debt Adelphia itself was jointly and severally liable. Because the purchases were made with co-borrowed funds, they did nothing to reduce the Company’s bank debt but instead, unbeknownst to public investors, increased Adelphia’s debt and diminished its equity.

145. Indeed, each of the purported purchases of Adelphia securities by the Rigas Family consisted merely of Rigas Family Entities receiving Adelphia securities and the simultaneous removal of Co-Borrowed Credit Facilities debt from Adelphia’s books and the purported “assumption” of such debt by a Rigas Family Entity co-borrower. In three of the four transactions, the Rigas Defendants obtained new super-voting stock enabling them to maintain their existing voting control over Adelphia even as they caused Adelphia to continue to issue and sell new Class A common stock to the investing public. In each of the four transactions, Adelphia claimed in SEC filings and other public statements that Adelphia actually applied some or all of the proceeds from these securities transactions to pay down debt. In fact, however, the transactions (some of which are described below) had no bona fide proceeds, but rather resulted only in the transfer of debt by means of journal entries from Adelphia’s books to the books of Rigas Family Entity co-borrowers:

(a) Through a January 24, 2000 direct placement of Adelphia Class B common stock to defendant Highland Holdings, a Rigas Family Entity, Adelphia concealed $368 million of its liabilities in the following manner: Adelphia drew down $368 million on the UCA Credit Facility, deposited those funds into the CMS, and attributed the draw-down to Hilton Head, a Rigas Family Entity that was a party to the UCA Credit Facility. Adelphia recorded a debit to its overall debt and created an inter-company payable in the same amount to Hilton
Head. Using the $368 million in cash deposited into the CMS, Adelphia then repaid $232 of its preexisting debt on the UCA Credit Facility and $136 million of debt on a different non-co-borrowing credit facility. As a result of the fraudulent exclusion of the Rigas Family Entity co-borrowed debt from the Company’s consolidated balance sheet, the net effect of this transaction was to hide $368 million of Adelphia’s liabilities. Adelphia then issued $368 million of Adelphia Class B common stock to Highland Holdings, which assigned the shares to Highland 2000, another Rigas Family Entity. According to Adelphia’s contemporaneous journal entries, Adelphia booked a receivable from Highland Holdings for the value of the stock issued. In order to attempt to bolster the falsehood that Highland Holdings or Highland 2000 had paid actual proceeds for the shares, Adelphia created a phony cross receipt in which Adelphia acknowledged receiving $375 million of “immediately available funds” from Highland 2000 – the ultimate recipient of the shares. This transaction and the purported consideration paid by Highland Holdings or Highland 2000 were shams.

(b) In a July 3, 2000 direct placement of Class B common stock to Highland Holdings, Adelphia drew down $145 million on the CCH Credit Facility, deposited those funds into the CMS and attributed the debt to HPG. Through journal entries, the funds were transferred to Adelphia, which paid down $45 million of pre-existing debt of Adelphia under the UCA Credit Facility and used the $100 million balance for operations. Adelphia did not account on its balance sheet for its liability for the $145 million draw-down from the CCH Credit Facility. This transaction concealed the fact that Adelphia’s total debt had actually increased by $100 million.

(c) In an October 20, 2001 direct placement to Highland 2000 of Adelphia Class B common stock and 6% Convertible Subordinated Notes, payment for which securities was to have been made in “immediately available funds,” Adelphia transferred $423 million of Adelphia Co-Borrowing Credit Facilities debt off of its books. Adelphia reduced its outstanding
debt and recorded a corresponding payable to Highland Video. Highland Video then recorded a receivable from Adelphia and an increase in intercompany notes payable. In essence, Highland Video assumed a portion of Adelphia’s bank debt in exchange for a payable from Adelphia to Highland Video. Contemporaneously, Adelphia issued $423 million worth of Class B common stock and notes to Highland 2000. In exchange and in lieu of the cash payment provided for in the January 17, 2001 private placement agreement (pursuant to which the October 20, 2001 private placement was effectuated), Adelphia recorded a receivable from Highland 2000 for $423 million. The result of these transactions was to remove $423 million in Co-Borrowing Credit Facilities debt from Adelphia’s books. The transaction was fraudulent because: (i) $423 million in debt was not paid down; (ii) Adelphia remained jointly and severally liable for that portion of the debt; and (iii) Highland Video’s “assumption” of debt was a sham because it never received any economic benefit from the transaction. By virtue of the foregoing transaction, the Rigas Defendants received $423 million in Adelphia Class B common stock and notes for which they did not pay.

(d) Simultaneous with a January 21, 2002 direct placement of $400 million of Adelphia’s 3.25% Notes to Highland 2000, Adelphia transferred an additional $396 million in Co-Borrowing Credit Facilities debt from its balance sheet in a non-cash transaction allocated to Highland Video. Adelphia notes in the amount of $400 million were issued to Highland 2000. The form of consideration due and owing under the April 19, 2001 private placement agreement, i.e., “payment of immediately available funds,” was not made. Instead, the purchase price was paid through bookkeeping entries.

146. None of the foregoing transactions or their net economic effect (i.e., the issuance of securities to the Rigas Family Entities paid for by borrowings for which Adelphia remained jointly and severally liable) was disclosed in the Company’s public statements or filings during
the Class Period. Rather, such statements and filings materially misrepresented that the securities
transactions with the Rigas Family had resulted or would result in additional cash for Adelphia,
and that Adelphia was applying some or all of those proceeds from the sale of such securities to
its controlling shareholders to pay down debt, increase shareholders’ equity, and comply with
debt covenants in its loan agreements.

147. In sum, during the Class Period, the Rigas Family fraudulently used
approximately $1.9 billion of the undisclosed Co-Borrowing Credit Facilities debt to purchase
Adelphia securities for themselves. Because Adelphia was 100% liable for the repayment of
such debt, these so-called “investments” by the Rigas Defendants enabled the Rigas Defendants
to maintain voting control over Adelphia and served to increase the Company’s bank debt rather
than to deleverage the Company as being publicly represented.

148. In addition to using the proceeds of the Co-Borrowing Credit Facilities to fund the
acquisition of Adelphia securities, the Rigas Family took a series of margin loans from
investment and commercial banks, to which banks the Rigas Family pledged as collateral the
Adelphia securities it purchased. From January 1, 2001 through May 24, 2002, certain Rigas
Defendants and/or Rigas Family Entities made $241 million of payments on margin calls. The
Rigas Defendants simply withdrew cash from the CMS to pay off the margin calls -- a fact that
the Company and the Rigas Defendants failed to disclose even in Adelphia’s March 27, 2002
disclosure of its off-balance sheet debt near the end of the Class Period. However, as revealed in
the May 24, 2002 8-K, the Rigas Family continued to withdraw cash from the CMS to pay off
margin calls even after the Company’s March 27 disclosure. In fact, it was disclosed that
between March 27, 2002 and May 24, 2002, the Rigas Defendants and/or Rigas Family Entities
withdrew approximately $175 million from the CMS to make payments on margin calls.
C. The Overstatement of Adelphia’s Earnings and Undisclosed Self-Dealing Transactions

1. EBITDA Overstatements

   a. The Material Overstatement of Adelphia’s Reported Earnings and EBITDA

149. During the Class Period, it was the practice of defendant Timothy Rigas to meet with other Adelphia employees after the close of each quarter to review, among other things, Adelphia’s actual EBITDA for the preceding quarter. In or about October 2000, defendant Timothy Rigas and other Adelphia employees determined that Adelphia’s EBITDA for the third quarter of 2000 was below Adelphia’s publicly disclosed projections and, consequently, market expectations. Rather than disappoint the market, the Rigas Defendants embarked upon a scheme to artificially inflate Adelphia’s publicly disclosed EBITDA by causing Adelphia to engage in backdated, sham transactions with Rigas Family Entities. In its June 10, 2002 Form 8-K, Adelphia disclosed “preliminary revised” consolidated EBITDA for 2000 and 2001. According to that 8-K, the Rigas Defendants artificially inflated Adelphia’s previously reported EBITDA of $1.202 billion by approximately $160 million in 2000; Adelphia’s previously reported EBITDA of $1.409 billion was artificially inflated by approximately $210 million in 2001.

   b. Sham Transactions Between Adelphia and Other Rigas Family Entities Designed to Fraudulently Increase Revenue and EBITDA

150. The primary means by which Adelphia reported overstated revenues and EBITDA was through transactions with other Rigas Family Entities in the cable television business including the Highland Prestige Entities, the HVA Entities, the HHC Entities and CTCC (the “Rigas Cable Entities”). The Rigas Cable Entities were managed by Adelphia and participated in the CMS. Pursuant to various management agreements, the Rigas Cable Entities paid Adelphia management fees equal to approximately five percent of their respective revenues for each quarter.
151. Because the Rigas Cable Entities received some portion of the proceeds of draw-downs under the Co-Borrowing Credit Facilities, they owed Adelphia considerable sums of money recorded as inter-company receivables in the CMS. Although Adelphia did not always charge interest to the Rigas Cable Entities on inter-company balances, it did in certain cases, giving rise to large interest payments due each quarter from the Rigas Cable Entities to Adelphia.

152. For companies like Adelphia (i.e., a company not in the financial services business), EBITDA excludes interest payments received. Thus, though Adelphia’s receipt of management fees from the Rigas Cable Entities increased EBITDA, the receipt of interest payments from the Rigas Cable Entities would not result in any EBITDA increase.

153. In order to ensure that Adelphia met analysts’ EBITDA estimates, defendant Timothy Rigas and Adelphia employees acting at his direction created backdated, sham transactions between Adelphia and the Rigas Cable Entities in which the Rigas Cable Entities seemingly agreed to pay additional management fees above and beyond the five percent they were obligated to pay Adelphia. These sham transactions were designed solely to boost Adelphia’s reported revenue and EBITDA. Adelphia did not provide any additional management services to the Rigas Cable Entities in exchange for the increased fees, the sham transactions did not result in money actually being paid to Adelphia, and the transactions were backdated so as to affect the prior quarter’s financial results. Moreover, the size of the increase in management fees purportedly paid to Adelphia by the Rigas Cable Entities corresponded exactly to the amount by which EBITDA otherwise would have fallen short of meeting analyst expectations.

154. The sham did not end there. To ensure that the Rigas Cable Entities did not actually pay any additional funds to Adelphia as a result of the “increased” management fees, defendant Timothy Rigas and Adelphia employees acting at his direction caused Adelphia to
reduce the interest payments owed by the Rigas Cable Entities to Adelphia by the exact amount of the “increase” in management fees. Thus, the balance due to Adelphia remained the same, permitting Adelphia to fraudulently re-characterize interest receivables as management fees, and thereby artificially inflate EBITDA.

155. For example, during 2001, Adelphia fraudulently and misleadingly represented that approximately $5 million in interest expense payable by the Rigas Cable Entities to Adelphia were actually management fees. As a result, the Rigas Defendants fraudulently inflated Adelphia’s publicly disclosed EBITDA by $5 million during that year, thereby enabling Adelphia to meet analysts’ quarterly expectations.

156. Adelphia also recorded as revenue other “fees” purportedly owed by Rigas Cable Entities to Adelphia solely for the purpose of inflating Adelphia’s EBITDA. For instance, in or about October 2000, Timothy Rigas and Adelphia employees acting at his direction caused Adelphia to record as revenue approximately $7 million in so-called debt placement fees from Rigas Cable Entities, even though at no time before or after that date had Adelphia charged the Rigas Cable Entities any fee for debt placement. These fees were not legitimate but were conceived of and recorded for the sole purpose of inflating Adelphia’s EBITDA, and had no business purpose. Like the increase in the management fees, the amount of the debt placement fees was arbitrarily determined by defendant Timothy Rigas and others, and corresponded to the amount by which Timothy Rigas sought to artificially inflate Adelphia’s EBITDA in that quarter. Similar fraudulent transactions with the Rigas Cable Entities took place throughout 2000 and 2001, allowing the Company to report EBITDA in line with projected earnings results.

157. Adelphia also recorded the receipt of additional management fees from non-cable Rigas Entities or other businesses associated with the Rigases and managed by Adelphia. These included wholly fraudulent fees supposedly collected from NFHLP, the holding company for the
Buffalo Sabres hockey team. The Rigas Defendants also fraudulently increased Adelphia’s EBITDA by shifting approximately $4 million in Adelphia expenses to ABIZ and other Rigas Entities during the closing process in 2000 and 2001. Such shifts had no factual basis and were done solely to artificially decrease Adelphia’s expenses, thereby inflating its net income and EBITDA.

c. The Fraudulent Marketing Support Transactions

158. Defendants John Rigas, Timothy Rigas, Michael Rigas and others also caused Adelphia to enter into sham transactions with unrelated companies for the purpose of further inflating EBITDA. Beginning in or about August 2000, Timothy Rigas and others caused Adelphia to record phony “marketing support” payments from two of its digital converter box suppliers as revenue for the purpose of artificially inflating Adelphia’s reported EBITDA. Adelphia recorded $7 million in marketing support payments for the quarter ended June 30, 2000 and $12.8 million for the quarter ended September 30, 2000.

159. After recording the phony marketing support payments, defendant Timothy Rigas and others sought to make the payments appear legitimate. Thus, in or around October 2000, at the direction of defendants Timothy Rigas, Michael Rigas and others, Adelphia employees approached its two largest suppliers of digital cable converter boxes to persuade the suppliers to make such marketing support payments to Adelphia. By seeking marketing support payments for 2000, Adelphia, in effect, was attempting to renegotiate the terms of its past purchases. Not surprisingly, its suppliers declined Adelphia’s request.

160. Refusing to give up on their idea of generating phony revenues in order to increase Adelphia’s EBITDA, Adelphia, at the direction of Timothy and Michael Rigas, proposed to the suppliers that they enter into sham “marketing support” transactions, in which no economic benefit would be received by any party. Under the terms of Adelphia’s proposal, the
suppliers agreed to pay Adelphia millions of dollars for “marketing support” in connection with the converters already purchased by Adelphia. In exchange, Adelphia agreed to an $18 - $26 price increase for each converter it had already purchased -- an amount identical to the “marketing support” paid to Adelphia by the suppliers. The contracts related to the marketing support payments were not executed until January 2001 but were backdated to November 2000 and fraudulently stated that the effective dates were much earlier in 2000. It was the expressed intent of the parties to the marketing support agreements that the agreements would not alter, in any way, the economics of the already completed converter sales. Thus, Adelphia provided a side letter agreement in which it promised to repay the same sums it received pursuant to the marketing support payments. Consequently, the price increases and “marketing support” payments constituted wash transactions with no economic substance.

161. Adelphia treated the “marketing support payments” from the suppliers as a “contra-expense” to Adelphia’s marketing costs, which artificially lowered Adelphia’s marketing expenses and increased Adelphia’s publicly reported EBITDA, since marketing expenses are deducted from revenues in calculating EBITDA. On the other hand, the payments that Adelphia made to the suppliers for the price increases on the digital converters were accounted for as capital expenditures, which are recorded as a debit to the balance sheet as opposed to a reduction in EBITDA. Thus, although the marketing support payments had no economic effect whatsoever on Adelphia, Adelphia was able to fraudulently inflate its publicly reported EBITDA by artificially decreasing its reported expenses.

162. For 2000, Adelphia recorded approximately $35 million in phony marketing support payments. For 2001, Adelphia recorded approximately $54 million in additional phony marketing support payments.
d. **Adelphia’s EBITDA Was Further Overstated by Various Other Accounting Manipulations**

163. **Failure to record impairment losses.** As conceded by Adelphia in its Form 8-K dated June 10, 2002, Adelphia overstated revenue and EBITDA by $28 million and $52 million in 2000 and 2001, respectively, by failing to record impairment losses for the reduction in fair value of financial instruments it had received in collection of billings to certain “interactive cable service providers.” It appears that Adelphia reflected such financial instruments as “Investments” on its balance sheet.

164. **Although Adelphia stated in the Significant Accounting Policies note to its financial statements included in its 2000 10K that it periodically assessed its assets for impairment, either it failed to do so adequately (but misrepresented that it had done so), or the Rigas Defendants and members of Audit Committee ignored adverse facts and circumstances that existed on or before December 31, 2000 about certain of the issuers of the securities that indicated that a loss in fair value was other than temporary.**

165. **Failure to properly account for cable television programming costs.** The June 10, 2002 Form 8-K also admitted that Adelphia further overstated EBITDA by $23 million and $42 million in 2000 and 2001, respectively, as a result of failing to properly expense cable television programming costs.

166. **Improper capitalization of labor expenses:** The June 10, 2002 Form 8-K disclosed that Adelphia overstated EBITDA by $40 million in each of years 2000 and 2001 by capitalizing labor costs which should have been expensed in the period in which they were incurred.

2. **Misrepresentations Concerning the Number of Basic Cable Subscribers**

167. **The number of basic cable subscribers is considered an important measure of a cable company’s financial growth because, among other things, basic cable subscribers provide predictable cash flow that is unlikely to shrink during an economic downturn. In Adelphia’s**
In 1999 and 2000 10Ks, Adelphia defined a basic cable subscriber to be “a home with one or more television sets connected to a cable system.”

168. Beginning in the first quarter of 2000 and continuing through the fourth quarter of 2001, defendant Timothy Rigas directed Adelphia employees to artificially inflate its reported number of basic cable subscribers by surreptitiously including categories of customers that had not previously been counted as basic subscribers, and that did not fit within Adelphia’s previous use of that term as defined in its Forms 10-K. Adelphia included those additional categories to mislead investors and financial analysts into believing that its performance met or exceeded the Company’s guidance or analysts’ expectations for Adelphia growth.

169. For instance, beginning in the first quarter of 2000 and continuing through the fourth quarter of 2001, Adelphia included in its reported count of basic cable subscribers 15,000 subscribers of an unconsolidated affiliate located in Brazil in which Adelphia did not own a controlling interest. Until the first quarter of 2000, these subscribers had never been included in Adelphia’s basic subscriber count and were added then only so that Adelphia could report quarter-on-quarter subscriber growth for the first quarter of 2000. The Brazilian subscribers continued to be added in subsequent quarters through the last quarter of 2001 so that Adelphia could sustain the subscriber levels it reported in the first quarter of 2000.

170. In the third quarter of 2000, Adelphia included in its basic cable subscriber count 28,000 customers of an unconsolidated Venezuelan affiliate. Again, these subscribers had never been included previously, should not have been included because Adelphia’s interest in that affiliate was not significant enough to warrant consolidation, and were added only to meet subscriber growth predictions and market expectations and then continued to be added to sustain the appearance of such growth.
171. In the last three quarters of 2001, Adelphia included in its basic subscriber count customers who received “Powerlink,” Adelphia’s Internet service. There was no basis for including these subscribers because, as Internet customers, they did not fit within Adelphia’s definition of a basic cable subscriber. Nevertheless, to meet market expectations, Adelphia added 27,000, 33,000, and 39,000 Powerlink subscribers in the second, third, and fourth quarters, of 2001, respectively.

172. In the third and fourth quarters of 2001, Adelphia included in its reported number of basic cable subscribers 60,000 customers who subscribed to Adelphia’s home security service. These customers did not qualify under Adelphia’s own definition of basic cable subscribers, and were included deliberately to inflate the basic subscriber count for those quarters.

173. As a result of this misconduct, Adelphia’s quarterly reported number of basic cable subscribers was inflated as follows:

<table>
<thead>
<tr>
<th>QUARTER</th>
<th>REPORTED BASIC SUBSCRIBERS</th>
<th>NUMBER AND TYPE OF CUSTOMERS IMPROPERLY INCLUDED AS REPORTED BASIC SUBSCRIBERS</th>
<th>OVERSTATEMENT OF TOTAL NUMBERS OF BASIC SUBSCRIBERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1 2000</td>
<td>5,003,517</td>
<td>15,000 (Brazil)</td>
<td>15,000</td>
</tr>
<tr>
<td>Q2 2000</td>
<td>5,018,068</td>
<td>15,000 (Brazil)</td>
<td>15,000</td>
</tr>
<tr>
<td>Q3 2000</td>
<td>5,190,507</td>
<td>15,000 (Brazil) + 28,000 (Venezuela)</td>
<td>43,000</td>
</tr>
<tr>
<td>Q4 2000</td>
<td>5,547,690</td>
<td>15,000 (Brazil) + 28,000 (Venezuela)</td>
<td>43,000</td>
</tr>
<tr>
<td>Q1 2001</td>
<td>5,723,315</td>
<td>15,000 (Brazil) + 28,000 (Venezuela)</td>
<td>43,000</td>
</tr>
<tr>
<td>Q2 2001</td>
<td>5,672,225</td>
<td>15,000 (Brazil) + 28,000(Venezuela) + 27,000 (Powerlink)</td>
<td>70,000</td>
</tr>
<tr>
<td>Q3 2001</td>
<td>5,693,035</td>
<td>15,000 (Brazil)</td>
<td>136,000</td>
</tr>
<tr>
<td>QUARTER</td>
<td>REPORTED BASIC SUBSCRIBERS</td>
<td>NUMBER AND TYPE OF CUSTOMERS IMPROPERLY INCLUDED AS REPORTED BASIC SUBSCRIBERS</td>
<td>OVERSTATEMENT OF TOTAL NUMBERS OF BASIC SUBSCRIBERS</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>28,000 (Venezuela) + 33,000 (Powerlink) + 60,000 (Home Security)</td>
<td></td>
</tr>
<tr>
<td>Q4 2001</td>
<td>5,810,253</td>
<td>15,000 (Brazil) + 28,000 (Venezuela) + 39,000 (Powerlink) + 60,000 (Home Security)</td>
<td>142,000</td>
</tr>
</tbody>
</table>

174. Adelphia also fraudulently boosted its basic subscriber count in four additional ways:

(a) In the third and fourth quarter of 2001, Adelphia included among its basic cable subscribers the high-speed data subscribers to cable systems owned by the Rigas Family Entities (i.e., cable companies that actually competed with Adelphia). Given that the results of these Rigas Family Entities were not consolidated into, or otherwise reported on by Adelphia, including these customers in Adelphia’s basic subscriber count was wholly fraudulent.

(b) For the quarter ended December 31, 2000, Adelphia included in its count of basic cable subscribers the new basic cable subscribers that it had acquired in January 2001 thereby falsely inflating its subscriber count.

(c) In or about the third quarter of 2000 and each quarter thereafter, Adelphia included in its basic cable subscriber count long distance telephone customers of an Adelphia subsidiary engaged in the business of reselling long distance capacity. The service sold to these

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customers was completely unrelated to cable television and those customers did not meet the Company’s definition of a basic cable subscriber. The inclusion of these customers in Adelphia’s basic cable subscriber count therefore had no basis.

(d) At some point during the Class Period, Adelphia began including in its basic cable subscriber count all the units in a multi-family dwelling even though only one unit may have been a paying subscriber and only that one met Adelphia’s definition of a basic cable subscriber.

175. The Rigas Defendants knew the true number of basic cable subscribers and were aware that Adelphia was reporting a fraudulently inflated number of basic cable subscribers to investors. In fact, on at least two occasions, Michael Rigas assured his staff that, despite Adelphia’s true operational performance, his staff still would receive performance bonuses based on the fraudulent number of basic cable subscribers that Adelphia fabricated and reported at the direction of Timothy Rigas.

3. The Concealed Self-Dealing

176. During the Class Period, the Rigas Defendants caused Adelphia to make a number of misrepresentations and omissions of material fact to mislead investors and conceal certain substantial transactions and dealings through which the Rigas Defendants engaged in extensive self-dealing greatly enriching themselves at the expense of Adelphia and its shareholders.

177. For instance, the Rigas Defendants, through Highland Holdings, purchased $59 million of Adelphia securities in open market transactions on October 30, 1999, April 20, 2000, and February 1, 2001. Contrary to public representations that such purchases were financed with personal funds, in fact Highland Holdings obtained the funds for the securities purchases from the CMS. Highland Holdings never reimbursed or otherwise compensated Adelphia for the funds withdrawn from the CMS.
178. In February 2000, the Rigas Defendants caused Adelphia to pay $26.5 million for the rights over a twenty year period to hardwood cherry timber on 3,656 acres of land owned by them in Potter County, Pennsylvania. The Rigas Family (through Wending 3656) had previously paid $464,930 to acquire the land. Pursuant to the terms of the transaction, despite the fact that Adelphia purchased the timber rights, the timber rights automatically would revert to the owners of the underlying land (i.e., the Rigas Family) at the earlier of twenty years or if the cumulative voting percentage of Adelphia stock held by the Rigas Family fell below 50% of all the outstanding Company stock. Thus, it was intended from the inception of the transaction that the Rigas Defendants, and not Adelphia, would receive the benefits of the timber rights. Neither the occurrence of this transaction nor its terms were disclosed to Adelphia’s investors in Adelphia’s public filings or otherwise.

179. The Rigas Defendants used approximately $13 million in Adelphia funds for the construction of a golf club and golf course on 830 acres of land located near Coudersport, Pennsylvania, 661 acres of which were owned, directly or indirectly, by the Rigas Family. Despite Adelphia’s $13 million expenditure, the Company had no executed written leases with respect to that portion of the acreage owned by the Rigas Family. The use of Adelphia funds for construction of the golf club and golf course was never disclosed to Adelphia investors.

180. As set forth above, the Rigas Defendants caused Adelphia to pay $241 million in personal margin loans and other debt, $177 million of which was paid in 2002. Of that amount, $174 million was paid after Adelphia’s March 27, 2002 disclosure of Adelphia’s off-balance sheet liabilities. During the Class Period, the use of the Adelphia funds to pay margin loans or other debt on behalf of the Rigas Family was not disclosed to Adelphia investors in Adelphia’s public filings or otherwise.
181. The Rigases also had exclusive use of luxury condominiums in Beaver Creek, Colorado, and Cancun, Mexico, and at least two New York City apartments (the principal residences of defendant Peter Venetis and/or his wife Ellen Venetis), all of which were paid for by Adelphia and for which neither the Rigas Defendants nor Peter Venetis (or his wife) paid rent. The Rigas Defendants’ and/or Venetis’ exclusive use of the condominiums and/or apartments was never disclosed to Adelphia investors.

182. Further, in 2000 and 2001, Adelphia advanced substantial sums of money to defendant John Rigas. In 2001 alone, John Rigas received at least $1 million a month in undisclosed advances. Those advances were paid out of the CMS, by transferring funds to a Rigas Family Entity and subsequently transferring the funds from the Rigas Family Entity to John Rigas. Some or all of the amounts transferred were recorded as accounts receivable of Adelphia from one or more Rigas Family Entities. In turn, some or all of the amounts transferred from Rigas Family Entities to John Rigas were recorded as accounts receivable of the Rigas Family Entities from John Rigas. As of year end 2000, various Rigas Family Entities owed at least approximately $312 million to Adelphia. Of that amount, approximately $53 million represented amounts owed to various Rigas Family Entities by defendant John Rigas. As of year end 2001, the Rigas Family Entities owed approximately $876 million to Adelphia. Of that amount, at least $66.9 million represented amounts owed by John Rigas to the Rigas Family Entities. Moreover, at the same time Adelphia was transferring $1 million a month to John Rigas, the Company misrepresented in its SEC filings that John Rigas’ total salary for 2000 was $1,407,763.

183. During 2000 and 2001, Adelphia also advanced $5.8 million in cash to other Rigas Family members including defendants Timothy Rigas and Michael Rigas.
184. Defendant Venetis is the Managing Director of Praxis Capital, the general partner of Praxis an investment partnership. Formed in June 2001, Praxis focused on private equity investments in the telecommunications market. Adelphia is the sole limited partner of Praxis and owns 99.5% of the total partnership interest. Adelphia signed a contract calling for the commitment of $65 million of capital to Praxis, of which it actually has funded approximately $2.9 million. Further, Praxis Management owned by defendant Venetis, is the management company of Praxis and received a management fee of 2.0% of Praxis’ committed capital, in the amount of approximately $1.3 million annually, virtually all of which Praxis Management paid to Venetis in the form of salary. Adelphia has paid management fees of approximately $1.96 million to Praxis Management out of its capital contributions to Praxis. Virtually all of which was paid to defendant Venetis.

185. Through the foregoing and other undisclosed self-dealing transactions, the Rigases were enriched by hundreds of millions of dollars at the expense of Adelphia and its unwitting shareholders.

D. Deloitte’s Egregiously Reckless Audits, Materially False and Misleading Audit Reports and Knowing Concealment of Fraud

1. Deloitte’s Multiple Roles and Access to Complete Information

186. Deloitte was heavily involved in virtually every aspect of Adelphia’s business. Deloitte was the Company’s long-time outside auditor; it audited Adelphia’s consolidated financial statements and prepared Adelphia’s tax returns. In 2000, Deloitte billed Adelphia $1.319 million for services rendered in connection with the 2000 audit and for the review of the financial statements included in the quarterly reports on the Company’s Forms 10-Q. In the same year Deloitte billed Adelphia $2.182 million for all other fees for services other than audit services and financial information system design and implementation. In addition, Deloitte provided auditing and/or accounting services to various Rigas Family Entities including those
managed by Adelphia. As a result, Deloitte was on both sides of the fence, giving it a complete picture of the finances, operations and business of Adelphia, its subsidiaries, and the Rigas Family Entities.

187. Deloitte audited not only the financial statements of the Company and its subsidiaries, but also audited the special purpose financial statements provided to the lenders in accordance with the provisions of the Co-Borrowing Credit Facilities, which special purpose financial statements consolidated the financial information of the Adelphia subsidiaries and Rigas Family Entities that were parties to the Co-Borrowing Credit Facilities.

188. Given its multiple roles, Deloitte knew the total amount of the co-borrowing debt attributed to the Rigas Family Entities that were parties to the Co-Borrowing Credit Facilities. It also knew the value of cable systems held by the such Rigas Family Entities and that certain of the draw downs under the Co-Borrowing Credit Facilities by the Rigas Family Entities were not being used to fund the acquisition of cable systems.

2. Deloitte’s Determination that Adelphia Was a “High Risk” Audit Client

189. Deloitte’s obligations (discussed below at Section V, D, 3) with regard to the services it performed for Adelphia were heightened as a result of the level of risk associated with the Adelphia audits. Deloitte knew (and, in fact, so stated on more than one occasion) that Adelphia was a “high risk” client necessitating heightened skepticism in Deloitte’s planning and performing of its audits if those audits were to conform with prevailing professional standards.

190. GAAS in SAS 82, “The Auditor’s Responsibility to Detect and Report Errors and Irregularities,” sets forth a list of “red flags” that auditors are supposed to look for in attempting to ferret out fraudulent financial reporting. Among the examples of risk factors an auditor must assess in evaluating the possibility of misstatements arising from fraudulent financial reporting are:
a. An excessive interest by management in maintaining or increasing the entity’s stock price or earnings trend through the use of unusually aggressive accounting practices.

b. Significant pressure to obtain additional capital necessary to stay competitive considering the financial position of the entity--including the need for funds to finance major research and development or capital expenditures.

c. Significant related-party transactions not in the ordinary course of business or with related entities not audited or audited by another firm.

d. Overly complex organization structure involving numerous or unusual legal entities, managerial lines of authority, or contractual arrangements without apparent business purpose.

e. Unusually high dependence on debt or marginal ability to meet debt repayment requirements; debt covenants that are difficult to maintain.

Many of these risk factors or “red flags” were in plain view at Adelphia.

191. Under these circumstances and considering the relative risk of the Adelphia audit, Deloitte had an obligation to increase its vigilance during its audits of the Company, to follow up any possible red flags, to focus particular scrutiny on areas where internal controls might be weak and abuses might be possible, and, in general, to tailor the scope of its audits to the heightened risk it identified, including the risks associated with numerous related party transactions. That related party transactions were increasing in size was apparent even from Adelphia’s incomplete and misleading disclosures. During at least 1999 through 2001, at the end of each quarter, there was regularly a net inter-company balance owed to Adelphia by the Rigas Family Entities. For example, as disclosed in Adelphia’s October 4, 1999 Proxy Statement, the largest aggregate amount of Adelphia’s net outstanding loans to and advances receivable from Rigas Family Entities was $47.9 million in the nine months ended December 31, 1998. For the twelve months ended December 31, 1999, that number more than tripled to $178.6 million, and for the twelve months ended December 31, 2000 that number totaled $263.1 million.
192. Deloitte acknowledged the risky nature of the Adelphia audits in its presentations to the Adelphia Audit Committee and particularly the issue posed by related party transactions. For example, in an “Audit Overview” regarding its 2000 audit, Deloitte described the special measures that it said it would employ as its “Audit Response” given the risk associated with “related party transactions.” This “Audit Response” included: “Work with management to understand and evaluate such arrangements in order to identify impact on other accounts and entities and evaluate the sufficiency of disclosure”; and, “while performing audit procedures in all areas, have staff and seniors identify possible related party transactions not previously identified.”

193. Deloitte’s “Audit Overview” regarding the year 2000 audit also identified “Debt Compliance” as a “risk area.” Deloitte noted that “Adelphia is highly leveraged” and “most” of Adelphia’s financing agreements “contain numerous complex financial loan covenants.” The various covenants contained in the indenture agreements (pursuant to which Adelphia’s debt securities were issued) were designed to protect investors in the debt securities. Included among these provisions was a covenant that limited the total indebtedness that Adelphia could incur. Once Adelphia’s debt exceeded the stated thresholds, it could not take out new loans or issue additional debt securities to the public, absent certain exceptions not available to the Company. The covenants also limited Adelphia’s ability to make any direct or indirect acquisition of Adelphia Indebtedness subordinate in right of payment to the notes, or of shares of Adelphia capital stock, except under certain conditions not here applicable. In addition, the indentures contained a covenant that imposed restrictions on transactions between Adelphia or its subsidiaries, on the one hand, and the Rigas Family Entities, on the other. Such transactions were prohibited, if the terms were less favorable than those Adelphia could obtain in an arms-length transaction with someone other than an affiliate. Indeed, this covenant required
Adelphia to obtain Board approval, as well as a fairness opinion, for the very transactions that it routinely entered into with the Rigas Family Entities without these protections.

194. Given Deloitte’s familiarity with Adelphia’s financing agreements, it undoubtedly was aware of the terms of these covenants. Indeed, Deloitte noted in its “Audit Overview” regarding the year 2000 Audit that “In the past, compliance with certain of these covenants has been marginal” and “Deloitte & Touche is associated with these covenants through the issuance of debt compliance letters.” As its “Audit Response,” Deloitte told Adelphia that, among other steps, it would review “loan agreements and financial loan covenant calculations.” Deloitte also said that it would:

- “Review new and existing debt agreements for financial loan covenants and any requirements for debt compliance letters to be issued.”
- “Obtain copies of debt compliance calculations prepared by Adelphia personnel as of the appropriate periods.”
- “Agree information used in the debt compliance calculations to the respective financial statements for the reporting entity.”
- Recalculate compliance with the respective covenants on a test basis.”

Such work by Deloitte necessarily would or should have uncovered the fact that Adelphia was in violation of various of the indenture covenants.

195. Deloitte’s “Audit Overview” regarding the year 2000 audit also noted as a “risk area” that Adelphia “records numerous post-closing adjusting journal entries” and identified as an Audit Response: “Deloitte & Touche engagement to review post-closing entries recorded and review with appropriate personnel. Conclude as to reasonableness of entries posted.”

196. Deloitte’s “Audit Overview” regarding the year 2000 audit also noted as a risk area “Significant Non-routine Transactions” and identified the following Audit Response: “Discuss with management to obtain an understanding of the nature and terms of any such transaction taking place during the year”; “Review contracts and related correspondence”;
and, “Assess the accounting treatment based on the nature and terms and complete audit procedures appropriate for the unique transactions.”

3. Deloitte’s Obligations Pursuant to GAAP and GAAS and Pertinent Securities Regulations

a. Deloitte’s Obligations Pursuant to GAAP and SEC Regulations

197. As Adelphia’s independent auditor, Deloitte’s responsibilities spread far beyond the confines of the Company. The integrity of the market depends on the audits of independent accounting firms like Deloitte. If Deloitte states it has reviewed a company’s books and records, audited their financial statements, and certified that the financial statements are accurate and prepared in accordance with GAAP, that certification is an assurance to the market and to investors as to the integrity of the data contained in those financial statements. The core of GAAP is the principle that complete financial statements must disclose all material information necessary to fairly and validly represent the underlying events and conditions. Capital markets cannot function properly if investors are unable to rely on auditors’ work product.

198. GAAP are those principles recognized by the accounting profession as the conventions, rules, and procedures necessary to define accepted accounting practice at a particular time. Regulation S-X, 17 C.F.R. § 210.4-01(a)(1), states that financial statements filed with the SEC that are not prepared in conformity with GAAP are presumed to be misleading and inaccurate. Regulation S-X requires that interim financial statements must also comply with GAAP, though they need not include disclosures that would be duplicative of accompanying annual financial statements. 17 C.F.R. § 210.10-01(a). As set forth in Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Concepts No. 1 (“Con1”), one of the fundamental objectives of financial reporting is that it provide accurate and reliable information concerning an entity’s financial performance during the period being presented. Con1, ¶42, states:
Financial reporting should provide information about an enterprise’s financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors’ and creditors’ expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance.

199. GAAP has a specific provision --- Statement of Financial Accounting Standards (“FAS”) 57 -- that governs disclosures of related party transactions, which include transactions between a company and its management, principal owners or affiliates of such parties. Paragraph 2 of FAS 57 requires that disclosure of transactions with related parties provide information deemed necessary to an understanding of the effects of the transactions on the financial statements. To comply with FAS 57, a company’s financial statements must disclose certain material information about such transactions, including the nature of the relationships involved, a description of the transactions, the dollar amounts involved and any amounts due to or from a related party as of the date of the balance sheet along with the terms and manner of settlement of such payments. FAS 57 also prevents an auditor from presuming that a related party transaction was conducted at arm’s-length.

200. In addition to FAS 57, Item 404 of Regulation S-K requires disclosure of any transaction in an amount greater than $60,000 in which an executive officer of a company has a material interest. The instructions to this section provide that:

The materiality of any interest is to be determined on the basis of the significance of the information to investors in light of all the circumstances of the particular case. The importance of the interest to the person having the interest, the relationship of the parties to the transaction with each other and the amount involved in the transaction are among the factors to be considered in determining the significance of the information to investors.

201. Item 303 of Regulation S-K imposes a duty on companies to disclose in their public filings with the SEC “known trends or any known demands, commitments, events or
uncertainties” that are reasonably likely to have a material impact on the company’s sales revenues, income or liquidity, or cause previously reported financial information not to be indicative of future operating results.

202. GAAP has a specific provision set forth in FAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities -- a Replacement of FASB Statement No. 125,” which states that a liability should be derecognized only if it has been extinguished. As outlined in paragraph 16 of FAS 140, extinguishment is proper when the debtor has paid the creditor and is relieved of its obligation for the liabilities or when the debtor is legally released from being the primary obligor under the liability.

203. Another provision of GAAP set forth in Emerging Issues Task Force No. 85-1, “Classifying Notes Received for Capital Stock,” based upon SEC Staff Accounting Bulletin No. 40, Topic 4-E, “Receivables from Sale of Stock,” provides that a company that records a note receivable as payment for its stock should record the note as a reduction to shareholders’ equity and not as an asset.

204. Financial reporting in compliance with GAAP should disclose the nature and amount of loss contingencies, including guarantees of the indebtedness of others, whether direct or indirect (FAS 5, Accounting for Contingencies), and the terms, nature and maximum amount of off-balance sheet risks associated with financial guarantees (FAS 105, “Disclosure of Information about Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk” applicable for periods prior to June 15, 2000).

205. In particular, FAS 5, “Accounting for Contingencies,” provides guidance on how to properly record and disclose so-called “loss contingencies,” like “Guarantees of indebtedness of others.” Paragraph 8 of FAS 5 provides:

An estimated loss from a loss contingency ... shall be accrued by a charge to income if both the following

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conditions are met: (a) Information available prior to issuance of the financial statements indicates that it is probable that ... a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will occur confirming the fact of the loss. (b) The amount of loss can be reasonably estimable.

Paragraph 10 of FAS 5 provides:

If no accrual is made for a loss contingency because one or both of conditions in paragraph 8 are not met . . . disclosure of the contingency shall be made when there is at least a reasonable possibility that a loss or an additional loss may have been incurred . . . Disclosure is not required of a loss contingency involving an unasserted claim or assessment when there has been no manifestation by a potential claimant of an awareness of a possible claim or assessment unless it is considered probable that a claim will be asserted and there is a reasonable possibility that the outcome will be unfavorable.

206. Under these principles, even if a guarantee of indebtedness does not meet the thresholds under FAS 5 for inclusion in a company’s financial statements, disclosure of the guarantee is still required where there is a reasonable possibility of having to incur a liability under the guarantee regardless of whether the liability is reasonably estimable. Specifically, paragraph 12 of FAS 5 states:

Certain loss contingencies are presently being disclosed in financial statements even though the possibility of loss may be remote. The common characteristic of those contingencies is a guarantee, normally with a right to proceed against an outside party in the event that the guarantor is called upon to satisfy the guarantee.... The Board concludes that disclosure of those loss contingencies, and others that in substance have the same characteristic, shall be continued. The disclosure shall include the nature and the amount of the guarantee.

207. Financial reporting in compliance with GAAP also requires adherence to the following principles:
a. The principle that financial reporting should provide information that is useful to current and potential investors and creditors and others in making rational investment, credit and similar decisions (Con1, ¶34);

b. The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and the effects of transactions, events and circumstances that change resources and claims to those resources (Con1, ¶40);

c. The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider responsibilities for accountability to prospective investors and to the public in general (Con1, ¶50);

d. The principle that financial reporting should provide information about an enterprise’s financial performance during a period. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors’ and creditors’ expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (Con1, ¶42);

e. The principle that the costs of services be matched with, i.e., recognized contemporaneously with, the recognition of revenues that resulted from the same transactions (Con6, ¶145);

f. The principle that revenues and gains generally should not be recognized until realized or realizable, and revenues are considered to have been earned when
the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues (Con5, ¶83);

g. The principle that financial reporting should be reliable in that it represents what it purports to represent. That information should be reliable as well as relevant is a notion that is central to accounting (Con2, ¶¶58-59);

h. The principle of completeness, which means that nothing is left out of the information that may be necessary to ensure that it validly represents underlying events and conditions (Con2, ¶79); and

i. The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (Con2, ¶¶95, 97).

208. As set forth below, Deloitte failed to comply with its obligations under the foregoing provisions.

b. **Deloitte’s Obligations Pursuant to GAAS**

209. The professional responsibilities of an auditor are set forth in GAAS, which codifies certain professional standards applicable to accountants in auditing financial statements. The Auditing Standards Board of the American Institute of Certified Public Accountants (“AICPA”) established GAAS. Its standards must be complied with by certified public accountants auditing financial statements. These pronouncements form the ground rules for every audit, including Deloitte’s various audits of Adelphia. GAAS has additional requirements that certified public accountants must fulfill in reviewing quarterly financial information.
210. There are ten auditing standards. They are categorized as general standards, standards of field work and standards of reporting. The three general GAAS standards require auditors to have “adequate technical training and proficiency”; to maintain an “independent” state of mind in “all matters relating to the assignment”; and, to exercise “[d]ue professional care ... in the performance of the audit and the preparation of the report.” The three standards of field work require that audit work “be adequately planned”; that “the nature, timing, and extent of tests to be performed” be determined based on a “sufficient understanding of internal control”; and that “[s]ufficient competent evidential matter be obtained through inspection, observation, inquiries and confirmations to afford a reasonable basis for an opinion regarding the financial statements under audit.”

211. In the four standards of reporting, GAAS requires that an auditor’s final product -- the audit report -- state whether the financial statements are presented in accordance with GAAP; “identify those circumstances in which such principles have not been consistently observed in the current period in relation to the preceding period;” must contain informative disclosures that are “reasonably adequate;” and contain a statement of opinion by the auditor regarding the accuracy of the financial statements or explain why no opinion can be given.

212. In addition to the above basic auditing standards, GAAS includes many other requirements affecting all aspects of the professional services rendered by auditors.

213. In keeping with the duty to exercise independent judgment, Codification, AU § 333(a) provides that an auditor must not take client representations at face value and expressly warns that client representations cannot “substitute for the auditing procedures necessary to afford a reasonable basis for” the auditor’s “opinion on the financial statements.” Similarly, Codification, AU § 342 holds the auditor responsible for evaluating the reasonableness of accounting estimates made by management.
214. GAAS also requires that in “all audits, the auditor should obtain an understanding of internal control sufficient to plan the audit by performing procedures to understand the design of controls relevant to an audit of financial statements and determining whether they have been placed in operation.” See Codification, AU § 319.02. Auditors must likewise assess the control risk of a client by “evaluating the effectiveness of an entity’s internal control in preventing or detecting material misstatements in financial statements.” See Codification, AU § 319.64. In assessing the same, GAAS acknowledges that an “entity’s control consciousness is influenced significantly by the entity’s board of directors or audit committee. Attributes include the board or audit committee’s independence from management, the experience and stature of its members, the extent of its involvement and scrutiny of activities, the appropriateness of its actions, the degree to which difficult questions are raised and pursued with management, and its interaction with internal and external auditors.”

215. Importantly, GAAS requires the auditor to be aware of the possibility of intentional wrongdoing by management. Indeed, an auditor has “a responsibility to plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud,” Codification AU § 110, and to assess the risk of fraudulent financial reporting and accounting irregularities and to respond appropriately, Codification, AU §316.

216. GAAS also requires an auditor to exercise “professional skepticism” in conducting an audit, to plan for the possibility of fraud, to report potential wrongdoing to appropriate levels of authority, and to avoid the reliance upon client representations with respect to important audit issues.

217. The importance of “professional skepticism” is a theme emphasized throughout the authoritative interpretations of GAAS, and the phrase is defined in Codification, AU § 230
as: “an attitude that includes a questioning method and critical assessment of audit evidence. The auditor uses the knowledge, skill, and ability called for by the profession of public accounting to diligently perform, in good faith and with integrity, the gathering and objective evaluation of evidence.” Codification, AU § 230 makes it clear that “professional skepticism should be exercised throughout the audit process,” and that “the auditor should not be satisfied with less than persuasive evidence because of a belief that management is honest.”

218. GAAS imposes an affirmative obligation on the auditor to bring illegal and improper conduct, as well as so-called “reportable conditions,” to the attention of the audit committee upon detection of such conduct or conditions.

219. GAAS also expressly recognizes the possibility that management might engage in improper conduct and that “business structure and operating style are occasionally deliberately designed to obscure related party transactions.” Codification, AU § 334.05. In light of this potential for abuse, GAAS requires an auditor to “be aware of the possible existence of material related party transactions that could affect the financial statements and of common ownership or management control relations for which” GAAP “requires disclosure.” See Codification, AU § 334.04. To that end, in evaluating any related party transactions, Codification, AU § 334 dictates that: “The auditor should place emphasis on testing material transactions with parties he knows are related to the reporting entity,” including by evaluating “the company’s procedures for identifying and properly accounting for related party transactions” and employing procedures to “obtain satisfaction concerning the purpose, nature, and extent” of the related party transactions “and their effect on the financial statements.” In so doing, an auditor must:

a. Obtain an understanding of the business purpose of the transaction.

b. Examine invoices, executed copies of agreements, contracts, and other pertinent documents, such as receiving reports and shipping documents.
c. determine whether the transaction has been approved by the board of directors or other appropriate officials.

d. Test for reasonableness the compilation of amounts to be disclosed, or considered for disclosure, in the financial statements.

e. Arrange for audits of intercompany account balances ... and for the examination of specified, important, and representative related party transactions by the auditors for each of the parties, with appropriate exchange of relevant information.

f. Inspect or confirm and obtain satisfaction concerning the transferability and value of collateral.

g. With respect to material uncollected balances, guarantees, and other obligations, obtain information about the financial capability of the other party or parties to the transaction.

220. Further, in connection with related party transactions, GAAS requires that, for each material related party transaction for which GAAP requires disclosure, the auditor should consider whether he has obtained sufficient competent evidential matter to understand the relationship of the parties and, for related party transactions, the effects of the transaction on the financial statements.

[The auditor] should then evaluate all the information available to him concerning the related party transaction or control relationship and satisfy himself on the basis of his professional judgment that it is adequately disclosed in the financial statements.

221. Deloitte was obligated to fulfill and comply with the requirements of GAAS when it acted as Adelphia’s independent auditor. Deloitte’s audit engagement letters with the Company expressly stated that Deloitte’s audits would “be conducted in accordance with auditing standards generally accepted in the United States of America.” As set forth below, Deloitte failed to comply with its obligations under GAAS.
4. Deloitte’s Certification of Materially False and Misleading Financial Statements in Violation of GAAP and GAAS

a. Deloitte’s Knowing Complicity in the Concealment of Adelphia’s Off-Balance Sheet Debt

1. Deloitte’s Certification of Financial Statements that Concealed the Amounts Borrowed by the Rigas Family Entities

222. As set forth above, certain of Adelphia’s subsidiaries entered into three Co-Borrowing Credit Facilities that permitted the Rigas Family Entities as well as certain subsidiaries of the Company to borrow billions of dollars. A key feature of the Co-Borrowing Credit Facilities was that Adelphia and its subsidiaries were subject to joint and several liability for all amounts borrowed by the Rigas Family Entities, even if the amounts borrowed were used to benefit only the Rigas Family Entities. Thus, the Co-Borrowing Credit Facilities gave the Rigas Defendants and the Rigas Family Entities access to billions of dollars of credit, the economic responsibility for which was ultimately borne by the Company regardless of the fact that the Company derived no economic benefit from such debt. At year end 1999, the co-borrowings approximated $250 million. By the close of the Class Period, these borrowings increased to a staggering $3.4 billion.

223. By virtue of its multiple roles, its access to information regarding both the Company and the Rigas Family Entities and its role in connection with the certification of compliance with debt covenants, Deloitte knew that the Rigas Family Entities had borrowed the foregoing amounts and that Adelphia (through its subsidiaries) remained jointly and severally liable for the full amount of the debt. Deloitte was also aware that the footnote disclosure in Adelphia’s consolidated financial statements did not disclose the amounts borrowed by the Rigas Family Entities or Adelphia’s potential liability for these co-borrowings.
224. In these circumstances, Deloitte’s unqualified audit opinions with respect to Adelphia’s 1999 and 2000 consolidated financial statements, and its review of Adelphia’s quarterly financial statements starting in the second quarter of 1999 through the close of the Class Period, violated GAAS.

225. In addition to its familiarity with the terms of the Co-Borrowing Credit Facilities, Deloitte knew that the Rigas Family Entities had no contractual obligation to reimburse Adelphia or its subsidiaries for any repayments they might be forced to make. In reviewing the documentation of the Co-Borrowing Credit Facilities and making due inquiry of other evidence, as Deloitte was required to do and represented that it would do, Deloitte would have known, and should have known, that there was no written agreement between Adelphia and the Rigas Family Entities requiring indemnification by them for any amounts paid by Adelphia. Deloitte also would have known, and should have known, that there was no collateral or other security pledged to Adelphia by the Rigas Family Entities to ensure that Adelphia was protected in the event of its being required to repay such debt.

226. Even if the Rigas Family Entities had intended to repay the Company in the event the lenders called the loans, their ability to do so was limited by their financial condition, which, given the extraordinary sums of money involved, further reinforced the conclusion that regardless of the entity drawing down on the Co-Borrowing Credit Facilities, it was ultimately Adelphia that would be responsible for repayment. As a result, the exclusion of the co-borrowed debt or a vast portion of it from Adelphia’s consolidated balance sheet violated GAAP.

227. Even if there were a basis under GAAP on which to exclude some of that debt from Adelphia’s consolidated balance sheet, GAAP still required some public disclosure of the total amount of the Rigas Family Entities’ debt under the Co-Borrowing Credit Facilities, because, among other factors, Adelphia was jointly and severally liable for such debt. Because
at a minimum, a reasonable possibility existed that Adelphia would be called upon to repay some
or all of the amounts borrowed by the Rigas Family Entities under the Co-Borrowing Credit
Facilities, Deloitte had no reasonable basis for concluding otherwise or acquiescing to the Rigas
Defendants’ view that the debt be excluded from the Company’s financial statements. Under the
provisions of FAS 5, ¶¶8 and 10, disclosure of the amount of the co-borrowings of the Rigas
Family Entities should have appeared at the very least in the footnote disclosure to Adelphia’s
financial statements. Even if the probability that Adelphia would have to assume
responsibility for the debt could somehow be characterized as “remote,” disclosure of the
nature and the amount of Adelphia’s potential liability was still necessary under the provisions
of FAS 5, ¶12.

228. FAS 57 provides an independent basis for disclosure of the co-borrowed debt.
In particular, paragraph 2 of FAS 57 requires disclosure of transactions with related parties
sufficient to permit the reviewer of the report to have an understanding of the effects of the
transactions on the financial statements. FAS 57 required the inclusion of the actual amount of
debt borrowed by or allocated to the Rigas Family Entities, the fact that Adelphia had not
recorded any liability in connection with these amounts, the conditions under which the
Company would have to repay the lenders, the absence of any agreement by the Rigas Family
Entities to repay Adelphia, the degree of likelihood that Adelphia would have to repay any
amounts borrowed by the Rigas Family Entities, the actual use of proceeds of the borrowings
by the Rigas Family Entities, and the repayment terms of principal and interest.

229. Deloitte knew from its separate audits of Adelphia, ABIZ and the Rigas Family
Entities that Adelphia was heavily engaged in transactions with related parties. Deloitte violated
SAS 32, Adequacy of Disclosure in Financial Statements (AU § 431), by failing to cause
Adelphia to satisfy the related party disclosure requirements of FAS 57 with respect to the Co-
Borrowing Credit Facilities. Deloitte knew or should have known the substance of material transactions and the cumulative, pervasive effect of all related party transactions on Adelphia’s consolidated financial statements.

230. Accordingly at least as early as December 31, 1999 when the outstanding balance owed by the Rigas Family Entities on the Co-Borrowing Credit Facilities totaled $250 million, under GAAP, Deloitte should have: (i) caused Adelphia to correct its consolidated financial statements to include such debt; (ii) caused Adelphia to disclose in narrative form the material information regarding such debt and Adelphia’s potential liability for these amounts; or, (iii) refused to issue an unqualified audit report. Deloitte should also have raised each of these issues with the Audit Committee since they plainly implicate, among other issues, the type of “Significant accounting policies” that Deloitte had promised in its engagement letter it would “communicate to the Audit Committee.”

231. During the Class Period, Deloitte did none of these things. Instead, Deloitte simply acquiesced in the Rigas Family’s desire to hide from the public the extent of Adelphia’s liabilities under the Co-Borrowing Credit Facilities.

232. Deloitte actually had express conversations with the Rigas Defendants and others during its audits regarding what disclosures, if any, should be included in Adelphia’s financial statements about the amounts the Rigas Family Entities had borrowed under the Co-Borrowing Credit Facilities. Remarkably, during these conversations, Deloitte facilitated the Rigas Family’s self-dealing by agreeing with the Rigas Defendants’ position that none of such debt needed to be disclosed on the Company’s financial statements. For example, beginning in at least the year 2000 audit, Deloitte told the Rigas Defendants that Adelphia should include in a footnote the total amount of credit available under the co-borrowings, as well as the total amount that had been borrowed by the Rigas Family Entities. When the Rigas Defendants objected to
the disclosure, Deloitte acquiesced, without ever disclosing this issue or any disagreements to the
Audit Committee or the outside director on the Adelphia board.

233. Based on Deloitte’s acquiescence and as a result of Deloitte’s breach of its
professional responsibilities, Note 4 to Adelphia’s 2000 Form 10-K, stated only:

Certain subsidiaries of Adelphia are co-borrowers with
Managed Entities under credit facilities for borrowings of up to
$3,751,250[,000]. Each of the co-borrowers is liable for all
borrowings under the credit agreements, and may borrow up to
the entire amount of the available credit under the facility. The
lenders have no recourse against Adelphia other than against
Adelphia’s interest in such subsidiaries.

No disclosure was made with regard to the amount of the co-borrowings by the Rigas Family
Entities.

234. Similarly, Adelphia’s 1999 Form 10-K merely made the following disclosure:

“Certain subsidiaries of Adelphia are co-borrowers with
Managed Entities under credit facilities for borrowings of up to
$1,025,000[,000]. Each of the co-borrowers is liable for all
borrowings under the credit agreements, and may borrow up to
the entire amount of the available credit under the facility. The
lenders have no recourse against Adelphia other than against
Adelphia’s interest in such subsidiaries.”

235. These disclosures do no more than describe certain terms and conditions of the
Co-Borrowing Credit Facilities and the total amount that either party could borrow under these
facilities. These disclosures fail to comport with GAAP. Even if one were to assume that GAAP
did not require balance sheet disclosure of the full amount borrowed by the Rigas Family
 Entities, any adequate narrative disclosure of the Co-Borrowing Credit Facilities in a footnote to
the financial statements should necessarily have identified, at a minimum, the amount that had
been borrowed for which Adelphia remained jointly and severally liable. But, with Deloitte’s
blessing, this critical piece of information -- which would have shown as early as the close of the
second quarter of 1999 the true nature and extent of Adelphia’s financial condition as well as
how the Rigas Family Entities were using the Company’s credit for their own benefit -- remained
hidden from investors. Deloitte failed in its obligations to take appropriate steps to ensure that this information was properly disclosed to the investing public. Had it taken those steps, much if not all of the Rigas Family’s wrongdoing could have and would have been prevented.

236. Deloitte violated SAS 61, Communication With Audit Committees (AU § 380), by failing to adequately communicate to Adelphia’s Audit Committee details about the Co-Borrowing Credit Facilities not disclosed in Adelphia’s financial statements, and the pervasive effects on Adelphia’s financial statements of such facilities and other material transactions with related parties not disclosed in the financial statements.

237. Deloitte was a primary participant in the preparation and submission by Adelphia and the Rigas Defendants of materially false and misleading financial statements that suggested that Adelphia was including on its balance sheet all of the draw downs under the Co-Borrowing Credit Facilities, where that was not the case. Deloitte knew or should have known that Adelphia’s financial statements were materially misstated in this regard.

2. **Deloitte’s Certification of Financial Statements that Improperly Extinguished Adelphia Debt through Bogus “Reclassification”**

238. As discussed above (Section V, B, 4), the Rigas Defendants and defendants Brown and Mulcahey used the CMS to “reclassify” certain debt from Adelphia subsidiaries to the Rigas Family Entities. This process was used to eliminate over $400 million in debt owed by the Rigas Family Entities to Adelphia, and to provide “consideration” for over $800 million of Adelphia securities purchased by the Rigas Family. Critically, once this debt was “reclassified” in the CMS, Adelphia no longer reported the debt on its consolidated balance sheet, treating the general ledger entries that recorded these transactions as the equivalent of a formal assumption of the debt by the Rigas Family Entities. Although this system of debt classification gave the appearance of eliminating intercompany balances owed by the Rigas
Family Entities for financial reporting purposes, the system neither required nor provided for the actual quarterly repayment of amounts owed. Moreover, the elimination of recorded payables to Adelphia and the reporting of outstanding balances only allowed the Rigas Defendants to obscure the true level of related party transactions involving Adelphia and the Rigas Family Entities occurring during the course of the particular quarter.

239. The “reclassification” of debt was a clear violation of GAAP, which include strict guidelines governing the extinguishment of debt. In particular, FAS 125 (superseded by FAS 140 which includes the same language) provides that debt is extinguished from a balance sheet only when (a) the debtor pays its creditor and is relieved of its obligation for the liability; or, (b) the debtor is legally released from being the primary obligor under the liability by the creditor.

240. Here, neither condition for extinguishing debt was satisfied by the internal “reclassification” of debt between Adelphia and the Rigas Family Entities. Notwithstanding the journal entries that recorded these reclassifications in the CMS, Adelphia’s position vis-a-vis the lenders remained the same both before and after the reclassification. Adelphia and its subsidiaries remained liable to the banks for precisely the same amounts. The reclassification process did not legally release any Adelphia obligations, and Adelphia’s consolidated balance sheet should have remained precisely the same. Given the enormous sums of money involved (more than $1 billion) and the open and notorious documentation of these transactions in the CMS, Deloitte could not have reasonably remained ignorant of these transactions. Deloitte’s acquiescence in these GAAP violations, its failure to report such clear violations of GAAP to the Audit Committee, and its willingness to issue unqualified audit reports, was a clear violation of its responsibilities as an independent auditor.
241. The Rigas Defendants and defendants Brown and Mulcahey caused Adelphia to further conceal its co-borrowing debt from the investing public by removing a portion of such debt from Adelphia’s books through fraudulent transactions in which a Rigas Family Entity “assumed” debt of Adelphia and another Rigas Family Entity received Adelphia securities. See ¶¶ Section V, B, 4, supra. In each instance, Adelphia claimed in SEC filings and/or other public statements that Adelphia had applied some or all of the proceeds from the offerings to pay down debt, when no such “pay down” occurred. Deloitte’s acquiescence in these GAAP violations and its failure to discover and/or report the true economic substance of these sham transactions to the Audit Committee was a clear violation of its duties as an independent auditor.

b. Deloitte’s Certification of Financial Statements that Improperly Reflected the Rigas Family Entities’ Securities Purchases

242. In the period from August 18, 1998 to January 22, 2002, the Rigas Family engaged in eleven transactions for the purchase of Company securities, all but three of which were made in connection with public offerings of the same or similar securities. See Section V, B, 5. The Rigas Defendants and/or the Rigas Family Entities purportedly paid an aggregate of approximately $1.9 billion for such securities.

243. In its May 24, 2002 8K, Adelphia for the first time publicly disclosed that the Rigas Family Entities which had purchased these securities on behalf of the Rigas Family had used the proceeds from the Co-Borrowing Credit Facilities to finance the majority of their purchases.

244. Deloitte knew or should have known this fact. Contrary to its obligations as an independent auditor, Deloitte enabled the Rigas Defendants and the Rigas Family Entities to hide this information from the public either by concealing what it actually knew or closing its eyes to what it had good reason to know.
245. Deloitte had good reason to carefully scrutinize the Rigas Family Entities’ use of proceeds from the Co-Borrowing Credit Facilities. As noted above, Deloitte identified Adelphia as a high risk audit and the Co-Borrowing Credit Facilities were, by their terms, plainly high risk transactions. Given that Adelphia would be liable for any monies borrowed under these facilities, even for monies borrowed that provided no benefit to Adelphia, and the related party nature of the transactions, there was an obvious potential for abuse of the Co-Borrowing Credit Facilities by the Rigas Defendants and the Rigas Family Entities. As Deloitte knew, these credit facilities were established using the creditworthiness of Adelphia and its subsidiaries, not the Rigas Family or the Rigas Family Entities, as it is clear that the Rigas Family Entities did not have the financial wherewithal to obtain financing of this magnitude. Nor did the Rigas Family Entities have the ability to repay all, indeed perhaps any, of the borrowings, to the extent that these facilities were drawn upon. For example, by 2001, Rigas Family Entities contributed only 61,335 (approximately 4%) of the total collateral of 1,566,847 cable subscribers under the Co-Borrowing Credit Facilities.

246. Deloitte had a duty to recognize this potential for abuse and other red flags and employ appropriate audit procedures and make and ensure that others made proper disclosures. If Deloitte had done its job by merely reviewing the relevant entries in the books and records of the Company, the Rigas Defendants’ self-dealing would have been clear, including the advancement of co-borrowed funds to Rigas Family Entities that were using these funds to purchase Adelphia securities for the secret benefit of the Rigas Defendants.

247. Moreover, Deloitte’s methodology for accounting for the Co-Borrowing Credit Facilities debt necessarily must have included an analysis of the use of the proceeds from the Co-Borrowing Credit Facilities. As a result, Deloitte should have known that the Co-Borrowing Credit Facilities funded the Rigas Family’s securities purchases. Deloitte’s apparent view of the
co-borrowings was that, though Adelphia was jointly and severally liable for amounts borrowed that benefited Rigas Family Entities, Adelphia should be treated only as a “guarantor” of such amounts. Even if this interpretation was correct, however, FAS 5 still required Deloitte to reach an independent judgment regarding the probability that Adelphia would be called upon to fulfill its guarantee and incur a future liability if the Rigas Family Entities did not or could not themselves repay the Co-Borrowing Credit Facilities debt.

248. Thus, under FAS 5, Deloitte was required to evaluate (i) the ability of the Rigas Family Entities named as borrowers under the facilities -- the supposed “primary obligors” -- to pay, and (ii) whether the risk of non-payment by such entities was “probable,” “possible” or “remote.” Deloitte should have reviewed the assets purchased with the proceeds of the Co-Borrowing Credit Facilities to assess whether those assets constituted sufficient collateral to insure satisfaction of the total co-borrowing debt attributed to the Rigas Family. Since some of the primary assets purchased with these funds were Adelphia securities, Deloitte, under FAS 5, would have discovered -- assuming it did not already know -- that over $1 billion in proceeds of co-borrowed debt were being transferred to Rigas Family Entities to purchase Adelphia securities. Given the potential fluctuation in the price of any security and the fact that the Rigas Defendants’ actions and statements (including the purchases and the material misrepresentations about deleveraging) were artificially inflating the value of the stock and the Rigas Family Entities were buyers at those inflated prices, the likelihood was remote that the securities would constitute sufficient collateral to insure satisfaction of the co-borrowing debt of the Rigas Family Entities.

249. Deloitte audited not only the financial statements of the Company and its subsidiaries, but also audited the special purpose financial statements given to the co-borrowing lenders, which statements consolidated the financial information of the Adelphia subsidiaries
who were parties to the Co-Borrowing Credit Facilities with those of certain Rigas Family Entities. Given its multiple roles, Deloitte knew the total amount of the co-borrowing debt attributed to the Rigas Co-Borrowing Entities. It also knew the value of cable systems held by the Rigas Family Entities named as borrowers under the facilities and that certain of the draw downs under the Co-Borrowing Credit Facilities by the Rigas Family Entities were not being used to fund the acquisition of these cable systems.

250. Because the Rigas Family’s massive securities purchases were funded by draw downs on the Co-Borrowing Credit Facilities for which Adelphia itself was liable, substantial portions of Adelphia’s reported shareholder equity was illusory. In these circumstances, GAAP is clear that Adelphia should not have recorded the consideration “paid” for such securities as an increase in shareholder equity. In particular, Emerging Issues Task Force No. 85-1, “Classifying Notes Received for Capital Stock,” which is based upon SEC Staff Accounting Bulletin No. 40, Topic 4-E, “Receivables from Sale of Stock,” provides that a company that records a note receivable as payment for its stock should record the note as a reduction to shareholder equity, not as an asset.

251. In violation of GAAS, Deloitte issued an unqualified audit report for Adelphia’s year 2000 consolidated financial statements reflecting more than $500 million in shareholder equity attributable only to Rigas Family Entities, purchases of Adelphia stock using co-borrowed funds in exchange for which Adelphia received, at most, a receivable. Deloitte also failed to inform the Audit Committee of any issue existing with respect to the co-borrowings or securities purchases. And, Deloitte violated GAAS in connection with its review of Adelphia’s quarterly financial statements beginning in the first quarter of 2000, which also misstated Adelphia’s shareholder equity by hundreds of millions of dollars.
c. Deloitte’s Failure to Identify and Report Rampant Self-Dealing and Certification of Financial Statements That Hid Such Self-Dealing

252. A central tool for much of the Rigas Family’s self-dealing was the CMS (described above) which permitted the continuous commingling of Adelphia funds with funds from Rigas Family Entities. In essence, the CMS was a joint bank account into which Adelphia deposited funds and from which the Rigas Family withdrew funds or otherwise obtained monies which it could not have obtained based upon its own borrowing capacity and as to which monies there was no documented obligation of or timetable for repayment. This de facto “borrowing” by the Rigas Family occurred without board approval and, in clear contravention of the Company’s Bylaws, Delaware law and the Indentures pursuant to which the Company’s debt was issued, without proper documentation. The CMS was utilized by the Rigas Family to commit egregious wrongdoing. By way of example only:

a. The CMS permitted the Rigas Family Entities to cause Adelphia to fund their expenditures on an immediate basis without any cash outlay required by the Rigas Family Entities themselves. Among other things, the Rigas Family Entities used the CMS to purchase cable and other assets outright and to lend funds to Rigas Family Entities for the purpose of acquiring real estate, an NHL hockey team and a golf course, each of which was acquired on behalf of entities owned and controlled by them, not Adelphia.

b. As described above, through the CMS, the Rigas Family Entities purportedly “settled” their debts to Adelphia through illusory journal entries that, on a quarterly basis beginning in September 2000, purported to “reclassify” debt from the books of an Adelphia subsidiary to the books of one of the Rigas Family Entities. The Adelphia subsidiary in
fact remained jointly and severally liable for this debt even after
“reclassification.” Thus, even though the Rigas Family Entities were
released of certain obligations to Adelphia pursuant to this so-called
quarterly reclassification process, Adelphia did not receive equivalent
value (if any value) in return. In the third quarter of 2000 alone,
approximately $200 million of Rigas Family Entities receivables to
Adelphia were “settled” in this way. From September 30, 2000 through
December 31, 2001, the Rigas Family Entities purported to settle
approximately $478 million in obligations to Adelphia through these
reclassification transactions.

c. Through the CMS, the Rigas Family Entities purchased securities from
Adelphia without paying any cash whatsoever. Specifically, the Rigas
Family caused Adelphia to issue $800 million in stock and notes to
entities they controlled. The only “consideration” that Adelphia received
in return was a journal entry in the Adelphia general ledger showing that
certain debt equal to the price of the securities at issue and previously
attributed to an Adelphia subsidiary was henceforth “reclassified” on
Adelphia’s books and records as the debt of a Rigas Family Entity.

d. The Rigas Family used the CMS to avoid paying certain obligations to
Adelphia by offsetting amounts due and owing to Adelphia or its
subsidiaries with amounts that Adelphia or its subsidiaries might owe to
the Rigas Family Entities. Thus, if one Rigas Family Entity owed $100
million to Adelphia and another Rigas Family Entity was owed $50
million by Adelphia, the Rigas Defendants would net these amounts in
the CMS, characterizing the total amount owed by the Rigas Family Entities as only $50 million even when different legal entities with different ownership structures were involved.

e. The Rigas Defendants contracted on Adelphia’s behalf with Rigas Family Entities and then used the CMS to pay fees in excess of those which would be paid in an arm’s-length transaction. The Rigas Defendants caused Adelphia to contract for the purchase of furniture through Dobaire Designs, a company 100% owned by John Rigas’ wife, Doris Rigas, and Eleni Interiors, Inc., a company 100% owned by John Rigas, and of vehicles through Preston Motors, an entity in which the material beneficial interest was held by John Rigas. In fact, regional vice presidents were told directly by Doris Rigas that they had to purchase their furniture from Eleni Interiors. During 2001, the monies paid by Adelphia to such related parties totaled approximately $15 million.

f. Defendant John Rigas used the CMS to obtain millions of dollars of “funding” on an annual basis. For example, throughout the Class Period, Highland Holdings routinely drew down on the CMS and then distributed the funds to John Rigas in amounts totaling over $50 million.

253. These aspects of the CMS were not hidden from Deloitte. The wrongdoings alleged herein were not accomplished by the common device of maintaining two sets of books. To the contrary, Deloitte was aware of the CMS and had access to the information contained in the CMS which information illuminated many of the improper transactions engaged in by the Rigas Family. The CMS was the very heart of Adelphia’s treasury system through which
virtually all funds generated in any fashion by Adelphia flowed, often for the sole benefit of the Rigas Family Entities. Journal entries and cost centers in Adelphia’s general ledger system tracked openly and systematically the transactions with related parties discussed above. The CMS provided a road map for Deloitte that would have directed it to most, if not all, of the self-dealing committed by the Rigas Defendants and the Rigas Family Entities.

254. Deloitte had no excuse for just ignoring this roadmap, particularly given Deloitte’s recognition that because the numerous related party transactions (and other factors) Adelphia was a “high risk” audit, which required Deloitte to expand the scope and independent verification procedures of its audit to focus on areas of particular sensitivity and to demand more complete access to (and gain a heightened understanding of) the Company’s books and records. The CMS was rife with documentation of multiple related party transactions that, pursuant to GAAS, Deloitte was required to scrutinize with particularity. Indeed, in its “Audit Overview” regarding the 2000 audit, Deloitte itself identified “related party transactions” as an audit “Risk Area” and promised to focus particular attention on such issues.

255. In these circumstances, the CMS should have been a focal point of Deloitte’s audit scrutiny, and Deloitte should have thoroughly analyzed and understood this unorthodox cash system. The structure of the CMS was in and of itself highly unusual given that it commingled a public company’s funds with revenues and expenses from privately held companies not owned by Adelphia and not included in Adelphia’s consolidated financial statements. The unique and complex nature of the CMS, coupled with the vast number of related party transactions, would have put any reasonable auditor on notice of the need to construct specific audit plans and tests to ensure that there were adequate controls in place to protect against the risk of self-dealing or other abuses. Had Deloitte properly audited this facet of the Company and examined the multiple issues
readily presented by the very existence of the CMS and the information contained therein, the Rigas Family Entities’ abuse of the CMS and its massive self dealing could have been and would have been prevented.

256. During the Class Period, Deloitte issued unqualified audit reports for Adelphia’s consolidated financial statements notwithstanding the multitude of issues clearly raised by the CMS. This violated Deloitte’s duty to comply with GAAS. Deloitte also failed to inform the Audit Committee of any issue, with respect to the CMS. This was in further violation of GAAS.

d. Deloitte’s Certification of Financial Statements That Improperly Set-Off Receivables and Payables with Different Legal Entities

257. The netting of related party receivables in the CMS discussed above was another clear violation of GAAP that Deloitte must have known about but ignored. Even before the commencement of the Class Period, the Company’s general ledger system reflected rapidly growing balances between the Company and the Rigas Defendants and the Rigas Family Entities. The Company’s detailed accounting records show hundreds of millions of dollars of balances due and owing between the Company and the Rigas Family Entities. On a net basis, at the end of every reporting period, the Rigas Family Entities always owed money to Adelphia. Thus, the netting process always showed a receivable from the Rigas Family Entities owed to Adelphia. However, the Company publicly reported only its net position with respect to the amounts due and owing to it from the Rigas Defendants and the Rigas Family Entities.

258. Accounting Principles Board (“APB”) Opinion No. 10 governs this issue. APB 10 provides: “It is a general principle of accounting that the offsetting of assets and liabilities in the balance sheet is improper except where a right of setoff exists.”
259. Here, no legal right of set off existed with respect to any of the receivables and
payables owed to and by Adelphia and the Rigas Defendants or the Rigas Family Entities. APB
10 thus did not permit the netting of the payables and receivables from the different Rigas
Family Entities. In violation of GAAP, the CMS treated these related party receivables and
payables on a net basis, and Adelphia’s consolidated balance sheet reflected only the net
receivable owed by the Rigas Family Entities to Adelphia. By disclosing the net number only,
the Rigas Defendants were able to hide the number and magnitude of the related party
transactions between Adelphia and the Rigas Defendants and the Rigas Family Entities.
Deloitte must have known about this practice as it was readily apparent from the face of
Adelphia’s general ledger and balance sheet and it involved huge sums of money. Though
Deloitte identified related party transactions as an issue in its year 2000 Audit Overview,
Deloitte did not advise the Audit Committee of this improper practice or of any concern related
to this practice. Indeed, rather than reporting it, or seeking to have the practice discontinued,
Deloitte, in clear violation of GAAS, continued to issue unqualified audit reports on
consolidated financial statements that did not comport with GAAP.

e. Deloitte’s Certification of Financial Statements That Improperly
Characterized Debt as Long Term Even When Adelphia Was in
Violation of Debt Covenants

260. Adelphia’s credit facilities included debt covenants that restricted the Company’s
ability to borrow unless total borrowings were less than a set ratio in relation to the Company’s
EBITDA, a commonly used measure of the Company’s cash flow. In this way, the Company’s
lenders sought to insure that Adelphia’s borrowings were limited to amounts it could reasonably
be expected to repay based on cash flow. The Company was required to provide certificates of
compliance with these debt covenants on a quarterly basis. Failure to certify compliance could
limit or cut off altogether the Company’s access to further credit, and could accelerate
Adelphia’s obligation to repay amounts already borrowed.

261. Deloitte had a professional responsibility to plan its audit to test these type of
covenant calculations. Even in normal circumstances, GAAS makes absolutely clear that an
auditor must not let untested client representations “substitute for the auditing procedures
necessary to afford a reasonable basis for” the auditor’s “opinion on the financial statements.”
Given the “high risk” nature of the Adelphia audit and the “red flags” presented by Adelphia’s
dependence on borrowings and remaining in compliance with its debt covenants, Deloitte was
required to test and understand the basis of any covenant calculations.

262. The reliability of Adelphia’s debt covenant calculations was central to Deloitte’s
certification of the fairness and accuracy of the Company’s consolidated financial statements.
This is because, as noted above, Adelphia’s failure to comply with these covenants could result
in the acceleration of long term debt, requiring immediate repayment by the Company, and/or the
cutoff of available financing necessary for Adelphia to remain a going concern. Deloitte plainly
understood the importance of a careful audit of covenant compliance issues since, for example,
its “Audit Overview” for the 2000 audit expressly identified “Debt Compliance” as a “Risk
Area.” Deloitte even represented that it would “recalculate compliance with the respective
covenants on a test basis” during its year 2000 audit.

263. In fact, Adelphia was consistently out of compliance with the debt covenants in
certain of its central loan agreements. As set forth below, the calculations were manipulated at
the direction of the Rigas Defendants to keep the flow of funds coming, thereby permitting
Adelphia and its subsidiaries to both borrow more and at lower interest rates than they were
contractually entitled to borrow. These calculations were manipulated to ensure the Rigas
Family Entities’ continued ability to draw on Co-Borrowing Credit Facilities for their personal
benefit. In addition, Adelphia’s compliance certificates were inadequate because they were not
timely filed, not properly authorized and failed to include supporting financial calculations where
required.

264. A review of Adelphia’s compliance certificates, liquidity calculations and other
source documentation would have readily revealed this wrongdoing. But Deloitte, in its audit,
either never discovered the clear misconduct, or simply ignored it. Either way, Deloitte violated
GAAS.

265. By way of example, the type of quarter-end adjustments that occurred at Adelphia
for debt compliance and other purposes are a known trouble spot in audits and, as Deloitte
acknowledged in presentations it made to the Audit Committee, were a “risk area” that required
an “audit response.” Here, had Deloitte’s “audit response” conformed with GAAS and had
Deloitte properly reviewed these quarter-end adjustments, Deloitte would have seen, among
other things, (a) a specific general ledger account used to make quarter-ending adjustments; (b)
adjustments for “affiliate fees” and other suspicious revenues that were made well after the
quarter-end; and, (c) adjustments, including post-closing adjustments, that, on aggregate, were
able to bring Adelphia into compliance with debt covenants that would otherwise have been
violated. All these items, as well as others, were red flags to Deloitte demonstrating that
something was very wrong. These kind of EBITDA adjustments fed directly into Adelphia’s
borrowing base and every $1 million increase in EBITDA could have a $7 - $8 million dollar
effect on Adelphia’s increasingly spent credit limits (as a result of the debt covenant multipliers).
Nonetheless, Deloitte never questioned what was happening, never reported a concern to the
Audit Committee, and continued to issue unqualified audit reports on Adelphia’s consolidated
financial statements.
266. Deloitte could not reasonably certify the fairness and accuracy of Adelphia’s consolidated financial statements unless it had confidence that Adelphia was in compliance with its debt covenants. Moreover, if Deloitte had recognized (as was in fact the case) that Adelphia was not in compliance with certain covenants such that certain debt needed to be re-characterized as short-term debt, Deloitte was required to do further analysis and testing to insure Adelphia was a “going concern.” Deloitte, however, issued unqualified audit opinions without performing any such analysis or testing.

f. Deloitte’s Failure to Identify and Report Intentional Misstatements in Adelphia’s Financial Statements

267. Deloitte’s failings were not limited to the “big ticket items.” Apart from failing to discern and/or report the Rigas Family Entities’ conduct pertaining to billions of dollars borrowed under the Co-Borrowing Credit Facilities and the access to and handling of those funds through the CMS, Deloitte also failed to uncover or ignored a series of other unrelated material misstatements in Adelphia’s financial statements pertaining to reported EBITDA. As described above, Adelphia’s EBITDA was manipulated to satisfy the expectations and estimates of the investment and financial communities.

268. Examples of certain of these false and misleading statements designed to manipulate EBITDA include:

a. Adelphia reported phony marketing support charges attributed to its purchases of digital converter boxes in the amounts of approximately $37 million in 2000 and $54 million in 2001. The “marketing support” component (or kick-back) was improperly treated as a reduction of the Company’s operating expenses (resulting in a corresponding increase to EBITDA) and the payments for the converter boxes were capitalized improperly as inventory.
b. The Rigas Defendants made or caused to be made entries in the Company’s books and records to record the payment of “placement fees” from Rigas Family Entities. These fees were recorded simply by journal entries and the only effect thereof was to inflate the Company’s EBITDA.

c. In reporting results during 2001 and prior periods, the Company capitalized (rather than expensed) certain labor expenses, such as those associated with reconnecting disconnected subscribers and operating customer service centers and other overhead items. As a result, the Company’s EBITDA for each of 2000 and 2001 was inflated by approximately $40 million.

d. During 2000 and 2001, the Rigas Defendants caused the Company to enter into transactions with ABIZ, various Rigas Family Entities, and/or other parties, which had the effect of increasing the Company’s reported EBITDA. These transactions inflated EBITDA by increasing the management fees charged by the Company to the Rigas Family Entities, transferring expenses from the Company to a joint venture controlled by ABIZ, and entering into arrangements with third parties under which the Company was allowed to accrue additional fee income, which had the effect of inflating EBITDA in 2000 by approximately $19 million and in 2001 by approximately $18 million.

e. Certain interactive cable providers, whose services were carried on the Company’s cable television systems, paid the Company with their financial instruments, the value of which was impaired over time. In
their disclosure of operating results for 2000 and 2001, however, the Rigas Defendants caused the Company not to report the impairment of the value of these financial instruments, and instead to report payments from these interactive cable service providers in revenue. As a result, revenue and EBITDA were inflated by $28 million in 2000 and by $52 million in 2001.

f. Adelphia had contracts with providers of cable television programming under which Adelphia made fixed payments over a number of years. The Rigas Defendants calculated the amount of that payment per subscriber to be charged as an expense in any year by estimating the number of subscribers who would receive the service over the life of a contract and dividing that figure into the total amount paid by the Company over the life of the contract. This method resulted in a lower expense during the early years of a contract than if the Company had simply reflected the contract payments due in such year as an expense. The Rigas Defendants’ practice with respect to these programming charges had the effect of increasing EBITDA by approximately $23 million in 2000 and $42 million in 2001.

g. Not only did the Rigas Defendants report inflated subscriber numbers, they also reported revenue from actual subscribers during time periods in which such subscribers were receiving free service in connection with a new or enhanced service arrangement. This practice also

269. Deloitte knew or should have been able to uncover the foregoing manipulation of EBITDA. For example, with respect to the marketing support payments described above, Deloitte knew or should have known from the magnitude of the amounts and the absence of meaningful advertising by Adelphia that the substance of the marketing support arrangements with Adelphia’s converter box suppliers was a rebate of all or a significant portion of the new increase in unit price of the converter boxes Adelphia purchased from them. There was otherwise no economic substance to the form of the agreement. Deloitte violated SAS 69, The Meaning of ‘Present Fairly in Conformity With Generally Accepted Accounting Principles’ in the Independent Auditor’s Report, which requires an auditor to consider whether the substance of the transactions or events differs materially from their form (AU § 411.06).

270. The “marketing support” charges on the digital converter boxes should have been readily detectable to Deloitte had it merely compared the marketing expenses of Adelphia with those of other large cable operators in the industry. This would have provided evidence of the disproportionate amounts received by Adelphia in kick-backs. Furthermore, Deloitte could have analyzed the cost of cable boxes with those acquired by Adelphia in prior years or with those acquired by other large cable operators in the industry during the same period. Had it done so, Deloitte again would have seen that the prices putatively agreed upon were inflated. Deloitte merely had to look at the Company’s own records to see what it had received in the past. In any case, Deloitte would have discovered the patent wrongdoing perpetrated by the Rigas Family. Nonetheless, Deloitte never questioned these charges, never reported any concern regarding that to the Audit Committee, and continued to issue unqualified audit reports on Adelphia’s consolidated financial statements. Deloitte’s conduct is particularly glaring given that in its
“Audit Overview” for the year 2000 audit Deloitte had itself identified “Significant Non-routine Transactions” as a “Risk Area” warranting special attention.

271. The Rigas Defendants’ manipulation of the reported financial results did not end with the inflation of EBITDA. The Rigas Defendants also made other materially false statements in the Company’s SEC filings and public statements. These included:

a. **Artificially Inflated Rebuild Percentages.** One metric by which the investment and financial communities measure the success and growth potential of cable and telecommunications companies is by analyzing the company’s “rebuild percentage,” which by industry convention is a measure of the percentage of a company’s infrastructure that is broadband and two-way capable. Because the rebuild percentage is inversely related to capital expenditures, reporting higher rebuild percentage serves the dual purpose of making the company appear more attractive to analysts and investors and also reducing its capital expenditures. This became a particularly problematic issue for the Company because many of the assets that the Company acquired in 1999 were outdated cable systems that required substantial capital to remain competitive. In an effort to meet or exceed Wall Street expectations, the Rigas Defendants reported artificially inflated rebuild percentages to analysts during conference calls and to the public through various disclosures. Though 19 months have passed since new management assumed control of Adelphia, the Company’s December 3, 2003 Form 8-K reports, once again, that the information regarding “rebuild
percentage” disseminated during the Class Period was “unreliable,” that the Company “anticipates” that it may have to supplement such information and that such supplemental information may be material. Even after 19 months, the Company offers no clue as to when correct or supplemental information on this material matter may be made available.

b. **Inflated Subscriber Numbers.** In or about the first or second fiscal quarters of 2000, the Rigas Defendants began inflating the subscriber numbers that the Company reported. Subscriber numbers are used by the lending, investment, and regulatory communities to assess the market potential and risks associated with cable and telecommunications companies such as Adelphia. The Rigas Defendants inflated Adelphia’s subscriber numbers in the manner described above (Section V, C, 2).

c. **Inconsistent Accounting for a Brazilian Transaction** The Rigas Defendants caused the Company to invest in two Brazilian ventures, Brazil S.A. and S.T.V. At first, neither entity was consolidated on Adelphia’s balance sheet. Though the Company advanced equal funds to the two ventures, it eventually consolidated only S.T.V. because S.T.V. was more established and had some revenue. Brazil S.A., however, was a new endeavor, and therefore had high capital expenditures and little revenue.

272. As noted above, auditors have an express responsibility “to plan and perform their audit to obtain reasonable assurance about whether the financial statements are free of material
misstatement, whether caused by error or fraud,” Codification AU § 110. This is particularly true in a high risk audit like Adelphia.

273. Had Deloitte properly performed its audit in conformance with GAAS, the foregoing litany of misconduct by the Rigas Defendants could have and should have been detected. Certainly, during a properly performed audit, at least some of the acts or transactions described herein would have been identified by competent auditors.

g. Deloitte’s Failure to Report Internal Control Deficiencies

274. Deloitte violated GAAS through its failure to bring known egregious internal control deficiencies to the attention of the Audit Committee, or to even document such deficiencies in the kind of “management letter” auditors routinely provide to their client to report areas where improvement of internal controls should occur.

275. Almost every aspect of Adelphia’s business that Deloitte audited presented glaring internal control deficiencies, from the systematic commingling of Adelphia funds with the Rigas Family Entities’ funds, to the thousands of unreviewed and undocumented related party transactions in the CMS, to the journal entries that purported to transfer hundreds of millions, if not billions, of dollars of debt without any meaningful documentation whatsoever. The extent to which internal controls were deficient is evidenced, in some measure, by the Company’s continuing inability to issue restated financial statements for 1999 and 2000 and completed financial statements for 2001 and 2002. See December 3, 2003 Form 8-K.

276. Clearly, under applicable standards and principles and under its engagement letter, Deloitte had an affirmative obligation to make known to the Audit Committee the kind of illegal and improper conduct that was rife at Adelphia, and to inform the Audit Committee of the significant deficiencies in the design or operation of internal control that could adversely affect
the Company’s ability to record, process, summarize, and report financial data consistent with the assertions of management in financial statements.

277. Deloitte violated SAS 60, Communication of Internal Control Related Matters Noted in an Audit (AU § 325), by failing to communicate reportable conditions (i.e., serious deficiencies in internal controls) to the Audit Committee. Reportable conditions “are matters coming to the auditor’s attention that, in his judgment, should be communicated to the audit committee because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization’s ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.” AU § 325.02. Deloitte knew that Adelphia was dominated by the Rigas Defendants, and knew or should have known that internal controls were seriously deficient with respect to the propriety of transactions with the Rigas Defendants and the Rigas Family Entities and the accounting for and reporting thereof. Although Adelphia’s Chief Financial Officer, Timothy Rigas, was an Audit Committee member until June 13, 2001, Deloitte had no assurance that he had shared his knowledge about related party transactions with the non-management directors who served on the Audit Committee. In addition to satisfying SAS 60 and SAS 61 requirements, such circumstances should have compelled Deloitte to report material information about the pervasive effects of related party transactions on Adelphia’s consolidated financial statements and the deficiencies in the internal controls over related party transactions to be assured that the other members of the Audit Committee were truthfully informed about such matters.

278. During the Class Period, Deloitte never disclosed to the Audit Committee any concern regarding the related party transactions, the CMS, compliance with debt covenants, and
the manner in which Adelphia’s assets were used, Deloitte never reported any other fact that would have caused the Audit Committee to take corrective action on behalf of the Company.

279. Indeed, during the Class Period, Deloitte never issued a management letter or otherwise disclosed any material weaknesses in the internal controls, the reporting of co-borrowing debt or any other material issue regarding the financial statements of Adelphia.

280. Deloitte’s presentation to the Audit Committee on February 28, 2002 evidences Deloitte’s failure to inform the Audit Committee of the blatant self-dealing and other misconduct by the Rigas Family. In making its presentation at that meeting, Deloitte touched on issues regarding related party transactions, the Co-Borrowing Credit Facilities, non-standard journal entries, and significant non-routine transactions. Deloitte understood that information regarding these types of issues was important to the Audit Committee and advised that it had considered them in the planning of its audit. Except for a recommendation (two years too late and still inadequate) to increase the level of disclosure regarding the Co-Borrowing Credit Facilities, Deloitte did not report to the Audit Committee with respect to any of the misconduct described in this Complaint.

281. The minutes of the February 28, 2002 Audit Committee meeting show that after discussion of “issues surrounding recent events with Enron and the lessons learned,” Deloitte “indicated that” it “was comfortable with Adelphia’s accounting and proposed disclosures.” Moreover, after identifying its “summary of proposed audit adjustments” -- all of which were not material -- Deloitte readily assured the Audit Committee that Deloitte was “not aware of any other significant points as it related to the audit or the Company’s financial statements.” When Kailbourne asked Deloitte if they had a management letter for the current year, the lead Deloitte partner told the Audit Committee that “there was no formal management letter” but that Deloitte
“did have a couple of points for management discussion,” which Deloitte said it would “share with the committee” at some unspecified “future meeting.”

5. Deloitte’s Materially False and Misleading Statements

282. In Independent Auditors’ Reports made part of the March 1998 10-K, the 1998 10-K, the 1999 10-K and the 2000 10-K, Deloitte represented that, as independent auditor, (a) it had audited Adelphia’s consolidated financial statements reported in those public filings in accordance with GAAS, (b) Adelphia’s consolidated financial statements fairly presented, in all material respects, the financial position of Adelphia and its subsidiaries and the results of their operations and cash flows for the periods covered by the statements, and (c) the consolidated financial statements had been prepared in accordance with GAAP. Each of these material representations was false.

283. In fact, Deloitte did not act as an “independent” auditor. As noted above, Deloitte provided services to Adelphia and its subsidiaries (including ABIZ) and to the Rigas Defendants and the Rigas Family Entities. In order to protect its various positions, and to maintain its close relationship and secure other business with the Rigas Defendants, Deloitte compromised its objectivity and independence by actively seeking to protect the wrongful and deceptive conduct of Adelphia and the Rigas Family from disclosure to the investing public.

284. Given Deloitte’s complete access to the personnel, financial records and tax returns of Adelphia, its subsidiaries, and the Rigas Family Entities, its involvement in the debt covenant compliance certifications, the extraordinarily frequent occurrence of the related-party transactions as well as the other transactions described above, there can be no question that Deloitte had to be aware of the material misstatements, inaccuracies and omissions contained in Adelphia’s consolidated balance sheets and financial statements. Deloitte failed to require
revision of Adelphia’s financial statements to disclose all material information and accurately reflect Adelphia’s true financial condition and results.

285. Deloitte exercised control over the contents of its Independent Auditor’s Reports and, given its authority to refuse to certify materially false and misleading financial statements, the contents of Adelphia’s financial statements reported in its public filings with the SEC.

E. The Wrongful Conduct of the Lending Bank Defendants and the Underwriter Defendants

286. As alleged above, Adelphia’s participation in the Co-Borrowing Credit Facilities during the Class Period was central to the Rigas Defendants’ fraudulent scheme to loot the Company and conceal its debt. As of December 31, 2001, the maximum aggregate amount available for borrowing under the Co-Borrowing Credit Facilities was $5.63 billion. The Lending Bank Defendants were the lead lending banks under the Co-Borrowing Credit Facilities. During the Class Period, the Lending Bank Defendants acted on their own behalf and on behalf of various other non-defendant lending banks that were also parties to these syndicated facilities.

287. During the Class Period, each of the Lending Bank Defendants in concert with its respective affiliated Underwriter Defendant, knowingly and/or recklessly turned a blind eye to the fact that the Rigas Defendants and Adelphia were utilizing the proceeds of the Co-Borrowing Credit Facilities to perpetrate a massive fraudulent scheme. The Lending Bank Defendants, with knowledge of the under-reporting of the co-borrowed debt, continued to loan money under the Co-Borrowing Credit Facilities, knowing and/or recklessly disregarding that they were thereby funding defendants’ continued fraudulent activities. The Lending Bank Defendants extended billions of dollars under such credit facilities during the Class Period knowing and/or recklessly disregarding that, although Adelphia was directly liable for all indebtedness incurred thereunder, up to $3.4 billion of such debt was fraudulently omitted from Adelphia’s consolidated financial statements and concealed from public investors. The Lending Bank Defendants also knowingly
or recklessly disregarded that such unreported debt was being diverted to the Rigas Defendant’s personal use. Notwithstanding this knowledge, the Lending Bank Defendants continued to authorize extensions of credit under the Co-Borrowing Credit facilities during the Class Period. Moreover, the Lending Bank Defendants knowingly or recklessly disregarded that the fraudulent concealment of debt began as soon as the first of the Co-Borrowing Credit Facilities closed and continued thereafter during the Class Period.

288. As alleged in detail below, these extensions of credit by the Lending Bank Defendants during the Class Period constituted atypical, extraordinary and non-routine financing transactions in violation of internal credit limits and policies of the Lending Bank Defendants. Moreover, the Lending Bank Defendants knew that Adelphia was not a sound credit risk but rather was in worsening financial condition.

289. The Lending Bank Defendants were motivated to violate their own internal controls and credit limits and to engage in such atypical and extraordinary credit transactions because they (and their affiliated investment banks) derived substantial economic benefit from their relationships with Adelphia and the Rigas Defendants which relationships, in some instances, dated back to the Company’s 1986 initial public offering. Both prior to and during the Class Period, the Lending Bank Defendants received enormous profits, fees, interest payments for loans, payments for syndication services and loan commitment fees from Adelphia. By virtue of their continued extensions of credit, each of the Lending Bank Defendants also secured lucrative underwriting engagements for the Underwriter Defendants whereby such respective affiliates underwrote billions of dollars in Adelphia securities and earned hundreds of millions of dollars in fees. The specific underwriting engagements awarded to the Underwriter Defendants are set forth in Section III, D, 4 above. Several Underwriter Defendants also served as financial advisors to Adelphia in connection with acquisitions. For example, Banc of America and SSB
acted as mergers and acquisitions advisors to Adelphia for various acquisitions of cable systems around the country. In connection with those services, Banc of America and SSB had their Lending Bank Defendant affiliates, BOA and Citibank, provide financing of Adelphia’s acquisitions. The Lending Bank Defendants and the Underwriter Defendants made substantial fees in the course of these transactions and had access to Adelphia’s confidential and proprietary information in the course of these engagements.

290. The Lending Bank Defendants were motivated to violate their own internal controls and credit limits and to engage in such atypical and extraordinary credit transactions because the continued extension of credit was necessary in order to facilitate the continuation of the fraudulent scheme being perpetrated by the Rigas Defendants and Adelphia. The Lending Bank Defendants knew that as long as they continued the extension of credit under the Co-Borrowing Credit Facilities, Adelphia would be able to conceal its precarious financial condition from the public, retain its investment-grade credit rating and continue to report (though not actually have) strong current financial results. As a result, Adelphia would continue to have access to capital markets which would permit it regularly to raise enormous sums of money in fresh capital from public investors that Adelphia could then use to repay to the Lending Bank Defendants the monies owed under the Co-Borrowing Credit Facilities. Indeed, the Lending Bank Defendants affirmatively encouraged the Company to conduct public offerings during the Class Period and thereby to raise fresh capital from unsuspecting public investors, in that the Lending Bank Defendants proffered the services of their respective Underwriter Defendants to underwrite such offerings. Thus the Lending Bank Defendants were highly motivated to continue extending credit under the Co-Borrowing Credit Facilities during the Class Period, notwithstanding their knowledge and/or reckless disregard and/or high degree of awareness of the fraudulent scheme being perpetrated by Adelphia and the Rigas Defendants.
291. By virtue of such conduct, the Lending Bank Defendants are liable for aiding and abetting in that they knowingly and/or with a high degree of awareness substantially assisted the Rigas Defendants’ and Adelphia’s commission of the fraudulent scheme alleged herein. The Lending Bank Defendants are also liable as primary violators under the 1934 Act in that, with scienter, the Lending Banks participated in such fraudulent scheme by effecting credit transactions to artificially control and/or affect the market for, and thereby artificially inflated the prices of, Adelphia publicly traded securities during the Class Period. The extension of credit by the Lending Bank Defendants under these circumstances constituted direct and/or indirect participation by the Lending Bank Defendants in manipulative and deceptive conduct in connection with the purchase and/or sale of securities.

292. The Lending Bank Defendants engaged in this manipulative and deceptive conduct with scienter. The Lending Bank Defendants had substantial economic motives to participate in Adelphia’s fraudulent scheme, as alleged above. In addition, the Lending Bank Defendants possessed specific knowledge of facts and/or access to information squarely contradicting Adelphia’s public statements concerning its financial condition -- including Adelphia’s public statements concerning the Company’s indebtedness -- throughout the Class Period. In particular, the Lending Bank Defendants knowingly or recklessly disregarded the enormous discrepancy between the amounts they knew were drawn down and thus which were owed under the Co-Borrowing Credit Facilities versus the amounts of indebtedness publicly reported by Adelphia. As a result, each of the Lending Bank Defendants knowingly or recklessly disregarded that the difference between these two sums represented debt obligations of Adelphia fraudulently omitted from Adelphia’s financial statements. The Lending Bank Defendants also knowingly or recklessly disregarded that such amounts were being looted by the Rigas Defendants and/or being used for other improper purposes, including for the purchase
Adelphia securities, as alleged above. The Lending Bank Defendants thus knowingly or recklessly disregarded that the proceeds of the Co-Borrowing Credit Facilities were being applied to manipulate, control and artificially inflate the prices of Adelphia securities. In addition, each of the Lending Bank Defendants was aware that the actual condition of Adelphia’s operations and finances was far worse than was being publicly disclosed by Adelphia, and that Adelphia was in fact in worsening financial condition and could not continue to operate without the continued extension of credit by the Lending Bank Defendants.

1. **The Loan Underwriting Process and Customary Ongoing Financial Analysis Performed by the Lending Bank Defendants**

293. As the lead lenders or agent banks on Adelphia’s Co-Borrowing Credit Facilities, the Lending Bank Defendants enjoyed complete access to Adelphia’s internal business and financial information. Indeed, in analyzing potential corporate borrowers who seek commercial loans or credit facilities, banks are required not only by their individual internal procedures, but by applicable governmental regulation and oversight to perform an extensive credit analysis of the borrower after obtaining detailed financial information from it. Such an analysis must include the borrower’s actual and contingent liabilities, its liquidity position, any equity issuance obligations with the potential of adversely affecting its shareholders’ equity, any potential debt even if it is not directly on the borrower’s books, the quality of the borrower’s earnings, and its actual liquidity, including sources of funds to repay any loans. In addition, for large loans and for commitments to credit facilities such as the Co-Borrowing Credit Facilities, banks must monitor the borrowing company closely on an ongoing basis, frequently review its financial condition and ongoing operations for material changes, and require the borrower’s top financial officers to keep the bank informed of the borrower’s current business and financial condition. The purpose of such monitoring is to detect any changes in the financial affairs of the borrowing company that could jeopardize the lender’s ability to obtain repayment of its loans.
294. Each of the Lending Bank Defendants conducted substantial due diligence and ongoing monitoring of Adelphia’s business and operations during the Class Period. As part of such ongoing monitoring, during the Class Period the Lending Bank Defendants regularly received reports showing the amounts drawn down under the Co-Borrowing Credit Facilities and the status of all other indebtedness of Adelphia. Thus, unlike Adelphia’s public investors, the Lending Bank Defendants knew the sum total of all amounts borrowed under the Co-Borrowing Credit Facilities during the Class Period, including all amounts ostensibly “borrowed” by the Rigas Family Entities that were co-borrowers thereunder. The Lending Bank Defendants continued extending credit under the Co-Borrowing Credit Facilities in knowing or reckless disregard of the enormous discrepancy between this sum total and the amounts of indebtedness publicly reported by Adelphia. The Lending Bank Defendants thus knew and/or recklessly disregarded that this discrepancy represented indebtedness of Adelphia fraudulently concealed from public investors.

295. Certain Lending Bank Defendants even performed periodic analyses specifically illustrating such concealment. For example, on or about March 29, 2001, defendant Wachovia performed an analysis of Adelphia’s total outstanding “bank debt” at the subsidiary level as of September 30, 2000, under the two Co-Borrowing Credit Facilities then outstanding (UCA and CCH Credit Facilities) and under other credit facilities of Adelphia. The information underlying Wachovia’s analysis was accessible to and/or was provided to all of the Lending Bank Defendants. Wachovia calculated that Adelphia’s’ total “bank debt” as of September 30, 2000 was approximately $4.2 billion.

296. This sum was in glaring contrast to Adelphia’s public filings for the same period, which claimed that Adelphia’s bank debt as of September 30, 2000, was only approximately $4.2 billion.
Moreover, in or about early 2002, each of the Lending Bank Defendants analyzed Adelphia’s total outstanding bank debt as of September 30, 2001, under the Co-Borrowing Credit Facilities and other facilities. Based on the information available to them (and which had been available to them since 1999), each of the Lending Bank Defendants determined that Adelphia’s total bank debt was between $6.8 billion and $7.3 billion.

Again in glaring contrast to these figures, Adelphia’s public filings for the same period claimed that Adelphia’s bank debt as of September 30, 2001, was only approximately $5.4 billion. Thus, the Lending Bank Defendants determined that Adelphia had understated its total bank debt by at least $1.4 billion.

Accordingly, during the Class Period the Lending Bank Defendants had specific knowledge of facts and/or access to information contradicting Adelphia’s public statements on this critical issue. In particular, the Lending Bank Defendants knew or recklessly disregarded that the Company was concealing its total level of indebtedness and that Adelphia’s leverage was not being reduced as represented in its public filings. Nevertheless, during the Class Period the Lending Bank Defendants continued to extend credit under the Co-Borrowing Credit Facilities.

The Lending Bank Defendants also knew or recklessly disregarded that the Rigas Defendants intended to misappropriate and misuse the proceeds of the Co-Borrowing Credit Facilities. Indeed, Adelphia informed the Lending Bank Defendants participating in the UCA Credit Facility prior to the closing of such facility that the Company “specifically intended a portion of the facility to be distributed to the Rigas Family for purposes of participating in the upcoming Adelphia equity offering.”

In addition, in a letter dated February 17, 2000, inviting the Lending Bank Defendants to participate in the CCH Credit Facility, Adelphia executive defendant Brown stated: “The use of proceeds for this facility will be primarily to fund Adelphia’s purchase of the
Cleveland, Ohio cable system from Cablevision Systems Corporation ($990 mm), to fund Adelphia’s purchase of certain cable assets from Prestige Communications ($700 mm) and to fund the Rigas families [sic] purchase of certain cable assets from Prestige Communications ($400 mm).”

302. Accordingly, from the outset, the Lending Bank Defendants knowingly or recklessly disregarded that hundreds of millions of dollars under the Co-Borrowing Credit Facilities were to be applied for the sole benefit of the Rigas Defendants.

2. The Lending Bank Defendants’ Access To Information Garnered By Their Investment Banking Affiliates and Their Desire To Secure Lucrative Underwriting Business For Such Affiliates

303. Each of the Lending Bank Defendants also had access to the material non-public information concerning the financial condition and operations of Adelphia that was gathered by their respective investment banking affiliates, the Underwriter Defendants during the course of their underwriting various public offerings of Adelphia securities and their activities on behalf of the Rigas Defendants and Rigas Family Entities during the Class Period. Indeed, the Underwriter Defendants underwrote numerous Adelphia securities offerings during the Class Period, in addition to advising the Rigas Defendants and the Rigas Family Entities on the structuring of various financing transactions for the Rigas Family Entities and the Rigas Defendants.

304. Under the securities laws, underwriters of public offerings have a duty to conduct due diligence to confirm that any prospectuses and registration statements issued in connection with those offerings disclose all material information and do not contain any material misrepresentations or omissions. Underwriters, who are often affiliated with large commercial banks, are experts in the securities business and have the financial and intellectual resources to investigate and evaluate the bona fides of a company’s public offerings of securities. The
securities laws impose a duty on underwriters to do precisely that when they decide to put their name on a particular offering.

305. By associating themselves with a particular offering, underwriters make a representation to potential investors that: (1) the underwriters have conducted an investigation of the offering and the issuer in accordance with prevailing professional standards; (2) the investigation conducted by the underwriters was designed to probe and verify the accuracy of the statements and data provided by the issuer, and was not merely based on blind reliance upon those statements and data; and (3) based on that investigation, the underwriters have concluded that the representations made in the registration statement and prospectus for the offerings are true, accurate and complete. Stated differently, an underwriter’s name on a registration statement or prospectus is a representation to investors that they can rely on the accuracy and completeness of what is contained in those documents.

306. While hardly an exhaustive list, an underwriter’s “due diligence” investigation -- conducted with the assistance of a law firm -- in connection with a public offering includes, inter alia: (1) attending presentations by the issuer’s management; (2) asking questions of management, as well as of the issuer’s auditors and lawyers; (3) requesting, reviewing and analyzing the issuer’s financial statements and data, internal documents, corporate books and records and business plans, whether or not publicly available; (4) conducting site visits of the issuer’s operations and facilities; (5) speaking with the issuer’s customers, competitors and lenders to obtain an accurate picture of the issuer’s condition and competitive environment; (6) examining the issuer’s prior public offerings; (7) examining each and every material contract affecting the issuer; (8) evaluating the accuracy and support available for each and every statement contained in the offering documents; and (9) comprehensively evaluating all aspects of
the issuer’s operations -- capital structure, sales, marketing, facilities, infrastructure, labor force, management, financing, major contracts, legal, accounting issues and litigation.

307. The Underwriter Defendants were named in and participated in the drafting and preparation of the registration statements and prospectuses used in connection with the November 1999 Offering, the September 2000 Offering, the June 2001 Offering and the October 2001 Offering. The Underwriter Defendants owed a duty to make a reasonable and diligent investigation of the statements contained in these registration statements and prospectuses. Indeed, the Underwriter Defendants were obligated to review and verify the statements in each and every paragraph and sentence of these documents to ensure their accuracy and completeness.

308. As described below in greater detail, the registration statements and prospectuses used in connection with the November 1999 Offering, the September 2000 Offering, the January 2001 Offering, the June 2001 Offering and the October 2001 Offering contained numerous material misrepresentations and omissions concerning the financial condition and results of Adelphia, the transactions between Adelphia and its subsidiaries, on the one hand, and the Rigas Defendants and the Rigas Family Entities, on the other, and the Rigas Defendants’ self-dealing and exploitation of Adelphia’s corporate funds and resources for their own purposes.

309. Given the extraordinarily frequent occurrence of the related-party transactions and extensive misconduct described above, the Underwriter Defendants simply could not have been unaware of the material misstatements, inaccuracies and omissions contained in the registration statements and prospectuses used in connection with the November 1999 Offering, the September 2000 Offering, the January 2001 Offering, the June 2001 Offering and the October 2001 Offering. Consequently, their failure to disclose all material information could only have resulted from their willful failure to conduct proper due diligence, or from a decision on their part to intentionally conceal the truth from Adelphia investors. In order to execute their due
diligence obligation, investment banks have complete access to inside information of the issuer and can and do obtain extremely detailed non-public information concerning the actual financial condition and operations of the issuer. As alleged herein, the Underwriter Defendants conducted such due diligence in connection with the Adelphia public offerings during the Class Period, and thereby obtained extremely detailed non-public information concerning the actual financial condition and operations of Adelphia, including the Company’s true indebtedness.

310. Under applicable regulations, commercial lending banks and any affiliated investment banks are responsible for establishing “Chinese Wall” procedures which consist of policies and procedures designed to control the flow of material, nonpublic information within multi-service financial firms. Specifically, in the broker-dealer context, a Chinese Wall should insulate against conflicts of interest by isolating the investment banking department from other operations such as commercial lending and also limit the flow of sensitive information on a need-to-know basis. Multi-service financial firms that both lend money to an issuer, and underwrite the same issuer’s securities offerings face several conflicts of interest. One conflict is that the firm may encourage unnecessary issuance of corporate debt securities by the issuer to generate cash which the issuer can use to pay off an outstanding loan to the bank.

311. During the Class Period, the Lending Bank Defendants and their respective Underwriter Defendants acted as consolidated, unified entities without Chinese Walls to seal off their respective commercial lending departments from information obtained by their investment banks. Alternatively, even if restrictions were imposed on the flow of such information, the Chinese Walls established by the Lending Bank Defendants and Underwriter Defendants were inadequate and therefore the knowledge of the Underwriter Defendants was freely available to and/or shared with the Lending Bank Defendants, and such information should therefore be
imputed to the Lending Banks in this action. Accordingly, the Lending Bank Defendants possessed such information during the Class Period.

312. At least one of the underwriting agreements entered into by and between an Underwriter Defendant and Adelphia expressly authorized such information-sharing with its affiliated Lending Bank Defendant. In particular, the underwriting agreement provided that: “The Investment Banks may . . . share any Offering Document, the Information and any other information or matters relating to Company, any assets to be acquired or the transactions contemplated hereby with Bank of America, N.A. (‘BofA’) and Citibank, N.A. (together with SSBI, ‘Citi/SSB’) and BofA and Citi/SSB affiliates may likewise share information relating to Company, such assets or such transaction with the Investment Banks.”

313. This free exchange of information, in disregard of any Chinese Walls, followed from the fact that the Lending Bank Defendants and their respective Underwriter Defendants worked together as teams to secure and retain Adelphia’s lending and underwriting business and to ensure that, collectively, the firms extracted maximum fee revenues from Adelphia. For example, BAS “deal teams” for many of Adelphia’s securities offerings during the Class Period included employees of both BofA, one of the Lending Bank Defendants, and BAS, its respective Underwriter Defendant. The December 21, 2000 agreement pursuant to which Adelphia retained BAS to act, among other things, as the Company’s investment advisor, provided: “For purposes of this engagement letter, ‘BAS’ shall mean Banc of America Securities LLC and/or any affiliate thereof, including BofA, as BAS shall determine to be appropriate to provide the services contemplated herein[.]”

314. The Lending Bank Defendants and the Underwriter Defendants thus ignored any real distinction between their respective lending and investment banking divisions in their
dealings with Adelphia and thereby obtained detailed internal business information of Adelphia, including information regarding the Company’s true indebtedness.

315. In addition, the Lending Bank Defendants were highly motivated to enter into and to continue their lending under the Co-Borrowing Credit Facilities in order to secure these lucrative underwriting engagements for their respective Underwriter Defendants. Indeed, each of the Lending Bank Defendants agreed to participate in the Co-Borrowing Credit Facilities based primarily upon the fees being earned by its respective Underwriter Defendants.

316. The Rigas Defendants and defendant Brown informed the Lending Banks during the Class Period that the right of the Underwriter Defendants to participate as underwriters in Adelphia’s public offerings was contingent upon the Lending Bank Defendants’ participation in and extension of credit under the Co-Borrowing Credit Facilities. The Rigas Defendants expressly conditioned the granting of investment banking business on such lending, with the intent that the prospect of enormous investment banking fees would motivate the Lending Bank Defendants to participate in the Co-Borrowing Credit Facilities and to continue to authorize extensions of credit thereunder. For example, in a February 17, 2000 letter to certain Lending Banks regarding the CCH Credit Facility, defendant Brown stated that: “All of the lead managers and co-managers of each of these credit facilities are expected to have an opportunity to play a meaningful role in either the ADLAC or ABIZ public security offerings.”

317. Several of the Lending Bank Defendants also violated their own internal lending policies by extending credit in amounts far exceeding institutional exposure limits and by funding the credit facilities despite Adelphia’s massive actual debt load. This was done specifically in order to obtain the Adelphia underwriting engagements for their respective Underwriter Defendants. The credit thus extended under the Co-Borrowing Credit Facilities by the Lending Bank Defendants constituted atypical, extraordinary and non-routine financing
transactions by the Lending Banks in that such transactions were not in accordance with customary business practices or procedures, but were exceptions to them.

318. For instance, defendant BMO agreed to enter into the OCH Credit Facility despite the fact that the amount of credit to be extended thereunder exceeded BMO’s internal exposure limits by more than $200 million. This exception to BMO’s internal exposure limits was motivated in substantial part by BMO’s desire to obtain a role for its Underwriter Defendant, BMO Nesbitt, in underwriting future Adelphia securities offerings. BMO Nesbitt did obtain such underwriting business as a result.

319. Defendant Wachovia also authorized an exception to its internal credit limits in connection with its decision to enter into the OCH Facility. In a document obtained by the Creditors’ Committee, Wachovia personnel justified that exception based on “future capital markets opportunities,” i.e., the prospect of obtaining underwriting business for Wachovia Securities, its Underwriter Defendant.

320. Defendant BOA also had another motive to enter into the Co-Borrowing Credit Facilities and to continue extending credit thereunder. BOA had advanced to the Rigas Defendants and/or the Rigas Family Entities hundreds of millions of dollars of personal margin loans secured by Adelphia stock. By extending this credit, BOA knew that it could rely on Adelphia’s ability to repay the margin loans if the Rigas Defendants or Rigas Family Entities could not.

3. **Wachovia’s Knowledge Or Reckless Disregard Of The Fraudulent Use Of The CMS**

321. As alleged above, a central tool for perpetration of the fraud alleged herein was the CMS which permitted the commingling of Adelphia funds with funds from Rigas Family Entities.
322. While the existence of the CMS was not publicly disclosed during the Class Period, Wachovia was intimately familiar with it and with its use to further the fraudulent scheme being perpetrated by the Rigas Defendants, Brown, Mulcahey and Adelphia. This was because the CMS accounts and related Adelphia accounts were maintained at Wachovia’s First Union Bank of Florida division. With certain limited exceptions, all receivables of Adelphia and of many of its public and private affiliates were ultimately deposited into these Wachovia accounts. Similarly, the Company had a centrally controlled disbursement account at Wachovia from which payables of the Company and its public and private affiliates were paid. The Rigas Defendants and Rigas Family Entities also maintained accounts at Wachovia.

323. As a consequence, during the Class Period Wachovia was able to, and did, observe firsthand the fraudulent allocation and reallocation of funds (including the proceeds of the Co-Borrowing Credit Facilities) among such accounts. Adelphia’s banking and wire transfer records reflect that the Rigas Defendants and/or the Rigas Family Entities obtained funds from the Co-Borrowing Credit Facilities by transferring funds from the CMS at Wachovia to other accounts maintained by various Rigas Family Entities at Wachovia, followed by transfers directly to the Rigas Defendants or to other Rigas Family Entities. Typically, these transfers occurred on the same business day. Thus, on any given business day during the Class Period on which a fraudulent allocation or reallocation of funds occurred, Wachovia knew or recklessly disregarded this fraudulent flow of funds.

F. Wrongful Conduct of the Indenture Trustee

1. **BONY’s Obligations Under The Trust Indenture Act**

324. Bond indentures are governed by the Trust Indenture Act referred to herein as the "TIA". By virtue of Section 318 of the TIA, 15 U.S.C. § 77rrr, the provisions of the TIA imposing duties on an Indenture Trustee automatically are deemed included in and govern all
trust indentures, whether or not physically contained therein, and are not waivable. Congress passed the TIA for three primary purposes: (i) to provide investors with full and fair disclosure, not only at the time of issuance of such securities, but throughout the life of the securities; (ii) to provide a mechanism for continuing disclosure; and (iii) to assure that security holders will have the services of a disinterested Indenture Trustee, one that conforms to the highest standards of conduct observed by conscientious trust institutions.

325. The TIA imposes certain minimum reporting requirements on an Indenture Trustee. Section 313, 15 U.S.C. § 77mmm, requires that the Indenture Trustee transmit a brief report to the indenture security holders at least annually disclosing, inter alia, any change to its eligibility and qualifications under Section 310, or the creation of, or any material change to, a relationship specified in Section 310 (the section listing statutory conflicts).

326. The TIA also requires the Indenture Trustee to include in its reports to indenture security holders certain information concerning any indebtedness of the issuer to the Indenture Trustee. Specifically, under Section 313(a)(4), 15 U.S.C. § 77mmm(a)(4), the Indenture Trustee is required to disclose (subject to certain exceptions not applicable here): “the amount, interest rate, and maturity date of all other indebtedness owing to it in its individual capacity, on the date of such report, by the obligor upon the indenture securities, with a brief description of any property held as collateral security therefor . . . .”

327. The Indenture Trustee must also promptly give indenture security holders notice of any default upon the indenture securities. In particular, under Section 315, 15 U.S.C. § 77ooo, the Indenture Trustee must “give to the indenture security holders . . . notice of all defaults known to the trustee within ninety days after the occurrence thereof.”

328. The reports and disclosures required under the TIA must be filed by the Indenture Trustee with the SEC on Forms T-1 and T-2, which forms the SEC has promulgated

329. The TIA imposes additional duties upon an Indenture Trustee in the event of a default on the indenture securities. In such event, Section 315 imposes on the Indenture Trustee the obligation to use the same degree of care and skill in exercising its rights and duties under the indenture “as a prudent man would under the circumstances in the conduct of his own affairs.” 15 U.S.C. § 77ooo(c). Under the plain terms of Section 315, the “prudent man” standard arises “in case of default” rather than upon discovery of default. Though other sections of the TIA refer to the Indenture Trustee’s discovery or notice of pertinent information, Section 315 does not.

330. The TIA, Section 310, specifies certain statutory conflicts of interest (the “Statutory Conflicts”) on the part of an Indenture Trustee. The Indenture Trustee has a Statutory Conflict if it (a) controls or is under common control with an underwriter of the issuer’s bonds; (b) is a creditor of the issuer; or (c) is an underwriter for the issuer. Section 310 does not leave the question of conflicting interest to ad hoc determination. Instead, it specifies in detail ten per se conflicting relationships that constitute Statutory Conflicts. The existence of a Statutory Conflict requires notice to bondholders. In the event the subject debt securities are then in default, the existence of a Statutory Conflict requires the resignation of the Indenture Trustee. Under the provisions of the TIA a “default” which triggers mandatory disqualification is defined “as such term is defined in such indenture, but exclusive of any period of grace or requirement of notice.”

331. Specifically, to ensure the independence of the Indenture Trustee in the event of a default, Section § 310 of the TIA, 15 U.S.C. § 77jjj, requires the disqualification of Indenture Trustees who have “any conflicting interest.” Specifically, Section 310 provides for
disqualification “if the indenture securities are in default” and, inter alia, such trustee “directly or indirectly controls or is directly or indirectly controlled by or is under direct or indirect common control with an underwriter for an obligor upon the indenture securities” or such trustee (subject to certain exceptions not applicable here) “is or shall become a creditor of the obligor.” Section 310(b)(3), (10); 15 U.S.C. § 77jjj(b)(3), (10). Thus, in the event of a default, if a trustee has or acquires any Statutory Conflicts, it must either eliminate the Statutory Conflict or resign within 90 days.

2. BONY’s Violations of the Trust Indenture Act

332. BONY had multiple conflicting roles with respect to its relationship with the Company and the Class. BONY was the Indenture Trustee under a qualified trust indenture executed on or about April 28, 1999 (the “1999 Indenture”) and under a second qualified trust indenture executed on or about January 23, 2001 (the “2001 Indenture”). Significantly, both the 1999 and 2001 Indentures contained covenants limiting the amount of debt that the Company and its subsidiaries could incur (the “Indebtedness Covenants”).

333. Unbeknownst to Plaintiffs and the Class during the Class Period, in addition to serving as the Indenture Trustee, BONY and its predecessor-in-interest Bank of Montreal Trust Company (collectively, “BONY”) extended credit to the Company. Under a credit agreement dated December 3, 1999 (the “1999 Credit Agreement”), BONY, together with other lenders, committed to extend as much as $2.5 billion in credit to Adelphia. From time to time during the Class Period, BONY extended credit to Adelphia under the 1999 Credit Agreement. At no time prior to the end of the Class Period was BONY’s status as a creditor disclosed to Plaintiffs and the members of the Class in accordance with the provisions of the TIA. BONY was also a lender to the Company under the CCH and OCH Credit Facilities during the Class Period. BONY’s participation in the CCH and OCH Credit Facilities was never properly
disclosed to class members under the TIA. As a lender to Adelphia, BONY periodically received reports revealing the amounts Adelphia was drawing down under the pertinent loan agreements, i.e., the aggregate bank debt being assumed by the Company. Such extensions of credit served to put Adelphia in violation of the Indebtedness Covenants and thus in default under the Indentures. The Indebtedness Covenants set forth a maximum leverage ratio of between 6.75 and 9.0. During the Class Period, Adelphia continuously exceeded this leverage ratio having a leverage ratio ranging between 11 and 17. During the Class Period, Adelphia was in continuing default under the Indentures by virtue of the fact that its leverage ratio exceeded that permitted under the Indentures. Pursuant to the TIA and the Indentures, BONY was required to resign as Indenture Trustee, which it failed to do, and to make full and complete disclosure of its Statutory Conflicts, which it also failed to do. BONY also failed to carry out its “prudent man” obligations after such defaults.

334. In addition to serving as the Indenture Trustee under the 1999 and 2001 Indentures and as a lender under the 1999 Credit Agreement and two of the Co-Borrowing Credit Facilities, BONY also had an investment banking relationship with Adelphia. During the Class Period, BONY’s commonly controlled investment banking affiliate, BNY and BMO Nesbitt, the commonly controlled investment banking affiliate of BONY’s predecessor-in-interest (Bank of Montreal Trust Company), were underwriters on offerings of Adelphia bonds registered under the Indentures. BNY participated in underwriting the 9 3/8% Notes issued on November 16, 1999, the 3.25% Notes issued on April 25, 2001, the 10 1/4% Notes issued on June 12, 2001 and in the 10 1/4% Notes due 2006 issued on October 25, 2001. BMO Nesbitt participated as an underwriter in each of the two foregoing issues and in the issuance of 10 1/4% notes issued on June 12, 2001. As underwriters of Adelphia bond offerings, BNY and BMO Nesbitt received due diligence materials containing disclosures relating to the financial condition of Adelphia.
335. Pursuant to Section 313 (a) of the TIA and under the terms of the Indentures, BONY was required to disclose to bondholders, by means of Form T-1 filings or otherwise, its activities with respect to these underwritings within one year from the date of such underwritings. No such disclosure was made by anyone, pursuant to Form T-1 or otherwise.

336. BONY’s violations of the TIA and the Indentures enabled Adelphia secretly to continue making drawdowns on its various credit facilities and thereby to increase its indebtedness to BONY and others thereunder, thereby further diminishing the assets available to satisfy the claims of the bondholders because bond repayment was subordinated to the undisclosed bank debt. Such increases in indebtedness also constituted additional defaults under the Indentures of which BONY, in violation of the TIA, failed to notify Plaintiffs and the class. Each such drawdown also constituted an event which should have been disclosed under the TIA, but was not.

337. BONY’s failure to comply with the disclosure requirements of the TIA and the Indentures concerning the existence of its Statutory Conflicts establishes BONY’s bad faith per se.

338. BONY’s violations constituted the omission of material facts in SEC filings in further violation of the TIA. In the Form T-1 disclosure statements that BONY periodically filed or should have filed with the SEC, BONY omitted to disclose the material facts concerning BONY’s lending relationship with Adelphia, including the amount of and terms of drawdowns thereunder, and Adelphia’s default under the Indentures caused by borrowing under the 1999 Credit Agreements and two of the Co-Borrowing Credit Facilities. These facts were per se material in that they were required to be disclosed under the TIA and the Indentures.

339. Plaintiffs and the members of the class were unaware of these matters until the end of the Class Period.
During the Class Period, BONY’s violated the requirements of the TIA and the Indentures. Contrary to those requirements, BONY failed to: (i) notify Plaintiffs, Class members and the SEC of BONY’s Statutory Conflicts arising from BONY’s loan agreements with Adelphia and numerous extensions of credit from time to time thereunder; (ii) disclose that Adelphia was in default under both Indentures — the first of which defaults occurred at least as early as [December 4, 1999] and continued throughout the Class Period; (iii) disclose that there was a second series of continuing Indenture defaults which occurred when BONY loaned monies under the CCH Credit Facility and the OCH Credit Facility; (iv) disclose the existence of certain Statutory Conflicts that BONY had throughout the Class Period which, under the TIA, compelled BONY’s disqualification as Indenture Trustee under the Indentures; and (v) resign from its position as Indenture Trustee under the Indentures despite the existence of Adelphia’s defaults and the existence of BONY’s Statutory Conflicts. Additionally, following Adelphia’s default, BONY failed to fulfill its obligations as a prudent trustee by:

- notifying bondholders of the default;
- prohibiting further issuance of bonds pursuant to the Indentures;
- collecting Adelphia’s assets for the benefit of bondholders; and
- discontinuing lending under the 1999 Credit Agreement and the CCH Credit Facility and OCH Credit Facility pursuant to which it and other lending banks obtained a priority over the debt holders.

BONY had actual notice of the pertinent facts with respect to Adelphia’s default under the Indentures in that, in its capacity as lender and underwriter, BONY had access to the operative loan agreements and due diligence materials which showed the existence of such default. Nevertheless, BONY never notified plaintiffs or class members of the existence of BONY’s lending relationship with Adelphia, or Adelphia’s default under the Indentures.
342. Defendant BONY’s intentional failure to make disclosure of its Statutory Conflicts and of the increasing indebtedness of Adelphia under the OCH and CCH Credit Facilities substantially and directly injured class members because BONY was able to place itself and other syndicate member banks in a preferred position as senior creditors, in violation of the Indentures, at the expense of debtholders whose claims were subordinated to the increasing undisclosed bank debt. By so violating the TIA substantive provisions and the TIA disclosure provisions and the Indentures, BONY was able secretly to prefer itself, by obtaining a priority interest as to the assets of Adelphia, at the expense of the bondholders to whom it owed a fiduciary duty under the TIA, the Indentures and New York law. BONY’s undisclosed activities whereby it obtained a senior credit position, to the direct disadvantage of bondholders, continued after the events of default under the Indentures and have and will directly reduce the consideration to be received by debtholders pursuant to the Indentures.

343. Had BONY complied with the TIA and the Indentures, plaintiffs and the Class would have been alerted to the fact that Adelphia was in default under the Indentures, and further that BONY had Statutory Conflicts throughout the Class Period. In addition, class members would have been apprised of the fact that the debt was subordinated to billions of dollars of bank debt hidden from investors. Had class members been aware of this additional subordination, they would not have purchased the bonds of Adelphia or would have purchased them only at materially lower prices.

344. BONY’s violations proximately caused substantial damages to plaintiffs and the Class who purchased Adelphia bonds without notice that Adelphia had borrowed billions of dollars of undisclosed senior bank debt.

345. This undisclosed information was highly material because the Prospectuses pursuant to which the bonds were issued (underwritten in part by BONY affiliate BNY)
contained misrepresentations with respect to the amount of indebtedness of Adelphia, ultimately understating bank debt by billions of dollars.

G. Materially False And Misleading Statements And Omissions During The Class Period

1. Summary of Misleading Statements and Omissions

   a. Concealment of Off-Balance Sheet Debt

   346. Adelphia’s consolidated liabilities were fraudulently understated by virtue of the failure to record billions of dollars of liabilities incurred under the Co-Borrowing Credit Facilities. The omission of the liabilities incurred by the Rigas Family Entities under the Co-Borrowing Credit Facilities was part of the fraudulent scheme to under-report Adelphia’s overall debt, portray Adelphia as de-leveraging, and to conceal Adelphia’s inability to comply with debt ratios and loan covenants.

   347. Defendants fraudulently understated Adelphia’s total debt and liabilities by at least the following amounts: $250 million for the second, third, and fourth quarters and year-end 1999; $618 million for the first quarter of 2000; $397 million for the second quarter of 2000; $513 million for the third quarter of 2000; $1.18 billion for fourth quarter and year-end 2000; $1.2 billion for the first quarter of 2001; $1.27 billion for the second quarter of 2001; and $1.83 billion for the third quarter of 2001. As of the date of this pleading, Adelphia has not issued audited financial statements for 2001 or 2002. Though Adelphia has indicated it will restate its financials for 1999 and 2000 and possibly for other periods, it has not yet formally restated its financial statements for 1999 and 2000 (as to which years defendant Deloitte withdrew its opinions just prior to being terminated by Adelphia).

   348. During the Class Period, defendants improperly accounted for portions of Adelphia’s joint and several liabilities under the Co-Borrowing Credit Facilities as “off-balance sheet” debt. Accordingly, the consolidated balance sheet and accompanying notes were
materially false and misleading because defendants: (i) understated total debt and liabilities by failing to record debt for which Adelphia was jointly and severally liable; (ii) failed to disclose the true terms of the Co-Borrowing Credit Facilities; and (iii) mislead investors by representing that Adelphia included on its balance sheet all of the draw-downs under the Co-Borrowing Credit Facilities, including those purportedly attributable to the Rigas Family Entities.

b. Adelphia’s Purported De-Leveraging

349. Throughout the Class Period Adelphia issued consolidated financial statements that created the impression that Adelphia was “deleveraging” or paying off some portion of the very substantial debt that it was carrying on its balance sheet. This aspect of the fraud was effectuated by means of journal entries that purported to “reclassify” or otherwise move debt owed by Adelphia onto the books of the Rigas Family Entities and other sham transactions in which various Rigas Family Entities purported to “assume” debt of Adelphia and/or its subsidiaries. These journal entries and sham transactions masked the fact that Adelphia remained primarily liable for the debt drawn down under the Co-Borrowing Credit Facilities.

350. During the Class Period, hundreds of millions of dollars of debt borrowed under the Co-Borrowing Credit Facilities were removed from Adelphia’s books and allocated to the Rigas Family Entities. The Rigas Defendants and defendants Brown and Mulcahey reallocated co-borrowing liabilities among Adelphia’s subsidiaries and Rigas Family Entities through quarterly CMS reconciliations of inter-company receivables and payables. From the third quarter of 2000 through the third quarter of 2001, the Rigas Defendants and defendants Mulcahey and Brown caused Adelphia fraudulently to reallocate an aggregate of over $477 million of Co-Borrowing Credit Facilities debt to various Rigas Family Entities and to remove the same amount of debt from Adelphia’s books through a process that Adelphia management called the “quarterly reclassification.”
351. Defendants also created the materially false impression that Adelphia was deleveraging by means of sham transactions pursuant to which it appeared that the Rigas Defendants were making substantial capital investments in Adelphia and that Adelphia was using the cash proceeds of such investments to pay down debt.

352. The debt so removed from Adelphia’s balance sheet masked the fact that Adelphia remained liable for the repayment of such debt. Adelphia’s removal of the co-borrowing debt from its balance sheet violated GAAP and specifically FAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” which states that a liability should be de-recognized only if it has been extinguished. Adelphia’s co-borrowing debt was never extinguished and, therefore, shifting the debt from Adelphia’s balance sheet was contrary to GAAP and rendered Adelphia’s financial statements materially false and misleading.

c. Misrepresentations Regarding Compliance with Debt Covenants

353. Throughout the Class Period, defendants falsely represented in the Company’s public filings that Adelphia was in compliance with debt ratios and loan covenants when, in fact, it was not. Defendants had no basis to represent that the Company was in compliance with its debt covenants. Defendants fraudulently excluded substantial liabilities from Adelphia’s annual and quarterly 1999 and 2000 balance sheets and from Adelphia's quarterly 2001 balance sheets and manipulated the Company’s financial ratios to enable Adelphia to continue borrowing funds under the Co-Borrowing Credit Facilities. As a result, defendants’ representations that Adelphia was in compliance with debt covenants were materially false and misleading.

354. Moreover, defendants falsely represented that Adelphia was in compliance with its leverage ratios in its public indentures throughout 2001. Each of Adelphia’s indentures specified a maximum leverage ratio of between 6.75 and 9.0. In fact, Adelphia had actual ratios
of 11.96, 17.47, 11.77, and 14.51 for the first through fourth quarters of 2001, respectively. As a result, defendants’ representations that Adelphia was in compliance with its leverage ratios were materially false and misleading.

d. Overstatement of EBITDA

355. From 2000 through the close of the Class Period, defendants embarked on a fraudulent scheme to artificially inflate Adelphia’s publicly reported earnings and, consequently, EBITDA, by causing Adelphia to engage in fraudulent transactions with the Rigas Family Entities and others, as well as through various other accounting manipulations. The June 10, 2002 Form 8-K revealed that the defendants artificially inflated Adelphia’s publicly reported EBITDA by approximately $160 million in 2000 and approximately $210 million in 2001.

i. Revenue Inflation

356. Fraudulent Affiliate Fee Transactions - From October 2000 through March 2002, defendants fraudulently recorded as revenue “management fees” from certain Rigas Entities for the sole purpose of artificially inflating Adelphia’s publicly-reported EBITDA. The amount of the “management fees” purportedly paid to Adelphia by the Rigas Family Entities was established by determining the increase in EBITDA necessary to satisfy Wall Street’s expectations. Adelphia did not provide any additional management services to the Rigas Family Entities in exchange for these fees. Defendants made bogus journal entries in Adelphia’s books and records to artificially increase the Company’s reported revenues. These sham transactions lacked economic substance and did not result in any funds paid to Adelphia. As a result, Adelphia’s publicly reported revenue and EBITDA were artificially inflated by approximately $34.9 million, or 10%, in 2000 and $32.2 million, or 14%, in 2001.

357. Failure to Record Impairment Losses – Defendants fraudulently recorded as revenue the full value of otherwise impaired financial instruments, which were received as
payment from certain interactive cable service providers, whose services were carried on Adelphia’s cable systems. As a result, revenue and EBITDA were overstated by $28 million in 2000 and $52 million in 2001.

358. Improperly Recognizing Revenue From Deferred Billing Arrangements – Defendants fraudulently recognized revenue ratably from subscriber agreements, which included months when the Company provided services without charge. Revenue from those arrangements should not have been recognized until the customers commenced payment. As a result, revenue and EBITDA were overstated by $13 million in 2000 and $4 million in 2001.

359. Fraudulent Debt Placement Fees – Defendants fraudulently recorded revenue from debt placement fees from the Rigas Family Entities. As a result, revenue and EBITDA were overstated by at least $8 million in 2000.

ii. Understatement of Expenses

360. Fraudulent Marketing Support Transactions – From June 2000 through May 2002, Adelphia and two of its digital converter box vendors entered into agreements to raise the price Adelphia paid for “set-tops” by $26 per set-top and, in exchange, Adelphia agreed to simultaneously charge its vendors the identical amount for “marketing support” for the purpose of artificially inflating Adelphia’s publicly reported EBITDA. Defendants fraudulently accounted for the “marketing support” payments from the vendors as a reduction of operating expenses, thereby artificially lowering Adelphia’s operating expenses and correspondingly increasing Adelphia’s publicly reported EBITDA. Further, defendants fraudulently capitalized the payments for the “set-tops”, which were recorded as debits on the Company’s balance sheet, instead of a reduction to EBITDA. There was no legitimate business purpose underlying the “marketing support” transactions and defendants engaged in these fraudulent transactions to artificially inflate the Company’s publicly reported EBITDA by artificially decreasing its
reported expenses. As a result, expenses were understated and EBITDA was overstated by $37 million in 2000 and $54 million in 2001.

361. Failure to Properly Account for Programming Costs – Defendants fraudulently understated Adelphia’s expenses by failing to properly expense cable-programming costs. As a result, expenses were understated and EBITDA was overstated by $23 million in 2000 and $43 million in 2001.

362. Improperly Capitalizing Labor Expenses – Defendants fraudulently recorded labor expenses associated with reconnecting disconnected subscribers and operating customer services centers as an asset on Adelphia’s balance sheet, instead of properly recording the cost as an expense. As a result, expenses were understated and EBITDA was overstated by $40 million in each of 2000 and 2001.

363. Failure to Properly Account For Transactions With ABIZ– Defendants fraudulently transferred approximately $4 million in expenses from Adelphia to a joint venture controlled by ABIZ. There was no legitimate business purpose for this transaction and its sole purpose was to artificially decrease Adelphia’s expenses and, therefore, artificially inflate Adelphia’s net income and EBITDA.

364. Failure to Properly Account for Selling General and Administrative Expenses (“SG&A”) - Defendants fraudulently failed to account for costs incurred from providing management services to the Rigas Family Entities, thereby understating SG&A expenses. As a result, expenses were understated and EBITDA was artificially inflated.

365. Improperly Accounting for Interest Expenses - Defendants fraudulently represented that approximately $5 million in interest expenses owed by the Rigas Family Entities to Adelphia were actually owed as management fees. As a result, EBITDA was overstated by approximately $5 million in 2001.
e. Misrepresentations of Basic Cable Subscribers

366. From the first quarter of 2000 through the fourth quarter of 2001, defendants fraudulently inflated the number of Adelphia’s basic cable subscribers by improperly including in its publicly reported numbers categories of subscribers, which had not previously been included as basic cable subscribers. Basic cable subscribers are a key metric in evaluating a cable company’s financial condition and predicting growth and future cash flow.

367. Specifically, defendants inflated Adelphia’s subscriber numbers by improperly including: subscribers in two joint venture companies in Brazil in which Adelphia held minority interests, subscribers in cable systems in Venezuela in which Adelphia held a minority interest, subscribers to Adelphia’s high-speed data services, subscribers to Adelphia’s home security system, and subscribers of cable systems owned by the Rigs Family Entities, rather than Adelphia. Defendants also inflated Adelphia’s subscriber numbers by counting as multiple subscribers single households that had more than one digital converter box.

368. Defendants fraudulently included these additional categories to mislead investors that Adelphia’s performance met or exceeded the Company’s guidance and analysts’ expectations for growth. Specifically, Defendants overstated Adelphia’s basic cable subscribers by the following amounts: 43,000 in each quarter in 2000 and the first quarter of 2001; 70,000 in the second quarter of 2001; 136,000 in the third quarter of 2001 and; 142,000 in the fourth quarter of 2001.

f. Misrepresentations Concerning Progress In Rebuilding Cable Systems

369. During the Class Period, defendants fraudulently inflated Adelphia’s rebuild percentage of two-way capable cable systems by approximately 10% to 15% in equity road shows and conference calls from 1999 through 2002 and deflated the corresponding percentage
of systems still requiring rebuilding. The “rebuild percentage” refers to the percentage of the company’s infrastructure capable of broadband and two-way traffic.

370. Defendants fraudulently overstated Adelphia’s rebuild percentage to create the impression that Adelphia’s capital expenditures were decreasing and to mislead investors and analysts that Adelphia was capable of providing high margin services, including digital cable and high-speed Internet services, and to materially misrepresent Adelphia’s progress in rebuilding.

**g. Misrepresentations and Omissions Regarding Related Party Transactions**

371. Defendants failed to disclose numerous related-party transactions between Adelphia and the Rigas Defendants, in violation of GAAP and specifically FAS 57 – “Related Party Disclosures.” FAS 57 requires that a company disclose all “material related party transactions” in their financial statements.

372. Defendants violated FAS 57 by failing to disclose that: (i) the Rigas Defendants and Adelphia commingled funds in the CMS; (ii) the Rigas Defendants used funds from the CMS to purchase Adelphia securities to maintain their controlling share of the Company; (iii) Adelphia purchased timber rights on land owned by the Rigas Defendants; (iv) the Rigas Defendants used Adelphia funds to pay personal margin loans and other personal debts; (v) the Rigas Defendants used Adelphia funds to construct a golf course; (vi) the Rigas Defendants used Adelphia funds to purchase and fund the Buffalo Sabres; (vii) the Rigas Defendants used Adelphia funds to purchase luxury condominiums and apartments in New York, Mexico and Colorado for their personal use; (viii) John Rigas received at least $1 million per month from Adelphia; (ix) the Rigas Defendants received at least $5.8 million of cash advances from Adelphia; and (x) Adelphia paid defendant Venetis $1.96 million per year for his work managing Praxis, of which Adelphia owned 99.5%. Defendants’ failure to disclose these and other related-party transactions rendered Adelphia’s financial statements materially false and misleading.
Other Misrepresentations of Balance Sheet Accounts

373. Cash – Defendants fraudulently overstated cash by improperly recording cash received from draw-downs from the Co-Borrowing Credit Facilities, when the corresponding debt was recorded on the books of certain Rigas Family Entities. Additionally, defendants fraudulently misstated cash as a result of the Rigas Defendants’ numerous self-dealing transactions. As a result, cash and total assets were overstated by millions of dollars throughout the Class Period.

374. Accounts Receivable – Defendants fraudulently overstated accounts receivable through improper revenue recognition practices, described above. Additionally, defendants overstated accounts receivable by improperly recognizing proceeds from certain Rigas Entities for securities issued in at least four offerings. These fraudulent transactions had the effect of overstating the Company’s accounts receivable by millions of dollars during the Class Period.

375. Investments – Defendants fraudulently recorded certain impaired investment assets, instead of reducing the asset to reflect the true market value of the investments. As a result, Adelphia overstated its investments and total assets by $28 million and $52 million in 2000 and 2001, respectively.

376. Property, Plant & Equipment – Defendants fraudulently recorded as an asset, certain labor costs associated with customer support and maintenance, which should have been expensed as incurred. Additionally, defendants improperly capitalized purchases of “set-tops,” which should have been expensed. As a result, property, plant and equipment was overstated by $40 million in each of 2000 and 2001.

377. Shareholders’ Equity – Defendants fraudulently overstated shareholder’s equity by recording as equity the securities issued to certain Rigas Family Entities in at least four public offerings for which no payment was received and that defendants knew would not be received.
Under GAAP and specifically EITF No. 85-1, receivables from the sale of stock should be recorded as a reduction to shareholders’ equity, not as an asset. As a result, shareholders’ equity was overstated by $368 million for the first and second quarters of 2000 and by $513 million for the third and fourth quarters of 2000 and the first, second, and third quarters of 2001.

i. Misrepresentations of Cash Flow Statements

378. Defendants fraudulently misstated Adelphia’s cash flow statements during the Class Period by: (i) overstating accounts receivable; (ii) improperly recording labor expenses as capital expenditures in 2000 and 2001; (iii) improperly recording purchases of “set-tops” as capital expenditures from June 2000 through May 2002; and (iv) improperly recording proceeds from securities offerings from which no proceeds were actually received in 2000 and 2001; and (v) improperly reporting purported draw-downs and repayments of the Company’s debt under the Co-Borrowing Credit Facilities throughout the Class Period.

j. Misrepresentations in Deloitte’s Audit Opinions

379. Deloitte’s audit opinions for 1999 and 2000 were materially false and misleading because Deloitte’s audits did not comply with GAAS and, as detailed above, Adelphia’s financial statements were not prepared in accordance with GAAP.

2. Materially False and Misleading Statements Contained in Adelphia’s Class Period Offering Materials

a. October 1999 Offering

380. On October 1, 1999, Adelphia conducted a secondary offering of 6 million shares of Adelphia Class A common stock, raising approximately $330 million net of underwriting fees of approximately $12 million (the “1999 October Offering”). The October 1999 Offering was made pursuant to a registration statement and prospectus filed with the SEC on Form S-3 on May 7, 1999, as amended on May 14, 1999 (the “May 1999 Registration Statement and Prospectus”),
and a supplemental prospectus filed with the SEC on October 1, 1999 (the “October 1999 Prospectus”).

381. SSB, Credit Suisse, Goldman, Sachs & Co. (“Goldman”), BOA, Donaldson, Lufkin & Jenrette Securities Corporation (“DLJ”), Lehman Brothers Inc. (“Lehman”), Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”), Morgan Stanley & Co. Inc. (“Morgan Stanley”), CIBC World, Credit Lyonnais, Wachovia Securities and Cowen (collectively, the “October 1999 Offering Underwriters”) underwrote the October 1999 Offering. SSB was the Lead Underwriter and Credit Suisse and Goldman were Joint Lead Underwriters.

382. Defendants John Rigas, Michael Rigas, Timothy Rigas, James Rigas, Milliard, Metros and Coyle signed the May 1999 Registration Statement and Prospectus.

383. Deloitte consented to being named as an expert in the May 1999 Registration Statement and Prospectus and in the October 1999 Prospectus.

384. The May 1999 Registration Statement incorporated by reference “all of [Adelphia’s] future filings with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Act until this offering has been completed,” which included the October 1999 Prospectus, and, as described below, the November 1999 Prospectus, the September 2000 Prospectus, the two January 2001 Prospectuses, the April 2001 Prospectus and the June 2001 Prospectus.

385. The October 1999 Prospectus incorporated by reference the Company’s quarterly report on Form 10-Q for the quarter ended June 30, 1999, which was materially false and misleading for the reasons set forth below at Section V, G, 3(a).

386. The October 1999 Prospectus stated on page S-7 in its discussion of “Risk Factors” that Adelphia’s total indebtedness was $3.8 billion as of June 30, 1999, and that it undertook this debt to “purchase and to expand [its] cable systems and other operations and, to a lesser extent for investments and loans to [its] subsidiaries and other affiliates.” Similarly, on
page S-21, the October 1999 Prospectus stated that Adelphia’s actual capitalization was approximately $4.4 billion. Each of these statements were materially false and misleading because they excluded $250 million of indebtedness for amounts borrowed by the Rigas Family Entities under the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable as of June 30, 1999, resulting in the understatement of Adelphia’s total debt by that amount, as discussed above at Section V, B.

387. The October 1999 Prospectus stated on page S-4 that, on April 9, 1999, Highland Holdings, a general partnership controlled by the Rigases, had agreed to purchase $375 million of Adelphia Class B common stock in a direct placement that would close on or about January 23, 2000 (the “January 2000 Direct Placement”). This statement was materially false and misleading because it led investors to believe that Adelphia would receive a $375 million cash infusion from the Rigases when, in fact, the Rigases were simply utilizing undisclosed Co-Borrowing Credit Facility debt, for which Adelphia was jointly and severally liable, to increase their own stock holdings, as detailed above at Section V, B, 5.

388. The October 1999 Prospectus stated on page S-20 that, on October 1, 1999, Highland Holdings had agreed to purchase $137.5 million of Adelphia Class B common stock in a direct placement that would close on or about July 3, 2000 (the “July 2000 Direct Placement”). The October 1999 Prospectus declared that Adelphia’s subsidiaries would use part of the proceeds of such placement to “repay revolving credit facilities . . . .” These statements were materially false and misleading because they led investors to believe that Adelphia would receive a $137.5 million cash infusion from Highland Holdings that would be used to pay down Adelphia’s debt when, in fact, the Rigas Family Entities and the Rigas Defendants were increasing Co-Borrowing Credit Facility debt, for which Adelphia was jointly and severally liable, to finance the July 2000 Direct Placement, as detailed above at Section V, B, 5.
389. The October 1999 Prospectus stated on page S-21 that Adelphia’s adjusted capitalization was $12.8 billion as of June 30, 1999, after giving effect to the January 2000 Direct Placement, the July 2000 Direct Placement and other pending transactions. This statement was materially false and misleading because Adelphia never expected to receive the cash infusions of $375.0 million from the January 2000 Direct Placement and $137.5 million from the July 2000 Direct Placement, as detailed above at Section V, B, 5.

390. The October 1999 Prospectus stated on page S-15 that the outside business activities of the Rigases “could present a conflict of interest with Adelphia, such as how much time our executives devote to our business.” This statement was materially false and misleading because, while noting only that a conflict of interest “could” arise at some point in the future, it did not disclose that, as of June 30, 1999, the Rigas Family Entities were utilizing the Co-Borrowing Credit Facilities for their own personal benefit and to the detriment of Adelphia, as detailed above at Section V, B, 5 and V, C, 3.

391. The October 1999 Prospectus represented that Adelphia had been dependent upon additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able both to refinance our debt and to obtain new debt, there can be no guarantee that we will be able to continue to do so in the future . . . .” This statement was materially false and misleading because it failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it had misrepresented its financial condition by failing to disclose portions of its co-borrowing debt obligations, as detailed above at Section V, B.

b. November 1999 Offering

392. On November 12, 1999, Adelphia conducted an offering of $500 million in 9.375% Senior Notes, raising approximately $495 million net of underwriting fees (the “November 1999 Offering”). The November 1999 Offering was made pursuant to the May 1999
Registration Statement and Prospectus and a supplemental prospectus dated November 10, 1999, filed with the SEC on November 12, 1999 (the “November 1999 Prospectus”).

393. SSB, BNY, J.P. Morgan, Credit Suisse, BMO, Nesbitt, PNC, Scotia Capital and TD Securities (collectively, the “November 1999 Offering Underwriters”) underwrote the November 1999 Offering. Credit Suisse and SSB were the Joint Managers for the offering.

394. Deloitte consented to being named as an expert in the November 1999 Prospectus.

395. The November 1999 Prospectus incorporated by reference the Company’s quarterly report on Form 10-Q for the quarter ended June 30, 1999, that was materially false and misleading for the reasons set forth below at Section V, G, 3 (a).

396. The November 1999 Prospectus stated on page S-10 in its discussion of “Risk Factors” that Adelphia’s total indebtedness was $3.8 billion as of June 30, 1999, and that it undertook its debt to “purchase and to expand [its] cable systems and other operations and, to a lesser extent, for investments and loans to [its] subsidiaries and other affiliates.” Similarly, on page S-23, the November 1999 Prospectus stated that Adelphia’s actual capitalization was $4.4 billion. And on page S-8, it stated that, as of June 30, 1999, on an adjusted basis after giving effect to the application of the net proceeds from the November 1999 Offering and other transactions, “the Notes [from the offering] would have been effectively subordinated to $6.0 billion of indebtedness and redeemable preferred stock of Adelphia’s subsidiaries; and [its] total indebtedness would have been approximately $8.6 billion.” These statements were materially false and misleading because they omitted $250 million of senior debt from the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable, resulting in an understatement of Adelphia’s total debt by that amount, as detailed above at Section V, B.

397. The November 1999 Prospectus once again described the January 2000 Direct Placement and the July 2000 Direct Placement and stated that Adelphia’s adjusted capitalization
was $13.2 billion, after having given effect to the January 2000 Direct Placement, the July 2000 Direct Placement and other pending transactions. These statements were materially false and misleading for the reasons set forth above at Section V, B.

398. On pages S-11 and S-13, the November 1999 Prospectus represented that Adelphia had been dependent on additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able to both to refinance our debt and to obtain new debt, there can be no guarantee that we will be able to continue to do so in the future . . . .” This statement was materially false and misleading because it failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it misrepresented its financial condition by failing to disclose portions of its co-borrowing debt obligations, as described above at Section V, B.

399. The November 1999 Prospectus stated on page S-18 that the outside business activities of the Rigases “could present a conflict of interest with Adelphia.” This statement was materially false and misleading because, while noting only that a conflict of interest “could” arise at some point in the future, it did not disclose that by the second quarter of 1999 the Rigas Entities were utilizing the Co-Borrowing Credit Facilities for the personal benefit of the Rigases and to the detriment of Adelphia, as detailed above at Section V, B, 5 and V, C, 3.

c. **September 2000 Offering**

400. On September 18, 1999, Adelphia conducted an offering of $750 million in 10 7/8% Senior Notes, raising approximately $733 million net of underwriting fees of approximately $11.25 million (the “September 2000 Offering”). The September 2000 Offering was made pursuant to the May 1999 Registration Statement and Prospectus and a supplemental prospectus dated September 15, 2000, filed with the SEC on September 18, 2000 (the “September 2000 Prospectus”).
401. SSB, BOA, J.P. Morgan, Morgan Stanley, Scotia Capital, TD Securities, ABN
AMRO, Barclay’s, Credit Lyonnais, Wachovia Securities, PNC, Cowen and SunTrust
(collectively, the “September 2000 Offering Underwriters”) underwrote the September 2000
Offering. SSB and BOA were the Joint Managers for the offering.

402. Deloitte consented to being named as an expert in the September 2000 Prospectus
as having audited and certified the consolidated financial statements of Adelphia and its
subsidiaries as of December 31, 1998 and 1999, and for the year ended March 31, 1998, the nine
months ended December 31, 1998 and the year ended December 31, 1999, all of which were
incorporated by reference into the September 2000 Prospectus.

403. The September 2000 Prospectus incorporated the Company’s Annual Report on
Form 10-K for the year ended December 31, 1999, as amended by Form 10-K/A, and the
Company’s quarterly reports on Form 10-Q for the quarters ended March 31, 2000 and June 30,
2000, which were materially false and misleading, as detailed below at Section V, G, 3 (d-f).

404. The September 2000 Prospectus stated on page S-8 in its discussion of “Risk
Factors” that Adelphia’s total indebtedness was $10.0 billion as of June 30, 2000, and that it
undertook this debt to “purchase and to expand [its] cable systems and other operations and, to a
lesser extent for investments and loans to [its] subsidiaries and other affiliates.” Similarly, on
page S-20 the September 2000 Prospectus stated that Adelphia’s actual capitalization was
approximately $14.2 billion. And on page S-6, it stated that, as of June 30, 2000, on an adjusted
basis after giving effect to the application of the net proceeds from the September 2000 Offering
and other transactions, “the Notes would have been effectively subordinated to $9.2 billion of
indebtedness and redeemable preferred stock of Adelphia’s subsidiaries; and [its] total
indebtedness would have been approximately $12.4 billion.” These statements were materially
false and misleading because they excluded $397 million in senior debt from the Co-Borrowing
Credit Facilities, for which Adelphia was jointly and severally liable as of June 30, 2000, resulting in the understatement of Adelphia’s total debt by that amount, as detailed above at Section V, G, 3 (f) and V, B.

405. The September 2000 Prospectus stated on page S-3 that on April 14, 2000 Adelphia’s subsidiaries and affiliates closed on the $2.25 billion CCH Credit Facility and that “[p]roceeds from initial borrowings were used to repay existing indebtedness which may be reborrowed and used for capital expenditures, acquisitions, investment and other general corporate purposes.” This statement was materially false and misleading because Adelphia used proceeds from the CCH Credit Facility to finance the July 2000 Direct Placement, as detailed above at Section V, B.

406. The September 2000 Prospectus stated on page S-3 that, on July 3, 2000, Adelphia had closed on the July 2000 Direct Placement and that Adelphia “used a portion of the proceeds of approximately $145 million from this direct placement to repay borrowings under revolving credit facilities of [its] subsidiaries . . . .” This statement was materially false and misleading because the July 2000 Direct Placement was financed by increasing Adelphia’s debt under the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable, as detailed above at Section V, B.

407. The September 2000 Prospectus stated on page S-19 that approximately $732.5 million of the proceeds from the September 2000 Offering would “be contributed to Adelphia subsidiaries and used to repay borrowings under revolving credit facilities of such subsidiaries, all of which . . . may be reborrowed and used for general corporate purposes such as acquisitions, capital expenditures, investments . . . or other corporate purposes.” This statement was materially false and misleading because, unbeknownst to investors, a significant portion of the
amount borrowed under the Co-Borrowing Credit Facilities was used to finance the January
2000 Direct Placement and the July 2000 Direct Placements, as detailed above at Section V, B.

408. The September 2000 Prospectus stated on page S-9 that Adelphia’s total
convertible stock, common stock and other shareholders’ equity was approximately $3.9 billion
as of June 30, 2000. This statement was materially false and misleading because it included
$368 million worth of equity issued to the Rigas Family in the Direct Placements, which were
sham transactions, as detailed above at Section V, B.

409. The September 2000 Prospectus represented that Adelphia had been dependent on
additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have
been able both to refinance our debt and to obtain new debt, there can be no guarantee that we
will be able to continue to do so in the future . . . .” This statement was materially false and
misleading because it failed to disclose that the only reason Adelphia was able to obtain
additional borrowings was because it had misrepresented its financial condition by failing to
disclose portions of its co-borrowing debt obligations, as detailed above at Section V, B.

410. On page S-16, the September 2000 Prospectus stated that there “are potential
conflicts of interest between Adelphia and the Rigas family,” and that “[t]hese activities could
present a conflict of interest with Adelphia . . . .” This statement was materially false and
misleading because, while noting only that a conflict of interest “could” arise at some point in
the future, it did not disclose that the Rigas Entities were then utilizing the Co-Borrowing Credit
Facilities for their own benefit and to the detriment of Adelphia, or that the Rigas Defendants
were engaged in a pattern of inappropriate self-dealing, as discussed above at Section V, C, 3
and V, B.

411. The September 2000 Prospectus stated on page S-2 that as of June 30, 2000,
Adelphia “served approximately 5.6 million basic [cable] subscribers . . . .” This statement was
materially false and misleading in that it overstated the number of Adelphia basic cable subscribers by 15,000, as detailed above at Section V, C, 2.

d. January 2001 Offerings

412. On January 18, 2001, Adelphia conducted an offering of $750 million in 6% Convertible Subordinated Notes, raising approximately $729.4 million net of underwriting fees of approximately $20.6 million (the “January 2001 Debt Offering”). The January 2001 Debt Offering was made pursuant to the May 1999 Registration Statement and Prospectus and a supplemental prospectus dated January 17, 2001, filed with the SEC on January 18, 2001 (the “January 2001 Debt Offering Prospectus”).

413. On January 18, 2001, Adelphia also conducted a secondary offering of 17 million shares of Adelphia common stock at $44.75 per share, raising proceeds of approximately $730 million net of underwriting fees of approximately $30.4 million (the “January 2001 Equity Offering”). The January 2001 Equity Offering was made pursuant to the May 1999 Registration Statement and Prospectus and a supplemental prospectus dated January 17, 2001, filed with the SEC on January 18, 2001 (the “January 2001 Equity Offering Prospectus”).

414. SSB and Banc of America (collectively, the “January 2001 Debt Offering Underwriters”) underwrote the January 2001 Debt Offering.

415. Banc of America, SSB, Credit Suisse, Goldman and Morgan Stanley (collectively the “January 2001 Equity Offering Underwriters”) underwrote the January 2001 Equity Offering. SSB and BOA were joint managers for the offering.

416. The January 2001 Debt Prospectus and the January 2001 Equity Prospectus were substantially similar and are referred to herein collectively as the “January 2001 Prospectuses.”

417. Deloitte consented to being named as an expert in the January 2001 Prospectuses as having audited and certified the consolidated financial statements of Adelphia and its
subsidiaries as of December 31, 1998 and 1999, and for the year ended March 31, 1998, the nine months ended December 31, 1998 and the year ended December 31, 1999, which financial statements were incorporated by reference into the January 2001 Prospectuses.

418. The January 2001 Prospectuses incorporated the Company’s Annual Report on Form 10-K for the year ended December 31, 1999, as amended by Form 10-K/A and Form 10-K/A-2, and the Company’s quarterly reports on Form 10-Q for the quarters ended March 31, 2000, June 30, 2000 and September 30, 2000, in each case as amended by the Company’s Form 10-Q/As, all of which were materially false and misleading for the reasons set forth below at Section V, G, 3 (d-h).

419. The January 2001 Prospectuses stated in their discussions of “Risk Factors” that Adelphia’s total indebtedness was $11.0 billion as of September 30, 2000, and that Adelphia undertook its debt to “purchase and to expand [its] cable systems and other operations and, to a lesser extent for investments and loans to [its] subsidiaries and other affiliates.” The January 2001 Prospectuses also stated that Adelphia’s actual capitalization was approximately $15.3 billion. And, on page S-12, they stated that, as of September 30, 2000, on an adjusted basis, the “Notes [from the offering] would have been effectively subordinated to approximately $8.8 billion of indebtedness and redeemable preferred stock of Adelphia’s subsidiaries; and Adelphia and its subsidiaries’ total indebtedness excluding redeemable preferred stock would have been approximately $12.9 billion.” These statements were materially false and misleading because they failed to include $1.14 billion of senior debt from the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable as of September 30, 2000, resulting in the understatement of Adelphia’s total debt by that amount, as discussed above at Section V, B.

420. The January 2001 Prospectuses stated that on January 17, 2001 Highland 2000, a Rigas Family Entity, had agreed to purchase $167.4 million in 6% Convertible Subordinated
Notes and 5,819,367 shares of Adelphia Class B common stock for approximately $250.0 million, plus interest, thus assuring an infusion of cash from the Rigas Defendants that was due on or about October 20, 2001 (the “January 2001 Direct Placement”). This statement was materially false and misleading because it led investors to believe that Adelphia would receive a cash infusion of $417.4 million from the Rigas Defendants when, in fact, the Rigas Defendants would simply use off balance sheet Co-Borrowing Credit Facilities debt, for which Adelphia was jointly and severally liable, to finance the purported purchases, as detailed above at Section V, B.

421. The January 2001 Prospectuses stated that the proceeds from the January 2001 Direct Placement “are expected to be advanced to Adelphia’s subsidiaries to repay revolving credit facilities . . . .” These statements were materially false and misleading because Adelphia did not receive any proceeds from the January 2001 Direct Placement. Rather, to give the false appearance of an infusion of cash from the Rigas Defendants, Adelphia transferred approximately $423.3 million of Co-Borrowing Credit Facility debt to Highland Video, a Rigas Family Entity, even though Adelphia was jointly and severally liable for the debt, as detailed above at Section V, B.

422. The January 2001 Debt Prospectus and the January 2001 Equity Prospectus stated that approximately $728.9 million and $729.8 million, respectively, of the proceeds from the offerings “will be contributed to Adelphia Parent Company subsidiaries and used to repay borrowings under revolving credit facilities of those subsidiaries, all of which . . . may be . . . reborrowed and used for general corporate purposes . . . .” These statements were materially false and misleading because, unbeknownst to investors, the Rigas Family Entities continued to borrow substantial sums under the Co-Borrowing Credit Facilities for purposes that did not benefit Adelphia’s general corporate purposes, even though Adelphia was jointly and severally liable for the debt as detailed above at Section V, B.
423. The January 2001 Prospectuses stated that Adelphia’s adjusted capitalization was approximately $17.7 billion as of September 30, 2000, after having given effect to the January 2001 Direct Placement, and other pending transactions. These statements were materially false and misleading because Adelphia never received the cash infusion of $417.4 million from the January 2001 Direct Placement, as discussed above at Section V, B.

424. The January 2001 Prospectuses stated that Adelphia’s total convertible stock, common stock and other shareholders’ equity was approximately $3.9 billion as of September 30, 2000. These statements were materially false and misleading because they included $513 million worth of equity issued to the Rigas Family Entities in the Direct Placements, which were sham transactions, as detailed above at Section V, B.

425. The January 2001 Prospectuses represented that Adelphia had been dependent on additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able to both to refinance our debt and to obtain new debt, there can be no guarantee that we will be able to continue to do so in the future . . . .” These statements were materially false and misleading because they failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it had misrepresented its financial condition by failing to disclose portions of its co-borrowing debt obligations, as detailed above at Section V, B.

426. The January 2001 Prospectuses stated that “John J. Rigas and the other executive officers of Adelphia, including other members of the Rigas family, own other corporations and partnerships which are managed by us for a fee.” These statements were false and misleading because beginning in or around October 2000, Timothy Rigas and other Adelphia employees caused Adelphia to book as revenue “management fees” from certain Rigas Family Entities which fees had no economic or business purpose, and were conceived and memorialized after the end of the period in which they were booked on Adelphia’s books and records, among other
reasons, for the purpose of artificially inflating Adelphia’s publicly-disclosed EBITDA, as discussed above in Section V, C, 1.

427. The January 2001 Prospectuses stated that there “are potential conflicts of interest between Adelphia and the Rigas family,” and that “[t]hese activities could present a conflict of interest with Adelphia . . . .” These statements were materially false and misleading because they failed to disclose that the Rigases had been engaged in a pattern of self-dealing, utilizing Adelphia funds for their own personal benefit in a manner that conflicted directly with Adelphia’s business interests, as detailed above at Section V, C, 3.

428. The January 2001 Prospectuses stated that as of September 30, 2000, Adelphia “served approximately 5.7 million basic [cable] subscribers . . . .” These statements were materially false and misleading because they overstated the number of Adelphia basic cable subscribers by 43,000, as detailed above at Section V, C, 2.

e. April 2001 Offering

429. On April 20, 2001, Adelphia conducted an offering of $500 million of 3.25% Convertible Subordinated Notes, raising approximately $488.8 million net of underwriting fees of approximately $11.25 million (the “April 2001 Offering”). The April 2001 Offering was made pursuant to the May 1999 Registration Statement and Prospectus and a supplemental prospectus dated April 19, 2001, filed with the SEC on April 20, 2001 (the “April 2001 Prospectus”).

430. SSB, Banc of America, BMO Nesbitt, Wachovia Securities, Morgan Stanley, BNY, Credit Lyonnais, J.P. Morgan, Scotia Capital and Cowen (collectively, the “April 2001 Offering Underwriters”), underwrote the April 2001 Offering. SSB and Banc of America were Joint Managers for the offering.
431. Deloitte consented to being named as an expert in the April 2001 Prospectus as having audited and certified the consolidated financial statements of Adelphia and its subsidiaries as of December 31, 1999 and 2000, and for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, which were incorporated by reference into the April 2001 Prospectus.

432. The April 2001 Prospectus incorporated the Company’s Annual Report on Form 10-K for the year ended December 31, 2000, which was materially false and misleading as set forth below in Section V, G, 3 (k).

433. The April 2001 Prospectus stated on page S-9 in its discussion of “Risk Factors” that Adelphia’s total indebtedness was $12.6 billion as of December 31, 2000, and that Adelphia undertook this debt to “purchase and to expand [its] cable systems and other operations and, to a lesser extent for investments and loans to [its] subsidiaries and other affiliates.” Similarly, on page S-24, the April 2001 Prospectus stated that Adelphia’s actual capitalization was approximately $17.1 billion. And on page S-12, it stated that, as of December 31, 2000, on an adjusted basis, the “Notes would have been effectively subordinated to approximately $7.7 billion of indebtedness and redeemable preferred stock of Adelphia’s subsidiaries; and Adelphia and its subsidiaries’ total indebtedness excluding redeemable preferred stock would have been approximately $12.7 billion.” These statements were materially false and misleading because they excluded $1.18 billion of senior debt from the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable as of December 31, 2000, resulting in the understatement of Adelphia’s total debt by that amount, as discussed above at Section V, B.

434. The April 2001 Prospectus indicated that Adelphia would receive a cash infusion of approximately $417.4 million from the January 2001 Direct Placement. This statement was false and misleading for the reasons set forth above at Section V, B.
435. The April 2001 Prospectus stated that on April 19, 2001, Highland 2000 agreed to purchase $400 million of 3.25% Notes that would close on or around January 22, 2002, (the “April 2001 Direct Placement”), thus assuring an infusion of cash from the Rigas Defendants. This statement was materially false and misleading because it led investors to believe that Adelphia would receive a cash infusion of $400 million from the Rigas Defendants or Rigas Family Entities when, in fact, the Rigas Defendants simply transferred existing debt under the Co-Borrowing Credit Facilities from Adelphia’s balance sheet to the balance sheet of Highland Video. Adelphia remained jointly and severally liable for this off-balance sheet debt, as detailed above at Section V, B.

436. On page S-8, the April 2001 Prospectus stated that approximately $488.5 million of the proceeds from the offering “will be contributed to Adelphia Parent Company subsidiaries and used to repay borrowings under revolving credit facilities of those subsidiaries, all of which . . . may be . . . reborrowed and used for general corporate purposes . . . .” This statement was materially false and misleading because, unbeknownst to investors, the Rigas Family Entities continued to borrow substantial sums from the Co-Borrowing Credit Facilities for purposes that did not benefit Adelphia’s general corporate purposes, even though Adelphia was jointly and severally liable for the debt, as detailed above at Section V, B.

437. The April 2001 Prospectus stated that Adelphia’s adjusted capitalization was approximately $18.3 billion after giving effect to the January 2001 Direct Placement and other contemplated offerings. This statement was materially false and misleading because Adelphia never expected to receive the cash infusion from the January 2001 Direct Placement, as detailed above at Section V, B.

438. The April 2001 Prospectus stated that Adelphia’s total convertible stock, common stock and other shareholders’ equity as of December 31, 2000 was approximately $4.15 billion.
This statement was materially false and misleading because it included $513 million worth of equity issued to the Rigas Family Entities in the Direct Placements, which were sham transactions, as detailed above at Section V, B.

439. The April 2001 Prospectus represented that Adelphia had been dependent on additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able to both to refinance our debt and to obtain new debt, there can be no guarantee that we will be able to continue to do so in the future . . . .” This statement was materially false and misleading because it failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it had misrepresented its financial condition by failing to disclose portions of its co-borrowing debt obligations, as detailed above at Section V, B.

440. The April 2001 Prospectus stated that “John J. Rigas and the other executive officers of Adelphia, including other members of the Rigas family, own other corporations and partnerships which are managed by us for a fee.” These statements were false and misleading because beginning in or around October 2000, Timothy Rigas and other Adelphia employees caused Adelphia to book as revenue “management fees” from certain Rigas Entities which fees had no economic or business purpose, and were conceived and memorialized after the end of the period in which they were booked on Adelphia’s books and records, among other reasons, for the purpose of artificially inflating Adelphia’s publicly-disclosed EBITDA, as discussed above at Section V, C, 1.

441. The April 2001 Prospectus stated that there “are potential conflicts of interest between Adelphia and the Rigas family,” and that “[t]hese activities could present a conflict of interest with Adelphia . . . .” These statements were materially false and misleading because they failed to disclose that the Rigas Defendants had been engaged in a pattern of self-dealing,
utilizing Adelphia funds for their own personal benefit in a manner that conflicted directly with Adelphia’s business interests, as discussed above at Section V, C, 3.

442. The April 2001 Prospectus stated that as of December 31, 2000, Adelphia “served approximately 5.8 million basic [cable] subscribers . . .” This statement was materially false and misleading because it overstated the number of Adelphia basic cable subscribers by 43,000, as detailed above at Section V, C, 2.

f. June 2001 Offering

443. On June 8, 2001, Adelphia conducted an offering of $1 billion of 10.25% Senior Notes for proceeds of approximately $980 million net of underwriting fees of approximately $20 million (the “June 2001 Offering”). The June 2001 Offering was made pursuant to the May 1999 Registration Statement and Prospectus and a supplemental prospectus dated June 7, 2001, filed with the SEC on June 8, 2001 (the “June 2001 Prospectus”).

444. SSB, Banc of America, BMO Nesbitt, J.P. Morgan, CIBC, Credit Suisse, Deutsche Banc and TD Securities (collectively, the “June 2001 Offering Underwriters”) underwrote the June 2001 Offering. SSB and Banc of America were the Joint Managers for the offering.


446. The June 2001 Prospectus incorporated Adelphia’s Annual Report on Form 10-K for the year ended December 31, 2000, as amended by its Form 10-K/A, and the quarterly report
on Form 10-Q for the quarter ended March 31, 2001, which were materially false and misleading for the reasons set forth below at Section V, G, 3 (k-m).

447. The June 2001 Prospectus stated on page S-8 in its discussion of “Risk Factors” that Adelphia’s total indebtedness was $13.7 billion as of March 31, 2001, and that it undertook this debt to “purchase and to expand [its] cable systems and other operations and, to a lesser extent for investments and loans to [its] subsidiaries and other affiliates.” Similarly, on page S-21, the June 2001 Prospectus stated that Adelphia’s actual capitalization was approximately $19.2 billion. And on page S-6, it stated that, as of March 31, 2001, on an adjusted basis, the “Notes [from the offering] would have been effectively subordinated to approximately $7.4 billion of indebtedness and redeemable preferred stock of Adelphia’s subsidiaries; and Adelphia and its subsidiaries’ total indebtedness excluding redeemable preferred stock would have been approximately $13.5 billion.” These statements were materially false and misleading because they omitted $1.2 billion of senior debt from the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable as of March 31, 2001, resulting in the understatement of Adelphia’s total debt by that amount, as discussed above at Section V, B.

448. The June 2001 Prospectus indicated that Adelphia would receive approximately $417.4 million in cash from the Rigas Family Entities as a result of the January 2001 Direct Placement and $400 million in cash from the Rigas Family Entities as a result of the April 2001 Direct Placement. These statements were materially false and misleading for the reasons set forth above at Section V, B.

449. On page S-20, the June 2001 Prospectus stated that approximately $979.5 million of the proceeds from the June 2001 Offering will be “contributed to a subsidiary and used to repay borrowings under its revolving credit facility, all of which . . . may be reborrowed.” This statement was materially false and misleading because the Rigas Family Entities continued to
borrow substantial sums under the Co-Borrowing Credit Facilities for purposes that did not benefit Adelphia’s general corporate purposes, even though Adelphia was jointly and severally liable for the debt, as detailed above at Section V, B.

450. The June 2001 Prospectus stated on page S-9 that Adelphia’s total convertible stock, common stock and other shareholders’ equity as of March 31, 2001 was approximately $5.2 billion. This statement was materially false and misleading because it either excluded or understated liabilities on Adelphia’s balance sheet, the effect of which overstated Adelphia’s shareholders’ equity by $513 million.

451. The June 2001 Prospectus represented that Adelphia had been dependent on additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able both to refinance our debt and to obtain new debt, there can be no guarantee that we will be able to continue to do so in the future . . . .” This statement was materially false and misleading because it failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it had misrepresented its financial condition by removing portions of its Co-Borrowing Credit Facilities debt obligations from its financial statements and placing those debt obligations onto the books of the Rigas Family Entities, as detailed above at Section V, B.

452. The June 2001 Prospectus stated that “John J. Rigas and the other executive officers of Adelphia, including other members of the Rigas family, own other corporations and partnerships which are managed by us for a fee.” These statements were false and misleading because beginning in or around October 2000, Timothy Rigas and other Adelphia employees caused Adelphia to book as revenue “management fees” from certain Rigas Entities which fees had no economic or business purpose, and were conceived and memorialized after the end of the period in which they were booked on Adelphia’s books and records, among other reasons, for the
purpose of artificially inflating Adelphia’s publicly-disclosed EBITDA, as discussed above in Section V, C, 1.

453. The June 2001 Prospectus stated that there “are potential conflicts of interest between Adelphia and the Rigas family,” and that “[t]hese activities could present a conflict of interest with Adelphia . . . .” This statement was materially false and misleading because it failed to disclose that the Rigases had been engaged in a pattern of self-dealing, utilizing Adelphia funds for their own personal benefit in a manner that conflicted directly with Adelphia’s business interests, as discussed above at Section V, C, 3.

454. The June 2001 Prospectus stated that as of March 31, 2001, Adelphia “served approximately 5.8 million basic [cable] subscribers . . . .” This statement was materially false and misleading because it overstated the number of Adelphia basic cable subscribers by 43,000, as detailed above at Section V, C, 2.

g. **October 2001 Offering**

455. On October 24, 2001, Adelphia conducted an offering of $500 million in 10.25% Senior Notes and raised approximately $485.8 million in net proceeds after expenses (the “October 2001 Offering”). The October 2001 Offering was made pursuant to a registration statement and a supplemental prospectus filed with the SEC on Form S-3 on July 20, 2001 (the “July 2001 Registration Statement and Prospectus”), and a supplemental prospectus dated October 19, 2001 that was filed with the SEC on October 24, 2001 (the “October 2001 Prospectus”).

456. Credit Suisse, BMO Nesbitt, BNY, CIBC, Credit Lyonnais, Fleet, Mizuho International PLC, (“Mizuho”), Scotia Capital, Cowen, TD Securities and The Royal Bank of Scotland (“Royal Bank”) (collectively, the “October 2001 Offering Underwriters”) underwrote the October 2001 Offering. Credit Suisse was the Lead Underwriter for the offering.
457. Defendants John Rigas, Michael Rigas, Timothy Rigas, James Rigas, Venetis, Coyle, Metros, Gelber and Kailbourne signed the July 2001 Registration Statement and Prospectus.

458. The July 2001 Registration Statement also incorporated by reference “all of [Adelphia’s] future filings with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Act until this offering has been completed,” which included the October 2001 Prospectus, the November 2001 Prospectuses and the January 2002 Prospectuses.

459. Deloitte consented to being named as an expert in the October 2001 Prospectus as having audited and certified the consolidated financial statements of Adelphia and its subsidiaries as of December 31, 1999 and 2000, and for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, as incorporated by reference into the October 2001 Prospectus.

460. The October 2001 Prospectus incorporated by reference Adelphia’s Annual Report filed on Form 10-K for the year-ended December 31, 2000, as amended by Adelphia’s 10-K/A, and its quarterly reports filed on Form 10-Q for the quarters ended March 31, 2001 and June 30, 2001, which were materially false and misleading for the reasons described above at Section V, G, 3 (k-n).

461. The October 2001 Prospectus stated on page S-8 in its discussion of “Risk Factors” that Adelphia’s total indebtedness was $14.4 billion as of June 30, 2001, and that it undertook this debt to “purchase and to expand [its] cable systems and other operations and, to a lesser extent for investments and loans to [its] subsidiaries and other affiliates.” On page S-22, the October 2001 Prospectus stated that Adelphia’s actual capitalization was approximately $19.8 billion. Each of these statement were materially false and misleading because they excluded $1.2 billion of indebtedness for amounts borrowed by the Rigas Entities under the Co-
Borrowing Credit Facilities, as of June 30, 2001, for which Adelphia was jointly and severally liable, which omission resulted in an understatement of Adelphia’s total debt by that amount, as discussed above at Section V, B.

462. On page S-2, the October 2001 Prospectus stated that Adelphia’s subsidiaries and affiliates obtained a $2.03 billion revolving term credit facility on September 28, 2001. This statement was materially false and misleading because it failed to disclose that the Rigas Entities were able to borrow substantial amounts from this Co-Borrowing Credit Facility, and that Adelphia would be jointly and severally liable for the debt of the Rigas Entities, as detailed above at Section V, B.

463. The October 2001 Prospectus described the January 2001 Direct Placement and the April 2001 Direct Placement, which ensured a substantial infusion of cash into the Company from the Rigas Family Entities. This statement was materially false and misleading for the reasons set forth above at Section V, B.

464. On page S-6, the October 2001 Prospectus represented that, as of June 30, 2001, the “Notes [from the offering] would have been effectively subordinated to approximately $8.1 billion of indebtedness and redeemable preferred stock of Adelphia’s subsidiaries; and our total indebtedness excluding redeemable preferred stock would have been approximately $14.7 billion.” This statement was materially false and misleading because it omitted approximately $1.2 billion of senior debt that Adelphia had kept off its balance sheet by attributing the debt to various Rigas Family Entities, even though Adelphia was jointly and severally liable for the debt, as detailed above at Section V, B.

465. On page S-48, the October 2001 Prospectus stated that Adelphia is “in compliance with the terms of our credit facilities.” This statement was materially false and misleading in that it failed to disclose that, once the amounts borrowed by the Rigas Family
Entities under the Co-Borrowing Credit Facilities were included in the figures for Adelphia’s total consolidated debt, Adelphia was in breach of the restrictions on incurring additional indebtedness contained in its credit facilities with its bank lenders, thereby enabling those lenders to accelerate the amounts due, and in breach of the limitation on debt covenants in the Indentures for its prior issues of Senior Notes.

466. On page S-10, the October 2001 Prospectus represented that Adelphia’s total convertible preferred stock, common stock and other stockholders’ equity at June 30, 2001 was approximately $4.9 billion. This statement was materially false and misleading because it included hundreds of millions of dollars worth of equity issued to the Rigas Family Entities in the Direct Placements, which were sham transactions, as detailed above at Section V, B.

467. On page S-11, Adelphia represented that in the past it had been dependent on additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able both to refinance our debt and to obtain new debt . . . there can be no guarantee that we will be able to continue to do so.” This statement was materially false and misleading because it failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it misrepresented its financial condition by failing to disclose portions of its co-borrowing debt obligations, as described above at Section V, B.

468. On page S-17, the October 2001 Prospectus stated that “John J. Rigas and the other executive officers of Adelphia, including other members of the Rigas family, own other corporations and partnerships which are managed by us for a fee.” This statement was materially false and misleading for the reasons set forth above in Section V, C, 1.

469. On the same page, the October 2001 Prospectus stated that that there “are potential conflicts of interest between Adelphia and the Rigas family,” and that “[t]hese activities could present a conflict of interest with Adelphia . . .” This statement was materially false and
misleading because it failed to disclose that the Rigas Defendants had been engaged in a pattern of self-dealing, that included utilizing Adelphia’s funds to purchase Adelphia’s securities for their own personal benefit, in addition to other forms of self-dealing, as detailed above at Section V, C, 3.

470. On page S-2, the October 2001 Prospectus stated that as of June 2001 Adelphia “served approximately 5.8 million basic [cable] subscribers . . . .” This statement was materially false and misleading because it overstated the number of Adelphia subscribers by 70,000, as detailed above at Section V, C, 2.

h. November 2001 Offerings

471. On November 14, 2001, Adelphia conducted an offering of 12 million shares of 7.5% Series E Mandatory Convertible Stock, raising approximately $291 million net of underwriting fees of approximately $9 million (the “November 2001 Series E Offering”). The November 2001 Series E Offering was made pursuant to the July 2001 Registration Statement and Prospectus and a supplemental prospectus dated November 9, 2001, filed with the SEC on November 14, 2001 (the “November 2001 Series E Prospectus”).

472. On November 14, 2001, Adelphia also conducted a secondary offering of 30 million shares of Adelphia Class A common stock at $21.50 per share and raised approximately $616.2 million after having paid underwriter fees of approximately $28.8 million (the “November 2001 Class A Offering”). The November 2001 Class A offering was made pursuant to the July 2001 Registration Statement and Prospectus and a supplemental prospectus dated November 9, 2001, filed with the SEC on November 14, 2001 (the “November 2001 Class A Prospectus”).
473. Goldman, Banc of America, Morgan, SSB, Bear Stearns & Co., Inc., Wachovia Securities and J.P. Morgan (the “November 2001 Class A Underwriters”) underwrote the November 2001 Class A Offering.

474. The November 2001 Series E Prospectus and the November 2001 Class A Prospectus were substantially similar and are referred to herein collectively as the “November 2001 Prospectuses.”

475. Deloitte consented to being named an expert in the November 2001 Prospectuses as having audited the consolidated financial statements of Adelphia and its subsidiaries for the years ended December 31, 1999 and 2000, and for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000, as incorporated by reference into the November 2001 Prospectuses.

476. The November 2001 Prospectuses incorporated by reference Adelphia’s Annual Report on Form 10-K for the year ended December 31, 2000, as amended by its Form 10-K/A, and its quarterly reports on Forms 10-Q for the quarters ended March 31, 2001, June 30, 2001, and September 30, 2001, which were false and misleading, as detailed below at Section V, G, 3 (k-p).

477. The November 2001 Prospectuses stated in their discussion of “Risk Factors” that Adelphia’s total indebtedness was $14.8 billion as of September 30, 2001, and that it undertook this debt to “purchase and to expand [its] cable systems and other operations and, to a lesser extent for investments and loans to [its] subsidiaries and other affiliates.” Similarly, the November 2001 Prospectuses stated that Adelphia’s actual capitalization was approximately $20 billion. These statements were materially false and misleading because they excluded $1.8 billion of indebtedness for amounts borrowed by the Rigas Family Entities under the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable as of September
30, 2001, resulting in the understatement of Adelphia’s total debt by that amount, as discussed above at Section V, B.

478. The November 2001 Prospectuses indicated that Adelphia would receive a cash infusion of approximately $400 million from the April 2001 Direct Placement. These statements were materially false and misleading for the reasons set forth above at Section V, B.

479. The November 2001 Prospectuses stated that Adelphia had used the $423.5 million from the January 2001 Direct Placements to “repay subsidiary bank debt . . . .” These statements were materially false and misleading because the January 2001 Direct Placements generated no proceeds. Rather, to give the appearance of an infusion of cash, Adelphia transferred approximately $396 million of its debt to a Rigas Family Entity and removed the debt from its balance sheet, even though Adelphia remained jointly and severally liable for the debt, as detailed above at Section V, B.

480. The November 2001 Prospectuses represented that Adelphia’s total convertible preferred stock, common stock and other stockholders’ equity at September 30, 2001 was approximately $4.7 billion. This statement was materially false and misleading because it included hundreds of millions of dollars worth of equity issued to the Rigas Family Entities in the Direct Placements, which were sham transactions, as detailed above at Section V, B.

481. The November 2001 Prospectuses represented that Adelphia had been dependent on additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able to both to refinance our debt and to obtain new debt, there can be no guarantee that we will be able to continue to do so in the future . . . .” These statements were materially false and misleading because they failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it had misrepresented its financial condition by failing to disclose portions of its co-borrowing debt obligations, as detailed above at Section V, B.
482. The November 2001 Prospectuses stated that “John J. Rigas and the other executive officers of Adelphia, including other members of the Rigas family, own other corporations and partnerships which are managed by us for a fee.” This statement is false and misleading because beginning in or around October 2000, at the end of each quarter Timothy Rigas and other Adelphia employees caused Adelphia to book as revenue “management fees” from certain Rigas Entities which fees had no economic or business purpose, and were conceived and memorialized after the end of the period in which they were booked on Adelphia’s books and records, among other reasons, for the purpose of artificially inflating Adelphia’s publicly-disclosed EBITDA, as detailed above at Section V, C, 1.

483. The November 2001 Prospectuses stated that there “are potential conflicts of interest between Adelphia and the Rigas family,” and that “[t]hese activities could present a conflict of interest with Adelphia . . . .” These statements were materially false and misleading because they failed to disclose that the Rigas Defendants had been engaged in a pattern of self-dealing, utilizing Adelphia funds for their own personal benefit in a manner that conflicted directly with Adelphia’s business interests, as discussed above at Section V, C, 3.

484. The November 2001 Prospectuses stated that, as of September 31, 2001, Adelphia “served approximately 5.8 million basic [cable] subscribers . . . .” These statements were materially false and misleading because, as detailed above at Section V, C, 2, they overstated the number of Adelphia subscribers as of September 2001 by 136,000.

i. January 2002 Offering

485. On January 17, 2002, Adelphia conducted an offering of 20,000,000 shares of 7.5% Series F Mandatory Convertible Preferred Stock, raising approximately $485 million net of underwriting fees of approximately $15 million (the “January 2002 Series F Offering”). The January 2002 Series F Offering was made pursuant to the July 2001 Registration Statement and

486. On January 17, 2002, Adelphia also conducted a secondary offering of 40 million shares of Adelphia Class A common stock at $25.50 per share, raising approximately $1.0 billion net of underwriting fees of approximately $12 million (the “January 2002 Class A Offering”). The January 2002 Class A offering was made pursuant to the July 2001 Registration Statement and Prospectus and a supplemental prospectus dated January 15, 2002, filed with the SEC on January 17, 2002 (the “January 2002 Class A Prospectus”).


488. The January 2002 Series F Prospectus and the January 2002 Class A Prospectus were substantially similar and are at times referred to hereinafter as the “January 2002 Prospectuses”.


491. The January 2002 Prospectuses stated in the discussion of “Risk Factors” that Adelphia’s total indebtedness was $14.8 billion as of September 30, 2001, and that it undertook this debt to ‘purchase and to expand [its] cable systems and other operations and, to a lesser extent for investments and loans to [its] subsidiaries and other affiliates.” The January 2001 Prospectuses also stated that Adelphia’s actual capitalization was approximately $20.0 billion. These statements were materially false and misleading because they excluded $1.8 billion of indebtedness for amounts borrowed by the Rigas Family Entities under the Co-Borrowing Credit Facilities, for which Adelphia was jointly and severally liable as of September 30, 2001, resulting in the understatement of Adelphia’s total debt by that amount, as discussed above at Section V, B.

492. The January 2002 Prospectuses indicated that Adelphia would receive a cash infusion of approximately $400 million from the April 2001 Direct Placement. These statements were materially false and misleading for the reasons set forth above at Section V, B.

493. The January 2002 Prospectuses stated that Adelphia had used the $423.5 million from the January 2001 Direct Placements to “repay subsidiary bank debt . . . .” These statements were materially false and misleading because the January 2001 Direct Placements generated no proceeds. Rather, to give the appearance of an infusion of cash, Adelphia transferred approximately $396 million of its debt to a Rigas Family Entity and removed the debt from its balance sheet, even though Adelphia remained jointly and severally liable for the debt, as detailed above at Section V, B.

494. The January 2002 Prospectus represented that Adelphia’s total convertible preferred stock, common stock and other stockholders’ equity at September 30, 2001 was approximately $4.7 billion. This statement was materially false and misleading because it
included hundreds of millions of dollars worth of equity issued to the Rigas Family Entities in the Direct Placements, which were sham transactions, as detailed above at Section V, B.

495. The January 2002 Prospectuses represented that Adelphia had been dependent on additional borrowings to meet its liquidity requirements, and that “[a]lthough in the past we have been able to both to refinance our debt and to obtain new debt, there can be no guarantee that we will be able to continue to do so in the future . . . .” These statements were materially false and misleading because they failed to disclose that the only reason Adelphia was able to obtain additional borrowings was because it had misrepresented its financial condition by failing to disclose portions of its co-borrowing debt obligations, as detailed above at Section V, B.

496. The January 2002 Prospectuses stated that “John J. Rigas and the other executive officers of Adelphia, including other members of the Rigas family, own other corporations and partnerships which are managed by us for a fee.” These statements were false and misleading because beginning in or around October 2000, Timothy Rigas and other Adelphia employees caused Adelphia to book as revenue “management fees” from certain Rigas Family Entities which fees had no economic or business purpose, and were conceived and memorialized after the end of the period in which they were booked on Adelphia’s books and records, among other reasons, for the purpose of artificially inflating Adelphia’s publicly-disclosed EBITDA, as detailed above at Section V, C, 1.

497. The January 2002 Prospectuses stated that there “are potential conflicts of interest between Adelphia and the Rigas family,” and that “[t]hese activities could present a conflict of interest with Adelphia . . . .” These statements were materially false and misleading because they failed to disclose that the Rigas Defendants had been engaged in a pattern of self-dealing, utilizing Adelphia funds for their own personal benefit in a manner that conflicted directly with Adelphia’s business interests, as discussed above at Section V, C, 3.
498. The January 2002 Prospectuses stated that as of September 30, 2001 Adelphia “served approximately 5.8 million basic [cable] subscribers . . . .” This statement was materially false and misleading because it overstated the number of Adelphia subscribers as of September 30, 2001 by 136,000, as detailed above at Section V, C, 2.

3. Materially False and Misleading Statements Contained in Adelphia’s Press Releases, SEC Filings, and Other Public Statements

a. Second Quarter 1999

499. On August 16, 1999, defendants issued a press release reporting the Company’s financial results for the second quarter ended June 30, 1999 (the “August 16th Press Release”). In the August 16th Press Release, defendants reported total debt of $3.8 billion in addition to “record levels” of revenue and growth in cash flow, EBITDA, and basic cable subscribers for the quarter ended June 30, 1999. The August 16th Press Release also announced cash of $802.7 million, total assets of $4.8 billion, and net interest expense of $59.7 million for the quarter. In a footnote to the August 16th Press Release, defendants noted that “pro forma results include the application of net proceeds of approximately $375 million from the intended sale by Adelphia of Class B common stock to Highland Holdings.”

500. On August 16, 1999, the Company filed its Quarterly Report on Form 10-Q with the SEC for the period ended June 30, 1999 (“Second Quarter 1999 10-Q”), reporting essentially the same financial results announced in the August 16th Press Release. The Second Quarter 1999 10-Q also reported total quarterly consolidated liabilities of $4.2 billion, including the $3.8 billion in debt reported in the August 16th Press Release. The Second Quarter 1999 10-Q further reported:

The accompanying unaudited condensed consolidated financial statements of Adelphia Communications Corporation and its majority owned subsidiaries (“Adelphia” or the “Company”) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission.
In the opinion of management, all adjustments, consisting of only normal recurring accruals necessary for a fair presentation of the financial position of Adelphia at June 30, 1999, and the results of operations for the three and six months ended June 30, 1998 and 1999, have been included.

501. Defendant Timothy Rigas signed the Second Quarter 1999 10-Q.

502. In reaction to the August 16th Press Release and Second Quarter 1999 10-Q, the Company’s stock price rose 3.6% from $57.75 per share on August 13, 1999 to a closing price of $59.86 on August 16, 1999. In addition, on August 17, 1999, analysts at Deutsche Banc Alex. Brown rated the Company a “Strong Buy” with a twelve-month target price of $95 per share.

503. Defendants’ statements in the August 16th Press Release and Second Quarter 1999 10-Q were materially false and misleading for the reasons detailed in Section V, G, 1 (a, h-i) above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $250 million; (ii) overstated cash; (iii) overstated total assets; and (iv) understated interest expense. Defendants’ statements in the Second Quarter 1999 10-Q were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods presented.

b. Third Quarter 1999

504. On November 15, 1999, defendants issued a press release reporting the Company’s financial results for the third quarter ended September 30, 1999 (“November 15th Press Release”). In addition to reporting a “record level” of revenues and growth in cash flow, basic cable subscribers and EBITDA, defendants reported total consolidated debt of $3.9 billion and cash of $893.2 million for the quarter ended September 30, 1999. The November 15th Press
Release quoted defendant John Rigas as stating, “we are pleased to report that the combined cable operations have continued to achieve impressive results during this busy period.” The November 15th Press Release further noted in a footnote, “the pro forma results include the application of net proceeds of . . . $512.5 million from the intended sales by Adelphia of Class B common stock to Highland Holdings.”

505. On November 15, 1999, the Company filed its Quarterly Report on Form 10-Q with the SEC for the period ended September 30, 1999 (“Third Quarter 1999 10-Q”), reporting essentially the same financial results announced in the November 15th Press Release. The Third Quarter 1999 10-Q also reported total liabilities of $4.3 billion, including the $3.9 billion in debt announced in the November 15th Press Release as of September 30, 1999. The Third Quarter 1999 10-Q further reported total assets of $4.9 billion and net interest expense of $60 million for the quarter. The Third Quarter 1999 10-Q also stated:

The accompanying unaudited condensed consolidated financial statements of Adelphia Communications Corporation and its majority owned subsidiaries (“Adelphia” or the “Company”) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission.

In the opinion of management, all adjustments, consisting of only normal recurring accruals necessary for a fair presentation of the financial position of Adelphia at September 30, 1999, and the results of operations for the three and nine months ended September 30, 1998 and 1999, have been included.

The Third Quarter 1999 10-Q further announced:

On October 1, 1999, Adelphia entered into a stock purchase agreement with Highland Holdings in which Adelphia agreed to sell to Highland Holdings and Highland Holdings agreed to purchase $137,500[.000] of Adelphia’s Class B common stock. The purchase price for the Class B common stock will be $55.00 per share, which is equal to the public offering price less the underwriting discount in the October 6, 1999 public offering of Class A common stock described below, plus an interest factor. Closing under this stock purchase agreement is to occur by July 2, 2000 as determined by Highland Holdings at its discretion.

Defendant Timothy Rigas signed the Third Quarter 1999 10-Q.
506. In reaction to the November 15th Press Release and Third Quarter 1999 10-Q, the Company’s stock price rose 3.4% from $56.50 per share on November 12, 1999 to a closing price of $58.43 per share on November 15, 1999. In addition, on November 16, 1999, Banc of America reiterated its “Strong Buy” rating for the Company.

507. Defendants’ statements in the November 15th Press Release and Third Quarter 1999 10-Q were materially false and misleading for the reasons detailed in Section V, G, 1 (a, h-i) above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (1) understated the Company’s total debt and liabilities by at least $250 million; (ii) overstated cash; (iii) overstated total assets; and (iv) understated interest expense. Defendants’ statements in the Third Quarter 1999 10-Q were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods presented.

c. Road Show Presentation

508. In late 1999, defendants participated in a road show presentation to analysts and investors. At the presentation, defendants displayed an overhead slide containing a pie chart reporting that approximately 50% of the Company’s cable plant had been rebuilt. Thereafter, defendants presented similar information regarding the progress of the Company’s rebuilding efforts to analysts and investors in various conference calls, presentations, and press releases until at least the last quarter of 2001.

509. Defendants’ statements in the road show presentation in late 1999 and thereafter were materially false and misleading for the reasons detailed in Section V, G, 1 (f) above.
Specifically, the statements were materially false and misleading because defendants knowingly or recklessly overstated the percentage of the Company’s cable plants that had been rebuilt by approximately 15%.

d. **Fourth Quarter and Year-End 1999**

510. On March 30, 2000, defendants issued a press release reporting the Company’s financial results for the fourth quarter and year ended December 31, 1999 (“March 30th Press Release”). In the March 30th Press Release, defendants reported a “record level” of revenues of $635.3 million and EBITDA of $267.7 million for the fourth quarter. For the year ended December 31, 1999, defendants announced $1.3 billion in revenues. Defendants also reported a net loss of $128 million applicable to common shareholders for the fourth quarter, compared with $44.5 million for the same period the prior year. Defendants further announced that basic cable subscribers grew 1.7% to 4,990,092 during the year ended December 31, 1999. Defendants also reported total unconsolidated debt of $8.4 billion and cash of $184.7 million for the year end. In a footnote to the March 30th Press Release, defendants noted, “pro forma results include the application of net proceeds of $512.5 million from the sales by Adelphia of Class B common stock to the Rigas family.” In the March 30th Press Release, defendant Timothy Rigas touted the Company’s performance, stating “We ended the year with complete success” and noted the Company’s “considerable operational success.”

511. On March 30, 2000, the Company filed its 1999 10-K with the SEC. The 1999 10-K reported essentially the same financial results announced in the March 30th Press Release. The 1999 10-K further reported $12.4 billion in total liabilities, which included $9.3 billion in consolidated debt. The 1999 10-K also reported total stockholders’ equity of $3.7 billion; capital expenditures of $819.2 million; selling, general, and administrative (“SG&A”) expenses of $340.6 million; net loss of $240.5 million; operating expenses of $773.2 million; net interest
expense of $359.6 million; cash flow from financing activities of $3 billion; and total assets of $17.3 billion (including $186.9 million in cash and cash equivalents). The 1999 10-K further stated:

On April 9, 1999 and October 1, 1999, Adelphia entered into stock purchase agreements with Highland Holdings, a general partnership controlled by the Rigas Family, pursuant to which Adelphia agreed to sell to Highland Holdings and Highland Holdings agreed to purchase $375,000,000 and $137,500,000 of Adelphia’s Class B common stock, respectively. Closing under the April 9, 1999 agreement occurred on January 21, 2000. The October 1, 1999 agreement is expected to close by July 2, 2000.

512. In a footnote in the 1999 10-K reporting $6.5 billion in total subsidiary debt, defendants disclosed that:

Certain subsidiaries of Adelphia are co-borrowers with Managed Partnerships under credit facilities for borrowings of up to $1,025,000,000. Each of the co-borrowers is liable for all borrowings under the credit agreements, although the lenders have no recourse against Adelphia other than against Adelphia’s interest in such subsidiaries.

513. The 1999 10-K also contained the following representation by defendants:

Management believes the Company is in compliance with the financial covenants and related financial ratio requirements contained in its various credit agreements.

514. Additionally, the 1999 10-K contained the following unqualified audit opinion from Deloitte, dated March 29, 2000:

We have audited the accompanying consolidated balance sheets of Adelphia Communications Corporation and subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of operations, of convertible preferred stock, common stock and other stockholders’ equity (deficiency), and of cash flows for the year ended March 31, 1998, the nine months ended December 31, 1998 and the year ended December 31, 1999 . . .

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement . . . We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Adelphia Communications Corporation
and subsidiaries at December 31, 1998 and 1999, and the results of their operations and their cash flows for the year ended March 31, 1998, the nine months ended December 31, 1998 and the year ended December 31, 1999 in conformity with generally accepted accounting principles. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Defendants John Rigas, Timothy Rigas, Michael Rigas, James Rigas, Venetis, Coyle, Metros, Gelber, and Kailbourne signed the 1999 10-K.

515. In reaction to the March 30th Press Release and 1999 10-K, analysts at SG Cowen reiterated their “Strong Buy” rating with a target price of $85 per share for the Company.

516. Defendants’ statements in the March 30th Press Release and 1999 10-K were materially false and misleading for the reasons set forth in Section V, G, 1, above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $250 million; (ii) overstated stockholders’ equity by hundreds of millions of dollars; (iii) overstated revenue; (iv) overstated EBITDA; (v) overstated capital expenditures; (vi) understated operating expenses; (vii) understated SG&A expenses by hundreds of millions of dollars; (viii) understated net losses; (ix) understated interest expenses by hundreds of millions of dollars; (x) overstated cash; (xi) overstated cash flow from financing and investing activities by several hundred million dollars; (xii) overstated accounts receivable; and (xiii) overstated total assets. Defendants’ statements in the 1999 10-K were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-K and Article 2 of the SEC Regulation S-X, which require that the statement be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of year-end results.
e. **First Quarter 2000**

517. On May 15, 2000, defendants issued a press release reporting the Company’s financial results for the first quarter ended March 31, 2000 (“May 15th Press Release”). In addition to reporting “record” revenues and EBITDA growth for the quarter, the May 15th Press Release reported that basic cable subscribers grew 1.6% to 5,003,517 during the twelve-month period ended March 31, 2000 and a net loss applicable to common shareholders of $115.9 million for the quarter ended March 31, 2000. Defendants also reported total unconsolidated debt of $8.5 billion and total cash of $159.3 million for the quarter ended March 31, 2000. In a footnote in the May 15th Press Release, defendants noted, “pro forma results include the application of net proceeds of $137.5 million from the sales by Adelphia of Class B common stock to the Rigas Family.” Defendant Timothy Rigas was quoted in the May 15th Press Release as stating:

> We were very pleased with the first quarter results from both our cable and telephone operations. On the cable side, the first quarter saw continuing success with our new service launches and we are on target to achieve our expected new service penetration levels for the remainder of the year . . . Our overall results in these markets have been particularly impressive. In addition to the direct revenue gains from the new services, we also achieved 3% annualized basic subscriber growth . . . Combining this success [of Adelphia Business Solutions] with that of the cable operations allowed Adelphia to report nearly 16% revenue growth compared with last year. As Adelphia Business Solutions improves its operating margins, it will also begin contributing strongly to Adelphia’s EBITDA growth.

518. On May 15, 2000, the Company filed its Quarterly Report on Form 10-Q with the SEC for the period ended March 31, 2000 (“First Quarter 2000 10-Q”), reporting essentially the same financial results announced in the May 15th Press Release. In addition to announcing $9.4 billion in total consolidated debt, the First Quarter 2000 10-Q reported $12.5 billion in total liabilities and $5.1 billion in shareholders’ equity. The First Quarter 2000 10-Q also reported $17.6 billion in total assets and $198.4 million in net interest expense for the quarter ended March 31, 2000. The First Quarter 2000 10-Q further stated:
The accompanying unaudited condensed consolidated financial statements of Adelphia Communications Corporation and its majority owned subsidiaries (“Adelphia” or the “Company”) have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission.

In the opinion of management, all adjustments, consisting of only normal recurring accruals necessary for a fair presentation of the financial position of Adelphia at March 31, 2000, and the results of operations for the three months ended March 31, 1999 and 2000, have been included.

519. The First Quarter 2000 10-Q also contained the following announcement regarding the Company’s direct placement with Highland 2000:

On January 21, 2000, Adelphia closed the previously announced direct placement of 5,901,522 shares of Adelphia Class B common stock with Highland 2000, L.P., a limited partnership owned by the Rigas family. Adelphia used a portion of the proceeds of approximately $375,000,000 from this direct placement to repay borrowings under revolving credit facilities of its subsidiaries, which may be reborrowed and used for general corporate purposes.

520. Defendant Timothy Rigas signed the First Quarter 2000 10-Q.


522. Defendants’ statements in the May 15th Press Release and First Quarter 2000 10-Q were materially false and misleading for the reasons detailed in Section V, G, 1 (a, d-g) above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $618 million; (ii) overstated shareholders’ equity by $368 million; (iii) overstated the number of basic cable subscribers by 15,000; (iv) overstated cash; (v) overstated total assets; and (vi) understated interest expense. Defendants’ statements in the First Quarter 2000 10-Q were also materially false and misleading because the financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of the SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial
statements did not reflect all adjustments of a normal recurring nature necessary for a fair
statement of results for the interim periods.

f. Second Quarter 2000

523. On August 14, 2000, defendants issued a press release reporting the Company’s
financial results for the second quarter ended June 30, 2000 (“August 14th Press Release”). In
the August 14th Press Release, defendants announced “record” revenues of $704.1 million and
EBITDA of $273.2 million for the quarter ended June 30, 2000, as well as 1.4% growth in basic
cable subscribers to 5,145,917 during the twelve months ended June 30, 2000. The August 14th
Press Release also announced a net loss of $85.3 million applicable to common shareholders for
the quarter. The August 14th Press Release further reported total unconsolidated debt of $9
billion and cash of $138.5 million for the quarter. In a footnote to the August 14th Press Release,
defendants noted “pro forma results include the application of net proceeds of $145 million from
the sale by Adelphia of Class B common stock to the Rigas Family.” Defendant Timothy Rigas
was quoted in the August 14th Press Release as stating:

We were pleased with our overall financial results during the second quarter
especially with our pro forma consolidated revenue growth of 16.5%, which we
believe places us among the leaders in our industry . . . In the increasingly
competitive video market we continue to have success, as demonstrated by our
continued growth in basic cable subscribers during the second quarter . . .
Combining this success [of Adelphia Business Solutions] with that of the cable
operations allowed Adelphia to report over 16% revenue growth compared with
last year. As Adelphia Business Solutions improves its operating margins, it will
also begin contributing strongly to Adelphia’s EBITDA growth.

524. On August 14, 2000, the Company filed its Quarterly Report on Form 10-Q with
the SEC for the period ended June 30, 2000 (“Second Quarter 2000 10-Q”), reporting essentially
the same financial results announced in the August 14th Press Release. The Second Quarter 2000
10-Q announced $13 billion in total liabilities, including $10 billion in total consolidated debt.
The Second Quarter 2000 10-Q also reported shareholders’ equity of $5 billion, net interest
expense of $207 million, and total assets of $18 billion for the quarter. The Second Quarter 10-
Q further stated:

The accompanying unaudited condensed consolidated financial statements of
Adelphia Communications Corporation and its majority owned subsidiaries
(“Adelphia” or the “Company”) have been prepared in accordance with the rules
and regulations of the Securities and Exchange Commission.

In the opinion of management, all adjustments, consisting of only normal
recurring accruals necessary for a fair presentation of the financial position of
Adelphia at June 30, 2000, and the results of operations for the three and six
months ended June 30, 1999 and 2000, have been included.

The Second Quarter 10-Q further stated:

On January 21, 2000, Adelphia closed the previously announced direct placement
of 5,901,522 shares of Adelphia Class B common stock with Highland 2000, L.P.,
a limited partnership owned by the Rigas family. Adelphia used a portion of the
proceeds of approximately $375,000,000 from this direct placement to repay
borrowings under revolving credit facilities of its subsidiaries, which may be
reborrowed and used for general corporate purposes.

*****

On July 3, 2000, Adelphia closed the previously announced direct placement of
2,500,000 shares of Adelphia Class B common stock with Highland 2000, L.P., a
limited partnership owned by the Rigas family. Adelphia used a portion of the
proceeds of approximately $145,000,000 from this direct placement to repay
borrowings under revolving credit facilities of its subsidiaries, which may be
reborrowed and used for general corporate purposes.

525. Defendant Timothy Rigas signed the Second Quarter 2000 10-Q.

526. In reaction to the August 14th Press Release and Second Quarter 2000 10-Q, the
Company’s stock price rose 2.9% from $30.49 per share on August 14, 2000 to a closing price of

527. Defendants’ statements in the August 14th Press Release and Second Quarter 2000
10-Q were materially false and misleading for the reasons detailed in Section V, G, 1 above.
Specifically, these statements were materially false and misleading because defendants
knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $397
million; (ii) overstated shareholders’ equity by $368 million; (iii) overstated EBITDA by at least $7 million; (iv) overstated the number of basic cable subscribers by 15,000; (v) overstated cash; (vi) overstated total assets; and (vii) understated interest expense. Defendants’ statements in the Second Quarter 2000 10-Q were also materially false and misleading because the financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of the SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods.

g. August 15, 2000 Conference Call

528. On or about August 15, 2000, defendant Timothy Rigas reported in a conference call that approximately 60% of the Company’s cable systems had been rebuilt (“August 15th Conference Call”).

529. Defendant Timothy Rigas’ statements in the August 15th Conference Call were materially false and misleading for the reasons detailed in Section V, G, 1 (f) above. Specifically, the statements were materially false and misleading because defendant Timothy Rigas knowingly or recklessly overstated the percentage of the Company’s cable systems that had been rebuilt by approximately 10%.

h. Third Quarter 2000

530. On November 14, 2000, defendants issued a press release reporting the Company’s financial results for the third quarter ended September 30, 2000 (“November 14th Press Release”). In the November 14th Press Release, Defendants announced “record” revenues of $727.9 million and EBITDA of $280.3 million for the quarter ended September 30, 2000. Additionally, Defendants reported a 1.1% growth in basic cable subscribers, which totaled 5,190,507. Defendants also reported total unconsolidated debt of $9.8 billion, cash of $143.8
million, and net loss applicable to common shareholders of $145.3 million for the quarter.

Defendant Timothy Rigas was quoted in the November 14th Press Release as stating:

The third quarter demonstrated continued success in both our cable and telephone subsidiaries. The combined financial results of our cable operations and Adelphia Business Solutions’ original markets, were impressive. Together, these operations delivered pro forma revenue and EBITDA growth of 12.1% and 13.0%, respectively.

531. On November 14, 2000, the Company filed its Quarterly Report on Form 10-Q with the SEC for the period ended September 30, 2000 (“Third Quarter 2000 10-Q”), reporting essentially the same financial results announced in the November 14th Press Release. The Third Quarter 2000 10-Q reported $9.8 billion in total unconsolidated debt and $11 billion in total consolidated debt. The Third Quarter 2000 10-Q further reported total liabilities of $14.1 billion, shareholders’ equity of $5 billion, total assets of $19 billion, and net interest expense of $228.7 million for the quarter ended September 30, 2000. The Third Quarter 2000 10-Q also stated:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X. Such principles are applied on a basis consistent with those reflected in the December 31, 1999 Form 10-K Report of the Company filed with the Securities and Exchange Commission. The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and related notes contained in the Company’s 1999 Annual Report on Form 10-K. In the opinion of management, the unaudited condensed consolidated financial statements contained herein include all adjustments (consisting of only recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented. These interim results of operations are not necessarily indicative of results for future periods.

532. The Third Quarter 2000 10-Q further announced:

On January 21, 2000, Adelphia closed the previously announced direct placement of 5,901,522 shares of Adelphia Class B common stock with Highland 2000, L.P., a limited partnership owned by the Rigas family. Adelphia used a portion of the proceeds of approximately $375,000,[000] from this direct placement to repay borrowings under revolving credit facilities of its subsidiaries, which may be reborrowed and used for general corporate purposes.
On July 3, 2000, Adelphia closed the previously announced direct placement of 2,500,000 shares of Adelphia Class B common stock with Highland 2000, L.P., a limited partnership owned by the Rigas family. Adelphia used a portion of the proceeds of approximately $145,000,000 from this direct placement to repay borrowings under revolving credit facilities of its subsidiaries, which may be reborrowed and used for general corporate purposes.

Defendant Timothy Rigas signed the Third Quarter 2000 10-Q.

533. Defendants’ statements in the November 14th Press Release and Third Quarter 2000 10-Q were materially false and misleading for the reasons set forth in Section V, G, 1 above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $1.14 billion; (ii) overstated shareholder’s equity by $513 million; (iii) overstated EBITDA by at least $12.7 million; (iv) overstated the number of basic cable subscribers by 43,000; (v) overstated cash; (vi) overstated total assets; and (vii) understated interest expense. Defendants’ statements in the Third Quarter 2000 10-Q were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of the SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods.

i. November 15, 2000 Conference Call

534. On or about November 15, 2000, defendant Timothy Rigas reported in a conference call that approximately 60% of the Company’s cable systems were “two-way” capable (“November 15th Conference Call”).

535. Defendant Timothy Rigas’ statements in the November 15th Conference Call were materially false and misleading for the reasons detailed in Section V, G, 1 (f) above.
Specifically, these statements were materially false and misleading because defendant Timothy Rigas knowingly or recklessly overstated the percentage of the Company’s cable systems that were “two-way” capable by approximately 10% to 15%.

j. January 18, 2001 Press Release

536. On January 18, 2001, defendants issued a press release announcing an agreement between the Company and the Rigas Defendants, pursuant to which the Rigas Defendants agreed to purchase $167 million in 6% Notes and 5,819,367 shares of Class B Common Stock of the Company at $42.96 per share (“January 18th Press Release”). Defendants reported that “[t]he closings on these Rigas family purchases will raise total proceeds of approximately $417 million.”

537. Defendants’ statements reported in the January 18th Press Release were materially false and misleading for the reasons detailed in Section V, G, 1 (a, h) above. Specifically, these statements were materially false and misleading because the Rigas Defendants’ purchases did not increase the Company’s equity. In fact, the Company never received any cash from the Rigas Defendants or the Rigas Family Entities and the Rigas Defendants had neither the intention nor financial means to pay the Company for the securities purchases.

k. Fourth Quarter and Year-End 2000

538. On April 2, 2001, defendants issued a press release reporting the Company’s financial results for the fourth quarter and year ended December 31, 2000 (“April 2nd Press Release”). In the April 2nd Press Release, defendants reported “record” revenues of $804.6 million for the quarter ended December 31, 2000, as compared with $635.3 million for the same quarter in 1999. Defendants further announced that EBITDA grew to $275.9 million compared with $267.7 million for the quarter ended December 31, 1999, and a net loss of $602.5 million applicable to common shareholders for the year ended December 31, 2000. Additionally,
defendants reported basic cable subscribers grew 1.3% to 5,547,690 and total unconsolidated debt of $11.2 billion for the year ended December 31, 2000. Defendant Timothy Rigas was quoted in the April 2nd Press Release as stating:

The year 2000 demonstrated continued success in both our cable and telephone subsidiaries. The combined financial results of our cable operations and Adelphia Business Solutions’ original markets were impressive. Together these operations delivered pro forma revenue and EBITDA growth of 12.5% and 13.9%, respectively.

539. On April 2, 2001, the Company filed its 2000 10-K with the SEC reporting essentially the same financial results announced in the April 2nd Press Release. The 2000 10-K reported total liabilities of $16.3 billion, including $12.6 billion in total consolidated debt. The 2000 10-K also reported: total stockholders’ equity of approximately $5.2 billion; capital expenditures of $2.2 billion; SG&A expenses of $749.6 million; interest expense of $922.9 million; revenues of $2.9 billion; operating expenses of $1.8 billion; total assets of $21.5 billion (including $300.3 million in investments; $6.1 billion in property, plant, and equipment; and $124.6 million in cash and cash equivalents); and net cash from financing activities of $3.5 billion.

540. In a footnote accompanying the reported $9.2 billion in total subsidiary debt in the 2000 10-K, defendants stated:

Certain subsidiaries of Adelphia are co-borrowers with Managed Entities under credit facilities for borrowings of up to $3,751,250[.000]. Each of the co-borrowers is liable for all borrowings under the credit agreements, and may borrow up to the entire amount of the available credit under the facility. The lenders have no recourse against Adelphia other than against Adelphia’s interest in such subsidiaries.

541. Moreover, with respect to financing transactions, the 2000 10-K reported the following:

On January 21, 2000, Adelphia closed the previously announced direct placement of 5,901,522 shares of Adelphia Class B common stock with Highland 2000, L.P., a limited partnership owned by the Rigas family. Adelphia used a portion of the
proceeds of approximately $375,000[.000] from this direct placement to repay borrowings under revolving credit facilities of its subsidiaries, which may be reborrowed and used for general corporate purposes.

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On July 3, 2000, Adelphia closed the previously announced direct placement of 2,500,000 shares of Adelphia Class B common stock with Highland 2000, L.P., a limited partnership owned by the Rigas family. Adelphia used a portion of the proceeds of approximately $145,000[,000] from this direct placement to repay borrowings under revolving credit facilities of its subsidiaries, which may be reborrowed and used for general corporate purposes.

542. The 2000 10-K also contained the following representation by defendants:

Management believes the Company is in compliance with the financial covenants and related financial ratio requirements contained in its various credit agreements.

543. Additionally, the 2000 10-K contained the following unqualified audit opinion of Deloitte, dated March 29, 2001:

We have audited the accompanying consolidated balance sheets of Adelphia Communications Corporation and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of operations and comprehensive income (loss), of convertible preferred stock, common stock and other stockholders’ equity (deficiency), and of cash flows for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000 . . .

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement . . . We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Adelphia Communications Corporation and subsidiaries at December 31, 1999 and 2000, and the results of their operations and their cash flows for the nine months ended December 31, 1998 and the years ended December 31, 1999 and 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly in all material respects the information set forth therein.

Defendants John Rigas, Timothy Rigas, Michael Rigas, James Rigas, Venetis, Coyle, Metros, Gelber, and Kailbourne signed the 2000 10-K.
544. In reaction to the April 2\textsuperscript{nd} Press Release and 2000 10-K, analysts at First Union Securities Inc. reiterated their “Buy” rating of the Company on April 6, 2001, while analysts at Ladenburg Thalmann & Co. reiterated their “Strong Buy” rating on April 10, 2001.

545. Defendants’ statements in the April 2\textsuperscript{nd} Press Release and 2000 10-K were materially false and misleading for the reasons detailed in Section V, G, 1, above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $1.18 billion; (ii) overstated EBITDA for the fourth quarter by at least $21.6 million; (iii) overstated EBITDA for the year-end December 31, 2000 by at least $160 million; (iv) overstated stockholders’ equity by $513 million; (v) overstated revenues; (vi) overstated capital expenditures; (vii) understated SG&A expenses by hundreds of millions of dollars; (viii) understated interest expense by hundreds of millions of dollars; (ix) understated net losses; (x) overstated the number of basic cable subscribers by 43,000; (xi) understated operating expenses; (xii) overstated investments; (xiii) overstated property, plant, and equipment; (xiv) overstated cash; (xv) overstated cash flow from financing, operating, and investment activities; (xvi) overstated accounts receivable; and (xvii) overstated total assets. Defendants’ statements in the 2000 10-K were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-K and Article 2 of the SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of year-end results.
I. April 20, 2001 Press Release

546. On April 20, 2001, defendants issued a press release ("April 20th Press Release") announcing an agreement between the Company and the Rigas Defendants, pursuant to which the Rigas Defendants agreed to purchase $400 million in of Adelphia’s 3.25% Notes.

547. As detailed in Section V, G, 1 (a, h) above, defendants’ statements in the April 20th Press Release were materially false and misleading because they implied that the Rigas Defendants’ purchases would infuse cash into the Company when, in reality, the Company never received any cash from the Rigas Defendants and the Rigas Defendants had neither the intention nor the financial means to pay the Company for the securities.

m. First Quarter 2001

548. On May 14, 2001, defendants issued a press release reporting the Company’s financial results for the first quarter ended March 31, 2001 ("May 14th Press Release"). In the May 14th Press Release, defendants reported “record” revenues of $838.2 million and EBITDA of $315.6 million for the quarter ended March 31, 2001. Defendants also announced that basic cable subscribers grew 1.3% to 5,723,315 for the twelve months ended March 31, 2001. Defendants further reported total unconsolidated debt of $12.5 billion and cash of $100.5 million as of March 31, 2001. Additionally, in two separate footnotes in the May 14th Press Release, defendants stated, “pro forma results include the application of net proceeds of approximately $250 million from the sale by Adelphia of Class B Common Stock to the Rigas Family.”

Defendant Timothy Rigas was quoted in the May 14th Press Release as stating:

I am also very pleased to report a dramatic improvement in the EBITDA contribution from our subsidiary, Adelphia Business Solutions. We believe that the March 31, 2001 quarter marks an important inflection point, as it was the first time that Adelphia Business Solutions contributed positively to Adelphia’s consolidated EBITDA growth rate. The improvements represented 35% of Adelphia’s consolidated revenue growth of 13% and 30% of its consolidated EBITDA growth of 10%.
On May 15, 2001, the Company filed with the SEC its Quarterly Report on Form 10-Q for the period ended March 31, 2001 (“First Quarter 2001 10-Q”), reporting essentially the same financial results announced in the May 14th Press Release. The First Quarter 2001 10-Q reported $13.7 billion in total consolidated debt and total liabilities of $17.3 billion for the quarter ended March 31, 2001. The First Quarter 2001 10-Q also reported stockholders’ equity of $6.3 billion, total assets of $23.6 billion, and net interest expense of $291.6 million for the quarter. The First Quarter 2001 10-Q further noted:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X. Such principles are applied on a basis consistent with those reflected in the December 31, 2000 Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission. The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and related notes contained in the December 31, 2000 Annual Report on Form 10-K. In the opinion of management, the unaudited condensed consolidated financial statements contained herein include all adjustments (consisting of only recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented.

On January 17, 2001, the Company entered into a stock purchase agreement (“January 2001 Rigas Common Stock Direct Placement”) with Highland 2000, L.P., an entity controlled by members of the family of John Rigas, under which Highland 2000, L.P. agreed to purchase 5,819,367 shares of Adelphia Class B common stock. The January 2001 Rigas Common Stock Direct Placement will be at a per share price equal to $42.96, plus an interest factor. Closing on the January 2001 Rigas Common Stock Direct Placement will occur by October 22, 2001 and is subject to customary closing conditions.

On January 17, 2001, the Company entered into a note purchase agreement (“January 2001 Rigas Notes Direct Placement”) with Highland 2000, an entity controlled by members of the family of John Rigas under which Highland 2000, L.P. agreed to purchase $167,400,000 aggregate principal amount of 6% convertible subordinated notes due 2006. Proceeds from the January 2001 Rigas Notes Direct Placement will be approximately $162,800,000 plus an interest factor. The economic terms of these notes will be substantially similar to the terms of the notes that were sold in the January 23, 2001 convertible notes offering described below, except that these convertible notes are convertible into shares of Adelphia
Class B common stock. Closing on the January 2001 Rigas Notes Direct Placement will occur by October 22, 2001, and is subject to customary closing conditions.

On April 19, 2001, the Company entered into a note purchase agreement (“April 2001 Rigas Notes Direct Placement”) with Highland 2000, L.P., an entity controlled by members of the family of John Rigas under which Highland 2000, L.P. agreed to purchase $400,000,000 aggregate principal amount of 3.25% convertible subordinated notes due 2021. Proceeds from the April 2001 Rigas Notes Direct Placement will be approximately $390,000,000 plus an interest factor. The economic terms of these notes will be substantially similar to the terms of the notes that were sold in the April 25, 2001 convertible notes offering described below, except that these convertible notes are convertible into shares of Adelphia Class B common stock. Closing on the April 2001 Rigas Notes Direct Placement will occur by January 21, 2002, and is subject to customary closing conditions.

551. Defendant Timothy Rigas signed the First Quarter 2001 10-Q.

552. In reaction to the May 14th Press Release and First Quarter 2001 10-Q, the Company’s stock price rose 1.34% from $37.19 per share on May 11, 2001 to a closing price of $37.69 on May 14, 2001. In addition, analysts at First Union Securities Inc. reiterated their “Buy” rating for the Company.

553. Defendants’ statements in the May 14th Press Release and First Quarter 2001 10-Q were materially false and misleading for the reasons set forth in Section V, G, 1 above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $1.2 billion; (ii) overstated shareholder’s equity by $513 million; (iii) overstated EBITDA by at least $12.7 million; (iv) overstated revenue; (v) overstated the number of basic cable subscribers by 43,000; (vi) overstated cash; (vii) overstated accounts receivable; (viii) overstated total assets; and (ix) understated interest expense. Defendants’ statements in the First Quarter 2001 10-Q were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of the SEC Regulation...
S-X, which requires that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods.

n. Second Quarter 2001

554. On August 14, 2001, defendants issued a press release reporting the Company’s financial results for the second quarter ended June 30, 2001 (“August 14th Press Release”). In the August 14th Press Release, defendants reported “record” revenues of $893.3 million and EBITDA of $342.2 million for the quarter ended June 30, 2001. Defendants also announced that basic cable subscribers grew 1% to 5,672,225 as of June 30, 2001; total unconsolidated debt of $13 billion; and cash of $98.7 million. In two separate footnotes in the August 14th Press Release, defendants announced that “pro forma results include the application of net proceeds of approximately $250 million from the sale by Adelphia of Class B Common Stock to the Rigas Family.” Defendant Timothy Rigas was quoted in the August 14th Press Release as stating, in relevant part:

I am also very pleased to report the continued improvement in the EBITDA contribution from our subsidiary, Adelphia Business Solutions. For the second consecutive quarter, Adelphia Business Solutions’ contributed to Adelphia’s consolidated EBITDA growth rate. The improvements represented 26% of Adelphia’s consolidated revenue growth of 14% and 42% of its consolidated EBITDA growth of 14% . . . The turnaround in Adelphia Business Solutions’ EBITDA growth trend combined with the Cable Division’s steady performance has resulted in an acceleration of annual EBITDA growth from 7% a year ago and 10% last quarter to 14% in the current quarter.

reported $6.1 billion in shareholders’ equity, $23.9 billion in total assets, and $275 million in net interest expense for the quarter. The Second Quarter 2001 10-Q also reported:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X. Such principles are applied on a basis consistent with those reflected in the December 31, 2000 Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission. The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and related notes contained in the December 31, 2000 Annual Report on Form 10-K. In the opinion of management, the unaudited condensed consolidated financial statements contained herein include all adjustments (consisting of only recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented.

On January 17, 2001, the Company entered into a stock purchase agreement (“January 2001 Rigas Common Stock Direct Placement”) with Highland 2000, L.P., an entity controlled by members of the family of John Rigas, under which Highland 2000, L.P. agreed to purchase 5,819,367 shares of Adelphia Class B common stock. The January 2001 Rigas Common Stock Direct Placement will be at a per share price equal to $42.96, plus an interest factor. Closing on the January 2001 Rigas Common Stock Direct Placement will occur by October 22, 2001 and is subject to customary closing conditions.

On January 17, 2001, the Company entered into a note purchase agreement (“January 2001 Rigas Notes Direct Placement”) with Highland 2000, L.P., an entity controlled by members of the family of John Rigas under which Highland 2000, L.P. agreed to purchase $167,400[,000] aggregate principal amount of 6% convertible subordinated notes due 2006. Proceeds from the January 2001 Rigas Notes Direct Placement will be approximately $162,800[,000] plus an interest factor. The economic terms of these notes will be substantially similar to the terms of the notes that were sold in the January 23, 2001 convertible notes offering described below, except that these convertible notes are convertible into shares of Adelphia Class B common stock. Closing on the January 2001 Rigas Notes Direct Placement will occur by October 22, 2001, and is subject to customary closing conditions.

On April 19, 2001, the Company entered into a note purchase agreement (“April 2001 Rigas Notes Direct Placement”) with Highland 2000, L.P., an entity controlled by members of the family of John Rigas under which Highland 2000, L.P. agreed to purchase $400,000[,000] aggregate principal amount of 3.25%...
convertible subordinated notes due 2021. Proceeds from the April 2001 Rigas Notes Direct Placement will be approximately $390,000[,000], plus an interest factor. The economic terms of these notes will be substantially similar to the terms of the notes that were sold in the April 25, 2001 convertible notes offering described below, except that these convertible notes are convertible into shares of Adelphia Class B common stock. Closing on the April 2001 Rigas Notes Direct Placement will occur by January 21, 2002, and is subject to customary closing conditions.

Defendant Timothy Rigas signed the Second Quarter 2001 10-Q.


558. Defendants’ statements in the August 14th Press Release and Second Quarter 2001 10-Q were materially false and misleading for the reasons set forth above in Section V, G, 1, above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $1.27 billion; (ii) overstated shareholders’ equity by $513 million; (iii) overstated EBITDA by at least $12.7 million; (iv) overstated the number of basic cable subscribers by 70,000; (v) overstated revenue; (vi) overstated cash; (vii) overstated accounts receivable; (viii) overstated total assets; and (ix) understated interest expenses. Defendants’ statements in the Second Quarter 2001 10-Q were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of the SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods.

o. **October 23, 2001 Press Release**

559. On October 23, 2001, defendants issued a press release announcing that the Company had closed on two previously announced agreements between the Company and the
Rigas Defendants (“October 23rd Press Release”). Specifically, the October 23rd Press Release reported that the Company closed on a deal with the Rigas Defendants pursuant to which the Rigas Defendants agreed to purchase approximately 5.8 million shares of Class B common stock of the Company at a purchase price of $42.96 per share and a deal pursuant to which the Rigas Defendants agreed to purchase approximately $167.4 million aggregate principal amount of 6% Notes.

560. Defendants’ statements in the October 23rd Press Release were materially false and misleading for the reasons detailed in Section V, G, 1 (a, h), above. Specifically, defendants’ statements were materially false and misleading because they implied that the Rigas Defendants’ purchases would increase the Company’s equity when, in reality, the Company never received any cash from the Rigas Defendants or the Rigas Family Entities and the Rigas Defendants had neither the intention nor the financial means to pay the Company for the securities purchases.

p. Third Quarter 2001

561. On November 9, 2001, defendants issued a press release reporting the Company’s financial results for the third quarter ended September 30, 2001 (“November 9th Press Release”). Defendants reported “record” revenues of $898.6 million and EBITDA of $357.1 million for the quarter ended September 30, 2001, as compared with $280.3 million for the same quarter the previous year. Defendants also announced that basic cable subscribers grew 0.8% to 5,693,035 during the twelve-month period ended September 30, 2001. Additionally, defendants reported total unconsolidated debt of $13.5 billion and cash of $111.8 million. In footnotes to the November 9th Press Release, defendants reported that “pro forma results include the application of net proceeds of approximately $250 million from the sale by Adelphia of Class B Common Stock to the Rigas Family.” Defendants also announced high speed internet subscribers grew to
315,104 as of September 30, 2001. The November 9th Press Release quoted defendant Timothy Rigas as stating:

During the third quarter, Adelphia continued its successful deployment of new services including the roll-out of our digital cable and high-speed cable modem products . . . Our focus on our high-speed data product continues to result in an acceleration of our cable modem deployments. In the third quarter, we added over 60,000 cable modem customers compared to approximately 50,000 in the prior quarter. We averaged over 4,700 weekly adds to end the quarter with 315,104 data customers and believe that we are firmly on track to reach our year-end goal of 375,000 high-speed cable modem customers.

562. On November 9, 2001, the Company filed with the SEC its Quarterly Report on Form 10-Q for the period ended September 30, 2001 (“Third Quarter 2001 10-Q”), reporting essentially the same financial results announced in the November 9th Press Release. The Third Quarter 2001 10-Q reported $14.8 billion in total consolidated debt and $18.6 billion in total liabilities. The Third Quarter 2001 10-Q further reported $5.8 billion in shareholder’s equity, $24.4 billion in total assets, and $298.5 million in net interest expense. The Third Quarter 2001 10-Q also noted:

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X. Such principles are applied on a basis consistent with those reflected in the December 31, 2000 Annual Report on Form 10-K of the Company filed with the Securities and Exchange Commission. The condensed consolidated financial statements contained herein should be read in conjunction with the consolidated financial statements and related notes contained in the December 31, 2000 Annual Report on Form 10-K. In the opinion of management, the unaudited condensed consolidated financial statements contained herein include all adjustments (consisting of only recurring adjustments) necessary for a fair presentation of the results of operations for the interim periods presented.

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Common Stock Direct Placement. Adelphia used the proceeds of approximately $259,900[,000] to repay subsidiary bank debt, which may be reborrowed and used for general corporate purposes.

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On January 17, 2001, Adelphia entered into a note purchase agreement (“January 2001 Rigas Notes Direct Placement”) with Highland 2000, L.P., an entity controlled by members of the family of John Rigas under which Highland agreed to purchase $167,400[,000] aggregate principal amount of 6% convertible subordinated notes due 2006. On October 22, 2001 the Company closed on the January 2001 Rigas Notes Direct Placement. Adelphia used the proceeds of approximately $163,600[,000] to repay subsidiary bank debt, which may be reborrowed and used for general corporate purposes.

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On April 19, 2001, the Company entered into a note purchase agreement (“April 2001 Rigas Notes Direct Placement”) with Highland 2000, L.P., an entity controlled by members of the family of John Rigas under which Highland 2000, L.P. agreed to purchase $400,000[,000] aggregate principal amount of 3.25% convertible subordinated notes due 2021. Proceeds from the April 2001 Rigas Notes Direct Placement will be approximately $390,000[,000], plus an interest factor. The economic terms of these notes will be substantially similar to the terms of the notes that were sold in the April 25, 2001 convertible notes offering described below, except that these convertible notes are convertible into shares of Adelphia Class B common stock. Closing on the April 2001 Rigas Notes Direct Placement is expected to occur by January 21, 2002, and is subject to customary closing conditions.

Defendant Timothy Rigas signed the Third Quarter 2001 10-Q.


564. Defendants’ statements in the November 9th Press Release and Third Quarter 2001 10-Q were materially false and misleading for the reasons detailed in Section V, G, 1, above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by at least $1.83 billion; (ii) overstated shareholder’s equity by $513 million; (iii) overstated EBITDA by at least
$5.3 million; (iv) overstated the number of basic cable subscribers by 136,000; (v) overstated the number of high speed internet subscribers by approximately 10,000; (vi) overstated revenue; (vii) overstated cash; (viii) overstated accounts receivable; (ix) overstated total assets; and (x) understated interest expenses. Defendants’ statements in the Third Quarter 2001 10-Q were also materially false and misleading because the Company’s financial statements were not prepared in accordance with the instructions to Form 10-Q and Article 2 of SEC Regulation S-X, which require that the statements be prepared in accordance with GAAP. Moreover, the Company’s financial statements did not reflect all adjustments of a normal recurring nature necessary for a fair statement of results for the interim periods presented.

q. **March 27, 2002 Press Release**

565. On March 27, 2002, defendants issued a press release reporting the Company’s financial results for the fourth quarter and year ended December 31, 2001 (“March 27th Press Release”). In the March 27th Press Release, defendants reported revenues of $950 million for the quarter ended December 31, 2001 and $3.6 billion for the year ended December 31, 2001. Defendants also announced EBITDA of $395.3 million for the quarter ended December 31, 2001 and $1.4 billion for the year ended December 31, 2001. Defendants further announced basic cable subscribers grew 0.5% to 5,810,253 during the twelve-month period ended December 31, 2001. Additionally, defendants reported total unconsolidated debt of $13.3 billion. The March 27th Press Release quoted defendant Timothy Rigas as stating:

> We are pleased with the results we have delivered for 2001. During the year, we made significant progress rebuilding our cable systems and delivering growth in new product deployments while maintaining our focus on strong operating results. We have continued to prioritize our plant rebuild project, building down to less than 150 homes per node, which we believe will provide the platform for new product deployments and interactive ventures as well as expand our reach to new data and digital subscribers.
The March 27th Press Release also reported the following in a footnote regarding the Company’s co-borrowing arrangements:

Certain subsidiaries of the Company are co-borrowers with certain companies owned by the Rigas Family and managed by the Company (“Managed Entities”) for borrowing amounts of up to $5,630,000[000]. Each of the co-borrowers is liable for all borrowings under the credit facilities and may borrow up to the full amount of the facilities. Amounts borrowed under these facilities by the Company’s subsidiaries are included as debt on the Company’s consolidated balance sheet. The Company expects the Managed Entities to repay their borrowings in the ordinary course. The Company does not expect that it will need to repay the amounts borrowed by the Managed Entities. As of December 31, 2001, co-borrowing credit facilities balances, net of amounts otherwise reflected as debt on the Company’s consolidated balance sheet, totaled approximately $2,284,000[000].

566. Defendants’ statements in the March 27th Press Release were materially false and misleading for the reasons set forth in Section V, G, 1 (a, d-f), above. Specifically, these statements were materially false and misleading because defendants knowingly or recklessly: (i) understated the Company’s total debt and liabilities by several hundred millions of dollars; (ii) overstated EBITDA by hundreds of millions of dollars; and (iii) overstated the number of basic cable subscribers by 142,000.

VI. THE TRUTH EMERGES

567. On March 27, 2002, ABIZ filed for protection under Chapter 11 of the Bankruptcy Code after struggling to meet its debt obligations for several months. A Form 8-K filed by Adelphia with the SEC on March 27, 2002 explained the potential significant impact on Adelphia of ABIZ’s bankruptcy:

. . . Adelphia has significant relationships with ABIZ and its subsidiaries. Included among these are potential contingent liabilities for ABIZ obligations – principally the $500 million unsecured bank borrowing by Adelphia Business Solutions Operations, Inc. (“ABSO”) as an unrestricted borrower under a joint credit facility where Adelphia subsidiaries guarantee the borrowing by ABSO. ABSO is one of the [ABIZ subsidiaries that filed for bankruptcy protection]. Adelphia previously stated that it
might provide additional credit support for ABIZ. Adelphia has advanced approximately $36.8 million on an unsecured basis to ABIZ subsidiaries prior to the Chapter 11 filings. Adelphia has also agreed to provide, subject to various conditions including the approval of the Bankruptcy Court, a tranche of up to $67.5 million in debtor-in-possession ("DIP") financing to ABIZ and its subsidiaries in the bankruptcy proceedings.

It is not possible to predict the outcome of the bankruptcy proceedings or their effects on Adelphia, or whether or not ABIZ reorganizes under Chapter 11. The bankruptcy filings present several risks and uncertainties to Adelphia, some of which could be material. For example, Adelphia could become liable to repay the $500 million in guaranteed ABSO bank borrowings, and might not be able to realize any significant amount on the claim it would have against ABSO upon making this payment.

(emphasis added.)

568. Even more shocking, however, was another announcement made by the Company that same day. During a conference call with securities analysts regarding Adelphia’s financial results, the Company revealed that it had up to $2.3 billion in off balance sheet debt in fiscal as of December 31, 2001. The debt related to loans made to the Rigas Family Entities, although the borrowings were co-guaranteed by Adelphia. Much of the co-borrowing was used by the Rigas Family Entities to purchase Adelphia stock.

569. Analysts were taken aback by the amount of off balance sheet debt. Standard & Poor’s (S&P”) immediately considered whether it should downgrade Adelphia’s debt rating. “The company portrayed itself as being on a deleveraging strategy, but the fact that the family borrowed funds and used Adelphia as collateral seems to mitigate that claim,” said Richard Siderman, managing director of S&P’s Rating Group. Moody’s Investor Service (“Moody’s”) also indicated that it might downgrade Adelphia. Senior Vice President Russ Solomon told The Wall Street Journal that he was “surprised by the absolute magnitude” of Adelphia’s debt obligations.
570. In the days that followed the March 27, 2002 disclosure, the amount of Adelphia’s total off balance sheet obligations ballooned to almost $2.7 billion. The additional $400 million related to Adelphia securities bought by Rigas Family Entities in January 2002.

571. On April 1, 2002, Adelphia issued a press release announcing that it would not timely file its annual report on Form 10-K with SEC. The Company said it needed more time to “review certain accounting matters relating to co-borrowing credit facilities which Adelphia is a party to.” The Company also announced that it was “conducting a review aimed at providing additional clarification of certain of the Company’s co-borrowing credit facilities and related matters.”

572. That same day, The Wall Street Journal reported that Adelphia was expected to disclose that the value of Highland Holdings was less than the amount of off balance sheet debt. Adelphia was reportedly thinking about selling assets to close the gap. Russell Solomon of Moody’s told The Wall Street Journal that Adelphia had “lost a material amount of credibility in the market place and they’ll have a hard time accessing capital or accessing it at a price they’re used to getting.”

573. On April 3, 2002, the Company issued a press release stating the SEC was “conducting an informal inquiry into its previously disclosed co-borrowing arrangements and has asked the Company to provide clarification and documentation.”

574. On April 4, 2002, Adeprompta issued another press release. It stated that the Company had hired three investment banks to “explore opportunities to reduce Adelphia’s debt.” The press release said that this would possibly include the sale of cable assets. In addition, the Company announced that it had engaged a law firm to “advise it on various matters.”
The April 4, 2002 issue of The Wall Street Journal ran an article with the headline “Adelphia Faces Irate Shareholders.” It discussed the frustration felt by shareholders and analysts alike due to the recent revelations made by the Company:

“Investors should feel blind sided,” says Oren Cohen, a Merrill Lynch bond analyst who has been following the company with a skeptic’s eye for months. “The people who bought stock in the November deal and saw that the Rigases were also buying stock in the deal didn’t realize that Adelphia was co-borrower with the family on these loans,” some of which were used to buy stock. In the $1 billion November offering, the Rigas family disclosed that it had bought $200 million of the shares. The company hasn’t disclosed how much of that purchase was funded through the off-balance-sheet borrowings.

“The company portrayed itself as being on a deleveraging strategy, but the fact that the family borrowed funds and used Adelphia as collateral seems to mitigate that claim,” says Richard Siderman, managing director with Standard & Poor’s Rating Group.

* * *

Now, investors are also outraged at what they say is a blatant attempt by the Rigas family to protect its economic stake in Adelphia to the detriment of the company. “They put the rest of the business at risk in order to not dilute their stake,” says Morris Mark, president of New York-based Mark Asset Management, which has various cable-TV holdings, not including Adelphia. The family didn’t have the resources to maintain their economic ownership in Adelphia so they borrowed the money - possibly as much as $1 billion - to buy more shares.

Says Mr. Mark: “They tried to have their cake and eat it, too.” (emphasis added.)

The following day, The Wall Street Journal revealed additional distressing information about Adelphia:

The family’s intimate ties to Adelphia even extended to the auditors. According to people familiar with the matter, the company’s auditor, Deloitte & Touche LLP, also audited the Rigas family partnerships. The dual roles would have placed Deloitte in the best position to examine the co-borrowing relationships and require their disclosure. A Deloitte spokeswoman says the firm is
still working on Adelphia’s 2001 financial statements and that client confidentiality prevents it from releasing additional details.

(emphasis added.)

577. Standard & Poor’s downgraded Adelphia’s debt rating on April 9, 2002. S&P’s credit analyst, Richard Siderman, said the reduction was “based on our assessment that the off-balance-sheet-debt issue has materially weakened the company’s overall financial profile. Siderman said S&P had “concerns” about Adelphia possibly violating a debt covenant restricting how much debt the Company could have. Siderman also warned that the rating could be lowered further if other negative disclosures were made.

578. On April 16, 2002 Adelphia issued a press release regarding its review of its accounting issues and the co-borrowing agreements. It announced that “the Company will not be able to file its Annual Report on Form 10-K by the expiration of the extension on Tuesday, April 16, 2002, but will file its 10-K as soon as practicable after that review has been completed.”

579. On April 17, 2002, Adelphia announced that the SEC had issued a formal order of investigation “in connection with the matters that are the subject of Adelphia’s previously disclosed SEC inquiry.”

580. Adelphia had major problems on several fronts. On April 16, 2002, the Company announced that it had received a “Nasdaq Determination Letter” informing Adelphia that its securities were subject to delisting for failure to timely file its Form 10-K. Adelphia said it had requested a hearing before a Nasdaq Listing Qualifications Panel to review the Determination Letter and that the delisting was stayed pending the panel’s determination. A few days later, Adelphia issued a press release announcing that the Panel had agreed to grant it a hearing on May 16, 2002. Nonetheless, the Company’s ticker symbol was changed from “ADLAC” to “ADLAE” to indicate to investors that the Company was delinquent in making a required SEC filing.
Adelphia dropped its next bombshell on investors on May 2, 2002, when it announced that the Company would “likely” restate its financial statements. A Company press release explains that:

[Adelphia] has reached a tentative conclusion with respect to the accounting treatment for certain matters related to its co-borrowing agreements, which it expects will result in a restatement of its previously issued annual financial statements for 1999 and 2000 and interim financial statements for 2001.

The Company has tentatively concluded that is should reflect borrowings and related interest expense under certain co-borrowing arrangements associated with amounts payable directly or indirectly by certain Rigas family owned entities, primarily incurred in connection with other Rigas entities which purchased Adelphia securities, as liabilities in its consolidated financial statements, with a corresponding decrease in shareholders’ equity. These borrowings approximated $1.6 billion as of December 31, 2001. They were approximately $1.2 billion as of December 31, 2000 and $700 million as of December 31, 1999.

The press release also indicated that the Company was in serious trouble with its lenders:

As previously announced, the Company has been delayed in issuing its Annual Report on Form 10-K. As a result of this delay, the Company has received notices of default on its parent company public indentures. The notices of default, received April 25, 2002, have at least a 60 day period within which to cure by issuance of the Company’s compliance certificates for 2001 and related financial statements. The Company intends to issue a press release indicating its anticipated timing for filing its Form 10-K as soon as practicable.

In addition, under certain of the Company’s subsidiary credit agreements with various financial institutions and which subsidiary credit agreements are the principal source for borrowings by the Company, the Company was required to provide to those institutions 2001 audited financial statements and related compliance certificates for the borrowing groups by April 30, 2002. Because of the continuing review, the Company has not yet been able to provide such borrowing group financial statements and certificates and as a result is in potential default on certain of
its credit agreements. As a result of these potential defaults, and although the Company has a cure period of 30 days, the Company’s subsidiaries may not be able to borrow funds under these subsidiary credit agreements unless the deficiencies are cured, or waivers are obtained from the required lenders, within the cure periods. If these deficiencies are not timely cured or waived, then the relevant lenders would be entitled to exercise other creditors’ remedies. . . .

(emphasis added.)

583. On May 8, 2002, Adelphia announced that it was soliciting purchase offers for several of its largest cable systems. The goal was to sell systems servicing about one-third of the Company’s purported six million subscribers. Upon hearing of the planned sale of assets, analyst Matthew Harrigan at Janco Partners told The New York Times that the Rigas family had been “quite recalcitrant” about acknowledging the Company’s problems. He added that “the stock price will always be in the penalty box as long as the Rigases are there.”

584. On May 15, 2002, Adelphia issued a press release announcing that John Rigas, had resigned as Chairman, President, and Chief Executive Officer. The press release further announced that the Company was “conducting an investigation of issues raised in connection with the preparation of its 10-K statement” and that “[t]he ongoing audit of the Company by the Company’s long time auditor, Deloitte & Touche, LLP, will be suspended pending completion of the Company’s investigation.”

585. Following this announcement, NASDAQ halted trading in Adelphia’s stock and asked the Company for “additional information.” Trading was to remain halted until Adelphia “had fully satisfied NASDAQ’s request for additional information.” This news caused both Moody’s and S&P to immediately downgrade Adelphia’s debt rating, which was already below “junk” status. Moody’s issued a statement saying that “[t]he prospect of a potential bankruptcy filing is more likely and may ultimately be unavoidable.”
586. On May 16, 2002, The Wall Street Journal reported that the scope of the accounting improprieties may be far greater than previously announced by Adelphia. That same day, the Company announced the resignation of Timothy Rigas as Executive Vice President, CFO, Chief Accounting Officer, and Treasurer of Adelphia.

587. On May 17, 2002, Adelphia issued a press release to discuss “Developments Related To Issues Facing The Company.” It stated that the NASD had held a hearing regarding the potential delisting of Adelphia stock, and that the Company had missed more than $31 million in interest and dividend payments owed to its debt holders. In addition, the press release acknowledged that grand juries in the Southern District of New York and the Middle District of Pennsylvania were investigating “certain matters related to the Company.”

588. On May 19, 2002, Adelphia issued a press release announcing that defendant Brown, who served as Vice President of Finance and had been with the Company for 18 years, was leaving “effective immediately.” No elaboration was provided by Adelphia.

589. On May 20, 2002, The New York Times published an article providing more insight as to what had been happening at Adelphia. It revealed the existence of additional investigations into the company:

> . . . a person involved in the situation said that the Internal Revenue Service and the Postal Service are also looking into the case. This person said that if the Rigas family had loans that Adelphia guaranteed, the family received a benefit that might have tax implications. If the Rigases were selling anything to Adelphia and those transactions were not at arm’s length, this person said, those dealings also could have tax implications.

(emphasis added.) That same article also noted several other areas that were being scrutinized by various government and regulatory agencies.

590. The New York Times reported on May 21, 2003 that “[d]espite mounting pressure from outside directors, bankers and others,” the Rigas Defendants were “strongly
resisting” giving up any of their seats on the board of directors. According to the article, the Rigas Defendants said they did not need to resign because they had not been charged with any wrongdoing. However, several people close to the matter told The New York Times that John Rigas might invoke his Fifth Amendment right against self-incrimination when asked to testify about his family’s role in Adelphia’s finances.

591. Speculation about the agreement between Adelphia and the Rigas Defendants ended on May 23, 2002, when Adelphia issued a press release. It stated that the Rigas Defendants would transfer assets valued at more than $1 billion to Adelphia. It added that John Rigas, Timothy Rigas, Michael Rigas and James Rigas would resign as directors of the Company, thereby relinquishing control. The press release further stated that board of directors and the Special Committee had passed resolutions requiring that defendant Venetis resign from the board. In addition, Michael Rigas and James Rigas would resign as officers of the Company.

592. The May 23, 2002 press release also made several stunning revelations about the amount of off balance sheet debt omitted from Adelphia’s financial statements:

... as a result of discussions with the Securities and Exchange Commission, the Company has tentatively concluded that it should increase to approximately $2.5 billion the amount of indebtedness to be included in its consolidated financial statements, as of December 31, 2001, to reflect the full amount of principal borrowings and interest expense by entities affiliated with the Rigas family under certain co-borrowing arrangements for which the Company is jointly and severally liable. This higher amount now includes co-borrowing debt associated with Rigas family entities that are valued at approximately $1 billion.

Based on information currently available, the Company believes that at April 30, 2002, the total amount of co-borrowings by entities affiliated with the Rigas family for which Adelphia is jointly and severally liable was approximately $3.1 billion.

Adelphia had previously announced that it had tentatively concluded that the amount of such indebtedness to be included in its consolidated financial statements as of December 31, 2001, to reflect these borrowings was approximately $1.6 billion with a
corresponding decrease in shareholders’ equity. The proper accounting treatment for the increased indebtedness to be included in the Company’s financial statements as of December 31, 2001 and at April 30, 2002 has not yet been determined.

(emphasis added.)

593. The dire status of Adelphia’s liquidity and credit was also outlined in the May 23, 2002 press release:

As previously announced, on May 15, 2002, Adelphia and its subsidiaries failed to make interest payments totaling approximately $38.3 million on outstanding debt securities and an approximately $6.5 million dividend payment on a series of preferred shares. The failure to make these interest payments will, unless cured, give rise to an event of default under the relevant public indentures and a cross-default under the indentures governing other public debt securities of Adelphia. In addition, various lenders under credit facilities of Adelphia’s subsidiaries have given notices of default relating to failure to deliver financial statements and comply with information delivery and other requirements.

Adelphia is determining whether it is in compliance with the debt incurrence tests contained in its public indentures. In addition, Adelphia believes that it is not in compliance with certain other covenants contained in its public indentures, in particular, restrictions on the Company’s ability to enter into transactions with affiliates without obtaining the requisite approval of the independent members of the Board of Directors. The Special Committee of the independent directors, together with the Committee’s outside advisors, including forensic accountants, is currently investigating these and other matters. . . .

(emphasis added.)

594. More shocking details regarding the Rigas Defendants’ self-dealing were made public in the May 24, 2002 8-K. The May 24, 2002 8-K identified at least 17 entities, and 18 of their subsidiaries, in which the Rigas Defendants had ownership interests and which were involved in transactions with Adelphia. The May 24, 2002 8-K warned that information therein was subject to change because, inter alia, the Rigases “have refused to review, or provide information” for that filing.
595. The May 24, 2002 8-K further stated that the Special Committee was looking into potential wrongdoing in transactions that were not presented to the board of directors for approval including, *inter alia*, the accounting for: (i) the purchase in October 2001 by Highland 2000 of Adelphia securities; (ii) management fees paid to Adelphia by Highland Holdings; (iii) numerous other questionable payments made to Rigas-affiliated people or entities, such as an approximately $50,000 “community service and consulting fee” paid to Ellen Venetis; (iv) the financing of a golf course being built near Coudersport, Pennsylvania, for which Adelphia had already paid approximately $13 million in equipment and development costs; and (v) the purchase by an Adelphia subsidiary of $26.5 million in timber rights on land that was previously acquired by the Rigas Defendants for less than $500,000.

596. The May 24, 2002 8-K also stated that the Special Committee was scrutinizing several other matters in which the Rigas Defendants or Rigas Family Entities stood to gain a personal benefit. These matters included, *inter alia*, (i) the Rigas Defendants’ personal use of Company aircraft for which Adelphia had not been reimbursed; (ii) Adelphia’s purchase of cars from Preston Motors, a car dealership in which John Rigas had “a material beneficial interest;” (iii) the potential use of Company funds for condominiums in Colorado and Cancun for the exclusive or primary use of the Rigas Defendants; (iv) the exclusive use of two Adelphia-owned apartments in New York City by Ellen Venetis and Defendant Venetis, rent-free, for several years; and (v) the use of Company employees by the Rigas Defendants for various services at the Company’s expense.

597. More bad news became public on May 31, 2002, when Adelphia issued a press release stating that it was in default under certain of its credit agreements. This occurred because the Company failed to deliver its financial information and compliance certificates to its lenders. The impact of the default was potentially dire, according to the press release: “These events of
default entitle the lenders under those agreements to accelerate the maturity of their debt and exercise other remedies.” The press release also stated that NASDAQ had decided to delist Adelphia common stock effective June 3, 2002 “based on the Company’s filing delinquencies and other public interest concerns.” It further explained that, “[a]s a result of the delisting, the Company will be required to make an offer to purchase all of its outstanding 6% Convertible Subordinated Notes due February 16, 2006 and its 3.25% Convertible Subordinated Notes due May 1, 2021[.]”

598. On June 6, 2002, Adelphia filed with the SEC a Form 8-K stating:

The Board of Directors, based on the recommendation of the Special Committee and consultation with counsel to the Special Committee, has determined that each of John Rigas, Timothy Rigas, Michael Rigas, Peter Venetis and James Brown deliberately breached his duty to the Company and/or its shareholders.

(emphasis added.)

599. The sheer chaos within the Company became even more apparent on June 10, 2002. On that date, Adelphia’s two newest directors suddenly resigned less than three weeks after assuming their posts. Leonard Tow wrote in his letter of resignation:

As Scott Schneider and I indicated when we joined Adelphia’s board on May 24, 2002, our goal was to do everything in our power to help restore the company’s credibility and stabilize it financially. However, subsequent revelations of the unreliability of corporate data, as well as the ongoing serial disclosures of wrongdoing, have made it impossible to contribute meaningfully to the process. Accordingly, Scott Schneider and I herewith tender our resignations from the board effective immediately.

(emphasis added.)

600. The Company filed an amended Form 8-K on June 14, 2002. It raised further questions about events occurring within Adelphia and stated that Deloitte had been dismissed and replaced by PricewaterhouseCoopers LLP. The filing also stated that Century Communications, an indirect, wholly-owned subsidiary of Adelphia, had filed for Chapter 11
bankruptcy protection. In addition, it announced that defendant Venetis had resigned from the board of directors.


602. Early on the morning of July 24, 2002, five Adelphia executives were arrested by federal postal inspectors. John Rigas, Michael Rigas and Timothy Rigas were taken into custody from an Adelphia-owned apartment in New York City. Adelphia’s former vice president of finance, defendant Brown, was arrested in Coudersport, Pennsylvania. Defendant Mulcahey, who was on suspension from his position as Adelphia’s director of internal reporting, was also arrested in Coudersport. All five men were charged with conspiracy, securities fraud, wire fraud, and bank fraud.

603. Also on July 24, 2002, the SEC filed a complaint charging Adelphia, John Rigas, Michael Rigas, Timothy Rigas, and James Rigas with fraud. “The thing that makes this case stand out is the scope and magnitude of the looting of the company on the part of the Rigas family,” said Wayne Carlin, regional director of the SEC’s northeast regional office in New York. “In terms of brazenness and the sheer amount of dollars yanked out of this public company and yanked out of the pockets of investors, it’s really quite stunning. It’s even stunning to someone like me who is in the business of unraveling these kinds of schemes,” Carlin told The Wall Street Journal.

604. That same day, Adelphia itself filed a lawsuit seeking more than $1 billion in damages from the Rigas family. The defendants in that case include John Rigas’ wife, daughter, and son-in-law Venetis. The complaint alleges that the Rigas family, inter alia, violated the Racketeer Influenced and Corrupt Organizations Act, breached its fiduciary duties, wasted corporate assets, abused its control, and breached contracts.
605. On September 23, 2002, a federal grand jury indicted John Rigas, Michael Rigas, Timothy Rigas, Brown, and Mulcahey. Each man was charged with one count of conspiracy, 16 counts of securities fraud, five counts of wire fraud, and two counts of bank fraud. The bank fraud charges alone carry a potential prison term of up to 30 years for each defendant. The government also sought to recover approximately $2.5 billion that prosecutors say was fraudulently obtained by the Rigas Defendants and Rigas Family Entities. United States Attorney James Comey said, “[t]he scheme charged in the indictment is one of the most elaborate and extensive corporate frauds in United States history.”

606. The first guilty plea was entered in the criminal action on November 14, 2002. Defendant Brown, Adelphia’s former vice president of finance, entered into a plea agreement in which he agreed to cooperate with the U.S. Attorney’s investigation and to testify at the trial against the other executives who were indicted. Even with the plea agreement, however, defendant Brown faced up to 45 years behind bars for his involvement in the fraud. According to the indictment, defendant Brown helped prepare Adelphia’s financial statements and communications with investors, analysts, credit reporting agencies, and the public. Defendant Brown admitted in court that he had misrepresented Adelphia’s finances, the amount of growth in the Company’s earnings, and the number of cable subscribers.

607. On November 26, 2002, Adelphia sought a temporary restraining order to prevent the Rigas Defendants and the Rigas Family Entities from selling or transferring assets. The emergency motion for a TRO was filed after the Company uncovered evidence that family members were selling timber from land in Pennsylvania and were accepting rent for commercial properties that Adelphia believed were purchased with its money. The Bankruptcy Court granted the TRO and froze the Rigas Defendants’ assets, except those needed to pay legal fees and living expenses.
608. In January 2003, a second Adelphia executive pleaded guilty to criminal charges. Timothy Werth, Adelphia’s former accounting director, was the sixth Adelphia executive to face criminal charges. He had worked under defendant Brown, who had already pled guilty. Werth entered a guilty plea to one count of securities fraud and one count of conspiracy to commit securities fraud, wire fraud, and mail fraud, and agreed to cooperate with prosecutors. He faces up to 15 years in prison and millions of dollars in fines when he is sentenced in February 2004.

609. On August 11, 2003, the United States District Court rejected John Rigas’ request that he and Michael Rigas be tried separately from the other defendants, Timothy Rigas and Michael Mulcahey. The Court ruled that John Rigas and Michael Rigas had not shown that they might be prejudiced if all four defendants were tried together. The trial date is presently set for February 5, 2004.

VII. NO STATUTORY SAFE HARBOR

610. The statutory safe harbor provided for forward-looking statements under certain circumstances does not apply to any of the false statements pleaded herein because none of those statements are “forward-looking” statements nor were they identified as “forward-looking statements” when made. Nor did meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those in any purportedly forward-looking statements accompany those statements. In the alternative, to the extent that the statutory safe harbor does apply to any statements pleaded herein which are deemed to be forward-looking, defendants are liable for those false forward-looking statements because at the time each of those statements was made the speaker actually knew those forward-looking statements were false and/or the statements were authorized and/or approved by an executive officer of Adelphia who actually knew that the statements were false when made.
VIII. PLAINTIFFS’ INVESTIGATION

611. This investigation included, among other things: (i) a review of the public documents and press releases of Adelphia; (ii) reports by the media and securities analysts about the Company; (iii) consultation with experts; and (iv) review and reliance upon publicly filed indictments of various defendants and guilty pleas of a named defendant and another former Company employee.

612. Plaintiffs’ investigation also included review and reliance upon complaints filed against principals of Adelphia and others by the SEC and the US Attorney, which civil complaints were based on, among other things, interviews with: (i) approximately 15 Adelphia employees with first-hand knowledge of Adelphia’s corporate structure, financial dealings, and business and accounting practices; (ii) representatives of defendant Deloitte, Adelphia’s former outside auditors, which firm is currently the subject of a pending SEC investigation in connection with services provided to Adelphia; (iii) representatives of PricewaterhouseCoopers, which firm was retained as the Company’s auditor in June 2002 and which has conducted a forensic accounting analysis of Adelphia’s books and records; (iv) representatives of financial institutions that made loans to, issued securities for, and participated in other transactions with Adelphia; (v) representatives of credit rating agencies that rated Adelphia and its securities; and (vi) securities analysts whose work has included research on Adelphia.

613. Plaintiffs’ investigation also included review and reliance upon pleadings filed by Adelphia (currently a debtor in possession in a case filed on June 26, 2002 under Chapter 11 of the Bankruptcy Code) against various individuals and entities associated with Adelphia, including defendant Deloitte. These pleadings were, in turn, based upon information accessible to Adelphia as debtor. Plaintiffs also reviewed and relied upon pleadings filed by the official committee of Adelphia’s unsecured creditors (the “Creditors’ Committee”) appointed in July
2002 by the United States Trustee for the Southern District of New York. The Creditors’ Committee pleadings were based upon an extensive investigation that included, among other things: (i) the review of approximately five million pages of documents produced by Adelphia concerning Adelphia’s financial affairs and its relationships with various lenders, underwriters and other financial advisors; (ii) the review of approximately 500,000 pages of documents produced by Adelphia’s corporate counsel, Buchanan Ingersoll, concerning the structure of Adelphia’s lending arrangements; (iii) the retention of forensic accountants who have reviewed Adelphia’s books and records to trace the various transfers of funds; (iv) the production of documents by certain of Adelphia’s lead lenders and those lenders’ affiliated investment banks; and (v) the review of approximately 250,000 pages of documents produced by such entities concerning, among other things, their relationship with Adelphia and members of the Rigas Family. Plaintiffs believe that further substantial evidentiary support will exist for the allegations set forth below after a reasonable opportunity for discovery.

**COUNT I**

**Violations of Section 11 of the Securities Act Against the Individual Defendants, Deloitte, SSB and Bank of America**

614. Plaintiffs repeat and reallege the foregoing paragraphs (except those contained in Section V, E, above) as if set forth herein, except insofar as such paragraphs might invoke a claim or element of fraud. Plaintiffs bring this count solely pursuant to the Securities Act to remedy defendants’ negligent conduct. None of the pleadings contained in this count should be read to claim, invoke or assert any element of fraud against any defendant. Plaintiffs do not claim, invoke or assert any such element. Allegations of fraudulent conduct or reckless conduct are expressly excluded from this claim. This claim is asserted against all defendants and each of them.
615. This Count is asserted against the Individual Defendants, Deloitte, SSB and Bank of America, for violations of Section 11 of the Securities Act, 15 U.S.C. §77k, on behalf of Plaintiffs, who were damaged thereby.

616. Plaintiffs have brought this claim within one year of discovery of the violations alleged herein, and within three years after the public offerings in connection with which the violations occurred.

617. As set forth in greater detail above, the May 1999 Registration Statement and the July 2001 Registration Statement and the amendments thereto, as well as the prospectuses filed with the SEC and made part of those registration statements, contained untrue statements of material fact and/or omitted to state material facts necessary to make the statements therein not misleading as of when such misleading parts of the registration statements became effective.

618. The Individual Defendants each signed one or more of the materially false and misleading registration statements filed by Adelphia registering securities acquired by Plaintiffs and as such are liable to Plaintiffs for damages.

619. The Individual Defendants were each directors of Adelphia at the time one or more of the materially false and misleading registration statements were filed by Adelphia registering securities acquired by Plaintiffs, and as such are liable to Plaintiffs for damages.

620. Deloitte consented to being named as having prepared or certified part of one or more of the materially false and misleading registration statements filed by Adelphia registering securities acquired by Plaintiffs, and/or having prepared or certified expert reports, opinions and valuations used in connection with one or more of such registration statements as alleged herein, and as such are liable to Plaintiffs for damages.

621. SSB and Bank of America each acted as underwriters with respect to the Adelphia securities registered pursuant to and traceable to the May 1999 Registration Statement and/or the
July 2001 Registration Statement and the October 1999 Prospectus, the November 1999
Prospectus, the September 2000 Prospectus, the January 2001 Debt Offering Prospectus, the
2001 Equity Offering Prospectus, the April 2001 Prospectus, the June 2001 Prospectus, the
November 2001 Class A Prospectus, the January 2002 Series F Prospectus and the January 2002
Class A Prospectus and acquired by Plaintiffs. As such, each of these defendants is liable to
Plaintiffs for damages.

622. In ignorance of the falsity of the material misrepresentations and omissions in the
May 1999 Registration Statement and the July 2001 Registration Statement, as well as the
prospectuses filed with the SEC and made part of those registration statements or of the true
facts, Plaintiffs purchased Adelphia securities issued pursuant to such false and misleading
registration statements and prospectuses and were damaged thereby.

623. By reason of the foregoing, the Individual Defendants, Deloitte, SSB and Bank of
America are liable to Plaintiffs for damages resulting from their violations of Section 11 of the

COUNT II

Violations of Section 12(a)(2) of the Securities Act Against
Individual Defendants, the Highland Entities, SSB and Bank of America

624. Plaintiffs repeat and reallege the foregoing paragraphs above (except those
contained in Section V, E, above) as though fully set forth herein, except insofar as such
paragraphs might invoke a claim or element of fraud. Plaintiffs bring this count solely pursuant
to the Securities Act to remedy defendants’ negligent conduct. None of the pleadings contained
in this count should be read to claim, invoke or assert any element of fraud against any
defendant. Plaintiffs do not claim, invoke or assert any such element. Allegations of fraudulent
conduct or reckless conduct are expressly excluded from this claim. This claim is asserted
against the Individual Defendants, the Highland Entities, SSB and Banc of America.
625. This Count is asserted against the Individual Defendants, the Highland Entities, SSB and Banc of America (the “Section 12(a)(2) Defendants”) for violations of Section 12(a)(2) of the Securities Act, 15 U.S.C. §77l(a)(2), on behalf of Plaintiffs who were damaged thereby.

626. Plaintiffs have brought this claim within one year of discovery of the violations alleged herein, and within three years of the sales at issue.

627. The Section 12(a)(2) Defendants, by the use and means of instrumentalities of interstate commerce and of the mails, offered and sold Adelphia securities to Plaintiffs by means of the October 1999 Prospectus, the November 1999 Prospectus, the September 2000 Prospectus, the January 2001 Debt Offering Prospectus, the January 2001 Equity Offering Prospectus, the April 2001 Prospectus, the June 2001 Prospectus, the October 2001 Prospectus, the November 2001 Series E Prospectus, the November 2001 Class A Prospectus, the January 2002 Series F Prospectus and the January 2002 Class A Prospectus, each of which prospectuses included untrue statements of material fact and/or omitted to state material facts necessary to make the statements made not misleading in light of the circumstances in which they were made.

628. In ignorance of the falsity of the material misrepresentations and omissions in the October 1999 Prospectus, the November 1999 Prospectus, the September 2000 Prospectus, the January 2001 Debt Offering Prospectus, the January 2001 Equity Offering Prospectus, the April 2001 Prospectus, the June 2001 Prospectus, the October 2001 Prospectus, the November 2001 Series E Prospectus, the November 2001 Class A Prospectus, the January 2002 Series F Prospectus and the January 2002 Class A Prospectus or of the true facts, Plaintiffs purchased the securities issued pursuant to these prospectuses from the Section 12(a)(2) Defendants and have been damaged thereby. Had Plaintiffs known the true facts, Plaintiffs would not have purchased those securities.
629. Plaintiffs will tender their Adelphia securities to the Section 12(a)(2) Defendants, if still owned, in return for the consideration paid; or, will seek equivalent monetary damages, if such securities have been sold.

630. By reason of the foregoing, the Section 12(a)(2) Defendants are liable to Plaintiffs for violations of Section 12(a)(2) of the Securities Act, 15 U.S.C. §77l(a)(2).

**COUNT III**

**Violations of Section 15 of the Securities Act for Controlling Persons Liability Against the Individual Defendants and the Highland Entities**

631. Plaintiffs repeat and reallege only the substantive allegations set forth in the foregoing paragraphs as though fully set forth herein, except insofar as such paragraphs might invoke a claim or element of fraud. Plaintiffs bring this count solely pursuant to the Securities Act to remedy defendants’ negligent conduct. None of the pleadings contained in this count should be read to claim, invoke or assert any element of fraud against any defendant. Plaintiffs do not claim, invoke or assert any such element. Allegations of fraudulent conduct or reckless conduct are expressly excluded from this claim. This claim is asserted against the Individual Defendants and the Highland Entities and each of them.

632. This Count is asserted against the Individual Defendants and the Highland Entities, for violations of Section 15 of the Securities Act, 15 U.S.C. §77o, on behalf of Plaintiffs who were damaged thereby.

633. Plaintiffs have brought this claim within one year of discovery of the violations alleged herein, and within three years of the public offerings and/or sales of securities complained of.

634. The unnamed party Adelphia, by reason of the numerous material misstatements and omissions contained in the May 1999 Registration Statement and the July 2001 Registration Statement, the May 1999 Prospectus, the October 1999 Prospectus, the November 1999
Prospectus, the September 2000 Prospectus, the January 2001 Debt Offering Prospectus, the
January 2001 Equity Offering Prospectus, the April 2001 Prospectus, the June 2001 Prospectus,
the October 2001 Prospectus, the November 2001 Series E Prospectus, the November 2001 Class
A Prospectus, the January 2002 Series F Prospectus and/or the January 2002 Class A Prospectus
used in connection with the offer and sale of its securities as alleged herein, violated Section 11
of the Securities Act.

635. Unnamed party Adelphia, by reason of the numerous material misstatements and
omissions contained in the May 1999 Registration Statement and the July 2001 Registration
Statement, the May 1999 Prospectus, the October 1999 Prospectus, the November 1999
Prospectus, the September 2000 Prospectus, the January 2001 Debt Offering Prospectus, the
January 2001 Equity Offering Prospectus, the April 2001 Prospectus, the June 2001 Prospectus,
the October 2001 Prospectus, the November 2001 Series E Prospectus, the November 2001 Class
A Prospectus, the January 2002 Series F Prospectus and/or the January 2002 Class A Prospectus
used in connection with the offer and sale of its securities as alleged herein, violated Section
12(a)(2) of the Securities Act.

636. The Individual Defendants, and the Highland Entities, by virtue of their positions
within Adelphia, their stock ownership and their specific acts as described herein, were, at the
time of the wrongs alleged herein, controlling persons of Adelphia within the meaning of Section
15 of the Securities Act.

637. The Individual Defendants had the power, influence and authority to direct or
cause the direction of the management and policies of Adelphia, and, therefore, to cause or to
prevent the wrongful conduct and practices complained of herein, and in fact, directed and
caused, in whole or in material part, such management and policies of Adelphia, so as to cause,
and to fail to prevent, the wrongful conduct alleged herein.
638. As a direct and proximate result of the Individual Defendants’ and Highland Entities’ wrongful conduct, Plaintiffs were damaged in connection with their purchases of Adelphia securities issued pursuant to the registration statements and prospectuses described herein.

639. By reason of the conduct alleged in Counts I and II, the Individual Defendants and the Highland Entities are liable jointly and severally and to the same extent as Adelphia, were it named a defendant, for the wrongful conduct alleged herein.

COUNT IV

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities

640. Plaintiffs repeat and reallege the foregoing paragraphs, except the allegations of Counts I-III, above, as if fully set forth herein.

641. This Count is asserted against the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities for violations of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder, on behalf of Plaintiffs, who were damaged thereby.

642. As alleged herein, the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities individually and in concert with Adelphia, directly and indirectly, by the use and means of instrumentalities of interstate commerce and of the mails, knowingly or recklessly engaged and participated in a continuous course of conduct to disseminate materially false and misleading information and to conceal adverse material information about Adelphia, including its true financial position, as specified herein. The Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities knowingly or recklessly employed devices,
schemes, and artifices to defraud Plaintiffs while in possession of material, adverse non-public information, and engaged in acts, practices, and a course of conduct that included the knowing and reckless making of, or participation in the making of, untrue and misleading statements of material facts and omitting to state material facts necessary in order to make the statements made about Adelphia not misleading.

643. The Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities knew or recklessly disregarded that Adelphia’s financial statements for the years 1999, 2000 and 2001 as reported in registration statements, prospectuses and filings with the SEC, and disseminated to the investing public, were materially overstated, failed to disclose material liabilities and were not prepared and presented in accordance with GAAP. In addition, those defendants knew or recklessly disregarded that the registration statements, prospectuses and filings with the SEC complained of were materially false and misleading for the reasons alleged herein.

644. The Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey and the Audit Committee Defendants as directors and/or officers of Adelphia and the Highland Entities, as participants in the fraudulent transactions used as an essential component of the scheme to mislead plaintiffs and the investment community, are liable as direct participants in the wrongs complained of herein. With knowledge of the falsity and misleading nature of the statements contained therein and in reckless disregard of the truth as pertains to those statements, the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities, had the ability to and caused the heretofore complained of public statements to contain material misstatements and omissions of material facts as alleged herein.

645. The misrepresentations and omissions of the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities were
intentional or reckless and done for the purposes of enriching themselves, concealing Adelphia’s true operating and financial condition from Plaintiffs and the investing public, and inducing Plaintiffs to purchase Adelphia securities at artificially high prices.

646. The Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities acted with scienter, in that they either had actual knowledge of the misrepresentations and omissions of material facts set forth herein, or acted with reckless disregard for the truth in that they failed to ascertain and disclose the true facts, even though such facts were available to them. The Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey and the Audit Committee Defendants were directors, officers, and/or members of the senior management of Adelphia, and, therefore, were directly responsible for false and misleading statements and omissions disseminated to the public through financial statements, press releases, news reports, and filings with the SEC.

647. The Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities had the opportunity and motive to commit the wrongful acts alleged herein. Each of the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities, by virtue of their positions as a senior executive and/or director of Adelphia, controlled the reports, press releases, public filings, communications with analysts and other statements issued by Adelphia. Thus, the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey and the Audit Committee Defendants each controlled the public dissemination of the false and misleading statements to the investing public.

648. As a result of the deceptive practices, common schemes and artifices, and false and misleading statements and omissions alleged herein, the prices of Adelphia securities were artificially inflated during the Class Period.
649. In ignorance of the false and misleading statements, the material omissions, and the deceptive and manipulative devices and contrivances employed by the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities, Plaintiffs relied on the integrity of the market for Adelphia securities and/or the statements complained of herein, in purchasing Adelphia securities. Had Plaintiffs known the truth, they would not have purchased the securities or would not have purchased them at the artificially inflated prices that were paid.

650. As a result of their purchases of Adelphia securities at fraudulently inflated prices, Plaintiffs suffered damages in an amount to be proven at trial.

651. By virtue of the foregoing, the Rigas Defendants, Venetis, Gelber, Milliard, Brown, Mulcahey, the Audit Committee Defendants and the Highland Entities have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they knowingly or recklessly: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud and deceit upon Plaintiffs in connection with their purchases of Adelphia securities.

COUNT V

Violations of Section 20(a) of the Exchange Act
Against the Individual Defendants and the Highland Entities

652. Plaintiffs repeat and reallege the foregoing paragraphs, except the allegations of Counts I-III, above, as if fully set forth herein.

653. This Count is asserted against the Individual Defendants and the Highland Entities for violations of Section 20(a) of the Exchange Act, 15 U.S.C. §78t, on behalf of Plaintiffs, who were damaged thereby.
654. Plaintiffs have brought this claim within one year of discovery of the violations alleged herein, and within three years of the violations alleged herein.

655. As alleged herein, the Individual Defendants and the Highland Entities acted as controlling persons of Adelphia within the meaning of Section 20(a) of the Exchange Act. By virtue of their high-level positions, and active participation in and/or awareness of the Company’s day-to-day operations, each Individual Defendant had the power to influence and control and did influence and control, directly or indirectly, the decision-making of the Company, including the content and dissemination of the various statements and SEC filings that Plaintiffs allege are false and misleading. The Individual Defendants were provided with, or had unlimited access to copies of the Company’s reports, press releases, public filings and other statements alleged herein to be misleading prior to and/or shortly after these statements were issued and had the ability to prevent the issuance of the statements or cause the statements to be corrected.

656. In particular, the Individual Defendants had direct and supervisory involvement in the day-to-day operations of the Company and, therefore, are presumed to have had the power to control or influence the particular transactions giving rise to the securities violations as alleged herein, and exercised the same.

657. By virtue of their positions as controlling persons, the Individual Defendants and Highland Entities are liable pursuant to Section 20(a) of the Exchange Act, 15 U.S.C. §78t. As a direct and proximate result of the wrongful conduct, Plaintiffs and the other members of the Class suffered damages in connection with their purchases of the Company’s securities during the Class Period.
COUNT VI

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against Deloitte

658. Plaintiffs repeat and reallege the foregoing paragraphs, except the allegations of Counts I-III, above, as if fully set forth herein.

659. This Count is asserted against Deloitte for violations of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder, on behalf of Plaintiffs, who were damaged thereby.

660. As alleged herein, Deloitte, individually and in concert with Adelphia, the Individual Defendants, and Highland Entities directly and indirectly, by the use and means of instrumentalities of interstate commerce and of the mails, knowingly or recklessly engaged and participated in a continuous course of conduct to disseminate materially false and misleading information and to conceal adverse material information about Adelphia, including its true financial position, as specified herein. Deloitte knowingly or recklessly employed devices, schemes, and artifices to defraud Plaintiffs while in possession of material, adverse non-public information, and engaged in acts, practices, and a course of conduct that included the knowing and reckless making of, or participation in the making of, untrue and misleading statements of material facts and omitting to state material facts necessary in order to make the statements made about Adelphia not misleading.

661. Deloitte acted with scienter in that it knew or recklessly disregarded that its statements in the public documents and statements issued or disseminated by or in the name of Adelphia were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws.
662. Deloitte had actual knowledge of the amount of the Rigas Family Entities’ borrowings under the Co-Borrowing Credit Facilities, that the Rigas Defendants and the Rigas Family Entities had used the proceeds of those borrowings to purchase Adelphia securities and other assets for their own benefit, that those amounts had improperly been excluded from the calculation of Adelphia’s total consolidated debt during the Class Period, that the Rigas Family Entities were engaging in a pattern of egregious self-dealing with respect to Adelphia’s financial resources, and that the Rigas Family Entities lacked the ability to repay their borrowings, leaving Adelphia liable.

663. Deloitte performed auditing and other accounting functions for Adelphia and the Rigas Family Entities, meaning that Deloitte saw every transaction from both sides and knew what co-borrowing debt had been borrowed or allocated to Adelphia subsidiaries or Rigas Family Entities, respectively.

664. Deloitte was aware of and knowingly acquiesced in the Rigas Defendants’ desire to conceal the true amount of Adelphia’s liabilities under the Co-Borrowing Credit Facilities from the public. Deloitte had express conversations with the Rigas Defendants during its audits regarding what disclosures, if any, should be included in Adelphia’s financial statements about the amounts that had been borrowed under the Co-Borrowing Credit Facilities. During these conversations, Deloitte agreed with the Rigas Defendants that none of the co-borrowing debt that had been “allocated” to the Rigas Family Entities had to be disclosed in the Company’s financial statements. Beginning with at least the 2000 audit, Deloitte told the Rigas Defendants that Adelphia should include in a footnote the total amount of credit available under the Co-Borrowing Facilities, as well as the total amount that had been borrowed by the Rigas Family Entities. However, when the Rigas Defendants objected, Deloitte acquiesced in their desire to
conceal this information, despite its material nature and the requirement that it be disclosed under GAAP.

665. The Wall Street Journal also reported on June 10, 2002 that Deloitte had actual knowledge of the Rigas Defendants’ self-dealing -- the co-borrowing facilities, the Rigas Defendants’ use of loan proceeds to buy Adelphia stock, related-party transactions and the Rigas Defendants’ abuse of the CMS -- yet reportedly never informed the Board’s Audit Committee of these matters, and never provided Adelphia with a management letter (which auditors routinely provide at the end of the year to suggest ways for the company to make improvements).

666. Alternatively, Deloitte recklessly disregarded the false and materially misleading statements in Adelphia’s financial statements. Deloitte audited Adelphia’s financial statements for the years 1998, 1999, and 2000 as a purportedly independent auditor. Given its complete access to the personnel, financial records and tax returns of Adelphia, its subsidiaries, the Rigas Family Entities, as well as the extraordinarily frequent occurrence of the related-party transactions and extensive misconduct described above, there can be no question that Deloitte had to be aware of the material misstatements, inaccuracies and omissions contained in Adelphia’s consolidated balance sheets and financial statements. In fact, Deloitte’s audits were so deficient in terms of their lack of GAAS compliance that the only conclusion one can reach is that Deloitte intentionally or, at the very least, recklessly abdicated its auditing responsibilities.

667. Deloitte’s failure to require revision of Adelphia’s financial statements to disclose all material information and accurately reflect Adelphia’s true financial condition and results could only have resulted from a decision on its part to intentionally conceal the truth from Plaintiffs and other Adelphia investors, and/or from its knowing or reckless failure to conduct its audit in accordance with GAAS. The magnitude of the misstatements and omissions in
Adelphia’s financial statements is truly stunning -- the financial statements concealed over $3 billion of off-balance sheet debt from investors and overstated shareholders’ equity by a similar magnitude. Misrepresentations as serious as these leave no question that Deloitte conducted its audit with willful blindness or, at the very least, recklessly failed to perform its audit in accordance with GAAS.

668. Given what Deloitte knew and the information to which it had access, the deficiencies in the disclosure of the Co-Borrowing Credit Facilities in Adelphia’s financial statements had to be patently obvious to Deloitte. By contrast, a diligent investor who reads that disclosure would have no idea (1) that any amounts had been borrowed under the co-borrowing facilities; (2) that entities controlled by the Rigas Defendants borrowed the funds; and (3) that those borrowings were not included in the debt figures that appear elsewhere in the financial statements. The purpose of financial statements is to give investors an accurate picture of a company’s financial condition at a given point in time. A person reading the co-borrowing disclosure had no idea what Adelphia had actually borrowed or what amount of credit remained available under the facilities. Deloitte’s acquiescence in this patently inadequate disclosure was an egregious breach of its professional duty.

669. Moreover, Adelphia presented several prominent “red flags” that should have caused Deloitte to view the Company as “high risk” and ratchet up the intensity of its audits. The Rigas Defendants totally dominated Adelphia, and frequently arranged related party transactions. Adelphia’s CMS constituted the very antithesis of reasonable internal corporate controls. Cash flowed freely among Adelphia’s subsidiaries, Rigas Family Entities, and the pockets of the Rigas Defendants themselves. The existence of this system would have been apparent to any auditor who simply tried to verify balances in Adelphia bank accounts. Indeed, the internal control deficiencies were so great that they undermined the validity of the financial
numbers being generated by Adelphia’s management. The true facts concerning what was happening at Adelphia were simply too prominent for an accounting firm as reputedly competent as Deloitte to have ignored, if it were conducting its audit properly. The severity of the internal control deficiencies is evidenced by the inability of Adelphia, as of the date of this pleading, to restate its 1999 and 2000 financial statements and to complete its financial statements for any subsequent period or to predict when it may be able to issue such financial statements.

670. Deloitte also had the opportunity and motive to commit the wrongful acts alleged herein. Deloitte had opportunity when it conducted audits and gave its auditors’ opinions. Deloitte’s motive was to secure and maintain Adelphia’s business, as well as other business from the Rigas Defendants besides the auditing work, such as tax, consulting and other accounting work. In particular, Deloitte was motivated by a desire to continue to perform accounting services for the Rigas Family Entities. These services were a source of revenue to Deloitte that far exceeded the funds it earned from performing audit services for Adelphia. This explains why Deloitte backed down in the face of the Rigas Defendants’ objections to Deloitte's half-hearted suggestion that Adelphia disclose the amounts borrowed by the Rigas Family Entities. Deloitte had a clear motive not to dispute the Rigas Defendants on this point; had Deloitte not acquiesced, the Rigases could have taken the Rigas Family Entities’ work away from Deloitte without incurring any negative consequences. Keeping that work was a concrete benefit that gave Deloitte sufficient motive to commit fraud.

671. As a result of Deloitte's deceptive practices, common schemes and artifices, and false and misleading statements and omissions and participation in the fraudulent scheme alleged herein, the prices of Adelphia securities were artificially inflated.

672. In ignorance of the false and misleading statements, the material omissions, and the deceptive and manipulative devices and contrivances employed by Deloitte, Plaintiffs relied
on the integrity of the market for Adelphia securities and/or the statements complained of herein in purchasing Adelphia securities. Had Plaintiffs known the truth, they would not have purchased the securities or would not have purchased them at the artificially inflated prices that were paid.

673. As a result of their purchases of Adelphia securities at fraudulently inflated prices, Plaintiffs suffered damages in an amount to be proven at trial.

674. By virtue of the foregoing, Deloitte has violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that Deloitte knowingly or recklessly: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud and deceit upon Plaintiffs in connection with their purchases of Adelphia securities.

**COUNT VII**

**Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against the Underwriter Defendants**

675. Plaintiffs repeat and reallege the foregoing paragraphs, except Counts I-III above, as if fully set forth herein.

676. This Count is asserted against the Underwriter Defendants (the “Section 10(b) Underwriter Defendants”) for violations of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder, on behalf of Plaintiffs, who were damaged thereby.

677. As alleged herein, the Section 10(b) Underwriter Defendants, individually and in concert with Adelphia, the Individual Defendants, the Highland Entities, Deloitte and the Section 10(b) Lending Bank Defendants (defined below), directly and indirectly, by the use and means of
instrumentalities of interstate commerce and of the mails, knowingly or recklessly engaged and participated in a continuous course of conduct to disseminate materially false and misleading information and to conceal adverse material information about Adelphia, including its true financial position, as specified herein. The Section 10(b) Underwriter Defendants knowingly or recklessly employed devices, schemes, and artifices to defraud Plaintiffs while in possession of material, adverse non-public information, and engaged in acts, practices, and a course of conduct that included the knowing and reckless making of, or participation in the making of, untrue and misleading statements of material facts and omitting to state material facts necessary in order to make the statements made about Adelphia not misleading.

678. The Section 10(b) Underwriter Defendants acted with scienter in that they knew or recklessly disregarded that the public documents and statements issued or disseminated by them or in the name of Adelphia were materially false and misleading; knew that such statements or documents would be issued or disseminated to the investing public; and knowingly and substantially participated or acquiesced in the issuance or dissemination of such statements or documents as primary violations of the federal securities laws. By virtue of their failure to check the accuracy of information which they had a duty to monitor, and their receipt of information reflecting the true facts regarding Adelphia, their control over, and/or receipt and/or modification of Adelphia’s allegedly materially misleading misstatements and/or their associations with the Company which made them privy to confidential proprietary information concerning Adelphia, the Section 10(b) Underwriter Defendants knowingly or recklessly made material representations or omissions, knowingly or recklessly employed devices, schemes and artifices to defraud, and knowingly or recklessly engaged in acts, practices and courses of conduct which operated as a fraud and deceit upon Plaintiffs. The ongoing fraudulent scheme described in this Complaint
could not have been perpetrated over a substantial period of time, as has occurred, without the knowledge and complicity of the Section 10(b) Underwriter Defendants.

679. The Section 10(b) Underwriter Defendants conducted extensive due diligence of Adelphia in connection with its public offerings of securities. Moreover, each of the Section 10(b) Underwriter Defendants had complete access to Adelphia’s internal records through their affiliate Section 10(b) Lending Bank Defendants. At all relevant times, the Section 10(b) Underwriter Defendants and their respective Section 10(b) Lending Bank Defendant affiliates shared all material information and due diligence regarding Adelphia, the Rigas Family Entities and the Rigas Defendants. The Section 10(b) Underwriter Defendants and the Section 10(b) Lending Bank Defendants did not properly maintain the “information walls” that would prohibit the sharing of such information. To the contrary, the Section 10(b) Underwriter Defendants and the Section 10(b) Lending Bank Defendants needed to and, in fact, did share information to maximize their ability to obtain additional fees. Thus, uncovering the fraud would have been as simple as requesting from Adelphia -- or their Lending Bank Defendant affiliates -- the amounts outstanding under Adelphia’s credit facilities and comparing those amounts with Adelphia’s SEC filings. The Section 10(b) Underwriter Defendants either obtained this information from their affiliated lenders (which would have provided actual notice of the fraud) or they recklessly failed to do so.

680. The Section 10(b) Underwriter Defendants knew about, or recklessly disregarded, the facts concerning the Rigas Defendants’ acts of self-dealing and their concealment of those acts from the investing public. Moreover, the Section 10(b) Underwriter Defendants knew, or recklessly disregarded, the fact that Adelphia’s financial statements for 1999, 2000 and 2001 -- and the registration statements and prospectuses incorporating the financial statements by reference -- repeatedly understated the amount of Adelphia’s total consolidated debt by failing to
include the amount of the Rigas Family Entities’ borrowings under the Co-Borrowing Credit Facilities and failed to disclose all material information concerning those facilities.

681. The Section 10(b) Underwriter Defendants had the opportunity and motive to commit the wrongful acts alleged herein. Each of these defendants exercised control over the contents and participated in the drafting of the prospectuses and registration statements for each of the public offerings at issue in this Complaint.

682. The motive for the Section 10(b) Underwriter Defendants to participate in the fraudulent scheme was to maintain Adelphia’s underwriting business, especially in light of Adelphia’s frequent solicitations of the capital markets. These defendants knew that disclosure of adverse information about the Rigas Defendants could result in the loss of lucrative business. The Section 10(b) Underwriter Defendants focused significantly more effort on generating fee income than ensuring appropriate disclosure of the Co-Borrowing Credit Facilities.

683. The Section 10(b) Underwriter Defendants had the additional motive to make sure that their respective parents and/or affiliates, the Section 10(b) Lending Bank Defendants, got paid back the money they had loaned Adelphia under the Company’s Co-Borrowing Credit Facilities or other credit facilities and continued to reap the lucrative banking fees associated with those facilities. The public offerings on which the Section 10(b) Underwriter Defendants served as underwriters generated a pool of funds that enabled Adelphia to periodically retire a portion of its commercial debt. The Section 10(b) Underwriter Defendants thus had ample motive for manipulating the public to buy Adelphia securities in its public offerings.

684. As a result of the deceptive practices, common schemes and artifices, and false and misleading statements and omissions alleged herein, the prices of Adelphia securities were artificially inflated.
685. In ignorance of the false and misleading statements, the material omissions, and the deceptive and manipulative devices and contrivances employed by the Section 10(b) Underwriter Defendants, Plaintiffs relied on the integrity of the market for Adelphia securities and/or the statements complained of herein in purchasing Adelphia securities. Had Plaintiffs known the truth, they would not have purchased the securities or would not have purchased them at the artificially inflated prices that were paid.

686. As a result of their purchases of Adelphia securities at fraudulently inflated prices, Plaintiffs suffered damages in an amount to be proven at trial.

687. By virtue of the foregoing, the Section 10(b) Underwriter Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they knowingly or recklessly: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud and deceit upon Plaintiffs in connection with their purchases of Adelphia securities.

COUNT VIII

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against the Lending Bank Defendants

688. Plaintiffs repeat and reallege the foregoing paragraphs, except the allegations of Counts I-III above, as if fully set forth herein.

689. This Count is asserted against the Lending Bank Defendants for violations of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder, on behalf of Plaintiffs, who were damaged thereby.

690. As alleged herein, the Lending Bank Defendants, individually and in concert with Adelphia, the Individual Defendants and their Underwriter Defendant affiliates, directly and
indirectly, by the use and means of instrumentalities of interstate commerce and of the mails, knowingly or recklessly engaged and participated in a continuous course of conduct to affect the integrity of the market for Adelphia securities and/or conceal adverse material information about Adelphia, including its true financial position, as specified herein. In violation of Rule 10b-5(a) and (c), the Lending Bank Defendants knowingly or recklessly employed devices, schemes, or artifices to defraud Plaintiffs, engaged in any acts, practices, or courses of business which operated as a fraud or deceit upon Plaintiffs and directly or indirectly employed manipulative or deceptive devices or contrivances.

691. The Lending Bank Defendants knowingly employed a fraudulent and manipulative scheme to reduce their own risk exposure at the expense of Adelphia’s securities holders, thereby violating Rules 10b-5(a) and (c). Specifically, the Lending Bank Defendants, through their Underwriter Defendant affiliates, engineered the issuance and sale of numerous rounds of debt securities in order to increase the capital available to Adelphia to support and/or pay down their credit facilities and generate investment banking fees for their affiliates. The Lending Bank Defendants had full access to internal financial documents (to which investors like Plaintiffs had no access) and were in a unique position to assess the creditworthiness (or lack thereof) of Adelphia and to hedge their lending bets by tapping the resources of unwitting investors through the public markets. Not only did this scheme result in the reduction of the Lending Bank Defendants’ risk exposure, but it also added to their revenues through the many millions of dollars in underwriting fees paid by Adelphia to their Underwriter Defendants affiliates. In these circumstances, the Lending Bank Defendants employed a “manipulative device” within the meaning of Section 10(b) and Rule 10b-5.

692. The Lending Bank Defendants acted with scienter. First, the facts pled herein give rise to a strong inference of conscious misbehavior or recklessness on the part of the
Lending Bank Defendants. These defendants knew or recklessly disregarded that Adelphia’s filings with the SEC consistently concealed the true amount of Adelphia’s co-borrowing liability. Obviously, the Lending Bank Defendants knew the amount owing under the Co-Borrowing Credit Facilities in which they participated. In addition, since Wachovia and BMO Nesbitt were agents or lenders under all of the Co-Borrowing Credit Facilities, these institutions also knew the outstanding balances of all of Adelphia’s bank debt.

693. The Lending Bank Defendants also knew or recklessly disregarded the existence of other falsities and material misrepresentations in Adelphia’s SEC filings -- knowledge they gained from their intimate relationship with Adelphia and unique degree of access to Adelphia’s internal documents. When deciding whether to extend loans or credit facilities to a borrower such as Adelphia, the Lending Bank Defendants performed a detailed analysis of the Company’s credit in order to satisfy itself that the borrower is actually capable of repaying the loan. This credit analysis includes a thorough review of the borrower’s financial records in order to evaluate the borrower’s assets, actual and contingent liabilities, shareholder’s equity, earnings and liquidity. The Lending Bank Defendants performed such in-depth credit analyses of Adelphia in connection with the credit facilities they extended to Adelphia and its affiliates, as well as an analysis of the Lending Bank Defendants’ position in the seniority structure.

694. In addition, before each of the Co-Borrowing Credit Facilities closed, the Lending Bank Defendants participating in each facility obtained summaries, reports and other information relating to the CMS. Thus, the Lending Bank Defendants knew of, or recklessly disregarded, the existence of the CMS, the commingling of funds in the CMS, and the fraudulent use by the Rigas Defendants of funds within the CMS. In particular, Wachovia, by virtue of its oversight of the CMS, Highland Holdings accounts and other Rigas Family Entities accounts that received
transfers from the CMS, knew or recklessly disregarded the fraudulent nature of the transfers between Adelphia and Rigas Family Entities via the CMS.

695. Further, the Lending Bank Defendants performed due diligence for themselves in connection with the credit facilities not unlike the due diligence underwriters are supposed to perform for public investors.

696. In addition, the Lending Bank Defendants on a continuing basis closely monitored the financial condition and performance of Adelphia and any of its affiliates who borrowed money from them, and received or had access to extensive non-public information about Adelphia. The purpose of this monitoring was to detect any changes in the financial affairs of the borrowers that could jeopardize the Lending Bank Defendants’ ability to obtain repayment of their loan. All of the Lending Bank Defendants also regularly received compliance certificates from Adelphia evidencing the true amounts outstanding under Adelphia’s credit facilities and the status of Adelphia’s compliance with its bank and indenture covenants.

697. The Lending Bank Defendants performed periodic analyses demonstrating Adelphia’s concealment of billions of dollars under the Co-Borrowing Credit Facilities on its balance sheet. For example, on or about March 29, 2001, defendant Wachovia performed an analysis of Adelphia's total outstanding "bank debt" at the subsidiary level, as of September 30, 2000, under the two Co-Borrowing Credit Facilities then outstanding -- UCA and CCH -- and under the other non-co-borrowing credit facilities then outstanding. Wachovia determined that Adelphia’s total "bank debt" as of September 30, 2000 was approximately $5.2 billion.

698. Adelphia's public filings for the same period, however, disclosed that bank debt, as of September 30, 2000, was approximately $3.8 billion. Wachovia did not need any “special” access to Adelphia to obtain this information. To the contrary, all of the Lending Bank Defendants could have made this calculation based on information readily accessible to them as
lenders. Thus, the Lending Bank Defendants knew or recklessly disregarded that Adelphia was understating its total bank debt in 2000 by approximately $1.4 billion and that Adelphia’s leverage was not being reduced as represented.

699. In addition to the information the Lending Bank Defendants received as lenders, these defendants and their Underwriter Defendants affiliates had additional and ample opportunities to learn all material aspects of Adelphia’s business and finances. As more fully set forth below, each of the Lending Bank Defendants and their Underwriter Defendant affiliates, as many of Adelphia and the Rigas Defendants’ long-time lenders, investment bankers, underwriters, financial analysts, financial advisors and strategic partners, had access to and possession of significant non-public information concerning the financial affairs of Adelphia, the Rigas Family Entities and the Rigas Defendants.

700. Moreover, the Underwriter Defendants had a legal obligation to conduct extensive due diligence in connection with the securities offerings they underwrote. As alleged above, the Underwriter Defendants freely shared the information in their possession about Adelphia with their affiliated Lending Bank Defendants.

701. Most of the bank accounts through which the fraudulently obtained and concealed co-borrowing funds flowed -- principally the CMS and the Rigas Defendants’ and Rigas Family Entities’ personal accounts -- were maintained at defendant Wachovia. In many instances, Wachovia would fund, or otherwise be aware of, massive draw downs by an Adelphia subsidiary under the Co-Borrowing Credit Facilities on the same day that the Rigas Family Entities deposited or transferred significant amounts, which, in some instances, matched the amounts drawn down under a Co-Borrowing Credit Facility the very same day. As such, Wachovia knew or recklessly disregarded Adelphia and the Rigas Defendants’ fraudulent conduct.
702. For example, records of Adelphia, BOA and Wachovia reflect that, on July 3, 2000, Highland Prestige, a Rigas Family Entity, drew $145 million under the CCH Credit Facility. The money was transferred directly from BOA, the administrative agent under the CCH Co-Borrowing Facility, to a Highland Prestige bank account at Wachovia. That same day, Highland Prestige transferred approximately $145 million from the same account to the account of another Rigas Family Entity (not a co-borrower), which used the funds to acquire shares of Adelphia Class B Common Stock.

703. After May 1999, each of the Lending Bank Defendants knew that (i) Adelphia and the Rigas Family Entities were commingling cash, (ii) Adelphia and its subsidiaries had agreed to be liable for co-borrowing funds drawn by the Rigas Family Entities, and (iii) the Rigas Defendants were using the Co-Borrowing Credit Facilities for personal expenses, including, but not limited to, the purchase of securities issued by Adelphia.

704. The Lending Bank Defendants also had ample motive and opportunity to commit fraud. The Lending Bank Defendants made no meaningful distinction between Adelphia, the Rigas Defendants, and the Rigas Family Entities. Indeed, they realized that the key to doing business with Adelphia was to satisfy the personal financial demands of the Rigas Defendants.

705. The Lending Bank Defendants engaged in the scheme to defraud Adelphia’s investors -- including Plaintiffs -- through the public offerings of Adelphia securities by their Underwriter Defendant affiliates in order to (1) reduce their credit risk exposure on their loans to Adelphia, and (2) generate massive investment banking fees for their Underwriter Defendant affiliates. By proceeding in this manner, the Lending Bank Defendants could reduce their exposure while continuing to reap the financial rewards of their continued extensions of credit to Adelphia. Additional extensions of financing to Adelphia would increase their revenues related to debt service, and their ability to send their affiliated investment banks to the public markets.
again and again would ensure both continued risk management and the influx of further substantial underwriting fees. Indeed, the Lending Bank Defendants even permitted loans to Adelphia in excess of their own internal lending limits precisely because they knew they could reduce the risk of default by orchestrating the sale of Adelphia securities to the public through the Underwriter Defendants.

706. Defendants Citicorp and/or Citibank and BOA also provided huge margin loans to the Rigas Defendants. The desire for repayment of these loans also provided a strong motive for these defendants to participate in the fraudulent scheme. So long as the Rigas Defendants continued to have access to the proceeds of the Co-Borrowing Credit Facilities, Citicorp and/or Citibank and BOA would always have a second, secured source of repayment if the Rigas Defendants defaulted on the margin loans.

707. As a result of the deceptive practices, common schemes and artifices, and false and misleading statements and omissions alleged herein, the prices of Adelphia securities were artificially inflated.

708. In ignorance of the false and misleading statements, the material omissions, and the deceptive and manipulative devices and contrivances employed by the Lending Bank Defendants, Plaintiffs relied on the integrity of the market for Adelphia securities. Had Plaintiffs known the truth, they would not have purchased the securities or would not have purchased them at the artificially inflated prices that were paid.

709. As a result of their purchases of Adelphia securities at fraudulently inflated prices, Plaintiffs suffered damages in an amount to be proven at trial.

710. By virtue of the foregoing, the Lending Bank Defendants have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that they knowingly or recklessly: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of
material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud and deceit upon Plaintiffs in connection with their purchases of Adelphia securities.

COUNT IX

Violations of Section 10(b) of the Exchange Act and Rule 10b-5 Promulgated Thereunder Against Buchanan

711. Plaintiffs repeat and reallege the foregoing paragraphs, except Counts I-III above, as if fully set forth herein.

712. This Count is asserted against Buchanan for violations of Section 10(b) of the Exchange Act, 15 U.S.C. §78j(b), and Rule 10b-5, 17 C.F.R. §240.10b-5, promulgated thereunder, on behalf of Plaintiffs, who were damaged thereby.

713. As alleged herein, Buchanan served as Adelphia’s long-time outside counsel. In this capacity, Buchanan provided legal services to Adelphia in connection with the Company’s efforts to raise money from investors on the capital markets. Buchanan also provided legal services in connection with the Co-Borrowing Credit Facilities and all of the underlying documentation related to such facilities including documents pertaining to compliance with such facilities.

714. At all relevant times, Buchanan acted as legal counsel to Adelphia, was responsible for reviewing the prospectuses and registration statements for Adelphia and provided an expert legal opinion as to the validity of the securities issued by Adelphia in the October 1999 Offering, the November 1999 Offering, the September 2000 Offering, the January 2001 Offerings, the April 2001 Offering, the June 2001 Offering, the October 2001 Offering, the November 2001 Offerings, and the January 2002 Offerings.
Buchanan prepared, drafted, reviewed and/or approved each of Adelphia’s registration statements, prospectuses, 10-Ks, 10-Qs and 8-Ks issued from 1997 until the close of the Class Period. Specifically, Buchanan provided written legal opinions to Adelphia that the notes it issued to investors in public offerings were “duly authorized,” “valid” and “validly issued.” Whenever Adelphia issued new securities to the public, Buchanan provided a written expert legal opinion on the validity of the bonds. This expert opinion appeared in two places for each offering. In the section entitled “Legal Matters,” the prospectuses for each of those offerings represented -- with Buchanan’s consent -- that the “validity of the Notes will be passed upon for [Adelphia] by Buchanan Ingersoll Professional Corporation, Pittsburgh, Pennsylvania.” This statement constituted a representation by Buchanan that (i) it would determine whether the notes were valid prior to their being issued to the public, and (ii) if it determined the notes were not valid, Adelphia would not complete the offering.

Buchanan’s opinions were materially misleading because they failed to disclose the material fact that Adelphia was prohibited from issuing the bonds under existing indenture covenants and had otherwise committed serious and repeated violations of those covenants. These misrepresentations and material omissions resulted from Buchanan’s failure to conduct a reasonable investigation.

Buchanan also had a prominent role in the drafting and preparation of Adelphia’s SEC filings. Buchanan drafted, prepared, reviewed and approved Adelphia’s 10-Ks for the years ending December 31, 1998, 1999 and 2000, as well as the 10-Qs issued for the quarterly periods during those years and 2001. Buchanan’s responsibilities in drafting, preparing, reviewing and approving these documents included conducting a reasonable investigation to confirm that these documents did not contain any false or materially misleading statements. Each of these filings contained numerous false statements and were materially misleading due to the omission of
numerous material facts. By drafting, preparing, reviewing and approving the 10-Ks and 10-Qs described above, Buchanan caused material misstatements and omissions to be made in those filings.

718. By virtue of the foregoing, Buchanan violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that it knowingly or recklessly: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud and deceit upon Plaintiffs in connection with their purchases of Adelphia securities.

719. As a result of their purchases of Adelphia securities at fraudulently inflated prices, Plaintiffs suffered damages in an amount to be proven at trial.

720. By virtue of the foregoing, Buchanan has violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder in that it knowingly or recklessly: (a) employed devices, schemes, or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; or (c) engaged in acts, practices, or courses of business which operated as a fraud and deceit upon Plaintiffs in connection with their purchases of Adelphia securities.

COUNT X

Common Law Fraud as Against the Rigas Defendants and the Highland Entities

721. Plaintiffs repeat and reallege the foregoing paragraphs, except Counts I-III above, as though fully set forth herein. This count is alleged against the Rigas Defendants and the Highland Entities.
722. As set forth in more detail above, the Rigas Defendants and the Highland Entities knowingly and/or recklessly caused Adelphia systematically and fraudulently to fail to report billions of dollars in liabilities in its consolidated financial statements. As a consequence, Adelphia’s financial statements during the Class Period contained material misrepresentations of fact and omitted to state material facts. In addition, certain Individual Defendants, as alleged in detail above, made public statements during the Class Period and caused Adelphia to make public statements during the Class Period that contained material misrepresentations and omissions.

723. Plaintiffs and the members of the Class relied upon the material misrepresentations and omissions in Adelphia’s financial statements and the other statements issued by Adelphia and the Rigas Defendants during the Class Period. Plaintiffs and the members of the Class would not have purchased the securities of Adelphia at the prices they paid, or maintained their investments in Adelphia, had they known that the statements made by Adelphia and the Rigas Defendants were materially false and misleading and/or omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

724. Plaintiffs and the other members of the class were thereby damaged in amounts to be determined at trial.

**COUNT XI**

**Aiding and Abetting Common Law Fraud Against the Lending Bank Defendants**

725. Plaintiffs repeat and reallege the foregoing paragraphs, except Counts I-III above, as though fully set forth herein. This Count is alleged against the Lending Banks Defendants, and each of them.
726. As alleged above, the Lending Bank Defendants, and each of them, were the lead lending banks under the Company’s Co-Borrowing Credit Facilities during the Class Period. During the Class Period the Lending Bank Defendants, and each of them, knowingly turned a blind eye to the fact that the Rigas Defendants and Adelphia were utilizing the proceeds of the Co-Borrowing Credit Facilities to perpetrate a massive fraudulent scheme. The Lending Bank Defendants, and each of them, with knowledge of the under-reporting of debt, continued to loan money under the Co-Borrowing Credit Facilities, knowing that they were thereby funding a fraudulent scheme whereby the Company, having misstated its liabilities, was able to continue to raise money in the public securities markets to fund its cash needs and thereby to keep the scheme in operation.

727. The Lending Bank Defendants, and each of them, possessed knowledge of the fraud being perpetrated by the Rigas Defendants and Adelphia in that each of the Lending Bank Defendants conducted substantial due diligence and ongoing monitoring of Adelphia’s business and operations during the Class Period. As part of such ongoing monitoring, the Lending Bank Defendants during the Class Period regularly received reports showing the amounts drawn down under the Co-Borrowing Credit Facilities and the status of all other indebtedness of Adelphia. Thus, unlike Adelphia’s public investors, the Lending Bank Defendants knew the sum total of all amounts borrowed under the Co-Borrowing Credit Facilities during the Class Period, including all amounts ostensibly “borrowed” by the Rigas Family Entities that were co-borrowers thereunder. The Lending Bank Defendants continued extending credit under the Co-Borrowing Credit Facilities knowing of the enormous discrepancy between this sum total and the amounts of indebtedness publicly reported by Adelphia. The Lending Bank Defendants thus knew that this discrepancy represented indebtedness of Adelphia fraudulently concealed from public investors. The Lending Bank Defendants, and each of them, also possessed knowledge of the
fraud being perpetrated by the Rigas Defendants and Adelphia in that each had access to the material non-public information concerning the financial condition and operations of Adelphia garnered by their respective investment banking affiliates, as alleged above.

728. The Lending Bank Defendants, and each of them, extended billions of dollars under such credit facilities during the Class Period knowing that, although Adelphia was directly liable for all indebtedness incurred thereunder, up to $3.4 billion of such debt was fraudulently omitted from Adelphia’s consolidated financial statements and concealed from public investors. The Lending Bank Defendants also knowingly disregarded that such fraudulently unreported debt was being diverted to the Rigas Family Entities’ personal use. Notwithstanding this knowledge, the Lending Bank Defendants continued to authorize extensions of credit under such facilities during the Class Period.

729. As alleged above, these extensions of credit by the Lending Bank Defendants, and each of them, during the Class Period constituted atypical, extraordinary and non-routine financing transactions, in that, *inter alia*, they violated internal credit limits and policies of the Lending Bank Defendants and in that the Lending Bank Defendants knew that Adelphia was not a sound credit risk but rather, contrary to the way the Company was portrayed to the public, was in precarious financial condition.

730. The Lending Bank Defendants, and each of them, enhanced their respective positions by virtue of such continued lending in that they derived substantial economic benefit from their relationship with Adelphia and the Rigas Defendants. The Lending Bank Defendants received enormous profits, fees, interest payments for loans, payments for syndication services and loan commitment fees from Adelphia. By virtue of their continued extensions of credit, the Lending Bank Defendants also secured lucrative underwriting engagements for their investment banking affiliates.
731. The Lending Bank Defendants, and each of them, also enhanced their respective positions in that the continued extensions of credit to Adelphia enabled the Company to keep the fraudulent scheme being perpetrated by the Rigas Defendants and Adelphia in operation. This ensured that Adelphia would continue to have access to capital markets which would permit it regularly to raise enormous sums of money in fresh capital from public investors that Adelphia could then use to repay to the Lending Bank Defendants the monies owed under the Co-Borrowing Credit Facilities. The Lending Bank Defendants also affirmatively encouraged the Company to conduct public offerings during the Class Period and thereby to raise fresh capital from unsuspecting public investors that Adelphia could then use to repay the Lending Bank Defendants, in that the Lending Bank Defendants proffered the services of their Affiliated Investment Banks to underwrite such offerings.

732. By virtue of their continued lending under the Co-Borrowing Credit Facilities during the Class Period, the Lending Bank Defendants, and each of them, knowingly and substantially assisted the Rigas Defendants and Adelphia in the perpetration of their fraudulent scheme. Without such lending, the fraudulent scheme being perpetrated by the Rigas Defendants and Adelphia could not have continued in operation during the Class Period.

733. The Lending Bank Defendants, and each of them, were motivated to, and did, continue to extend credit under the Co-Borrowing Credit Facilities during the Class Period, and thereby knowingly and substantially assist the Rigas Defendants and Adelphia in the perpetration of their fraudulent scheme, because such conduct materially enhanced their respective positions, as alleged above. In particular, the Lending Bank Defendants, and each of them, not only received enormous profits, fees, interest payments for loans, payments for syndication services and loan commitment fees from Adelphia by virtue of their continued extensions of credit, but also secured lucrative underwriting engagements for their investment banking affiliates and
ensured that Adelphia would continue to have access to capital markets which would permit it regularly to raise enormous sums of money in fresh capital from public investors that Adelphia could then use to repay to the Lending Bank Defendants the monies owed under the Co-Borrowing Credit Facilities.

734. The Lending Bank Defendants, and each of them, thus possessed a heightened economic motive to assist the fraud being perpetrated by the Rigas Defendants and Adelphia, beyond any ordinary expectation of receiving appropriate fees and interest for serving as commercial lenders. As a result, the Lending Bank Defendants, and each of them, derived extraordinary monetary consideration at the expense of plaintiffs and the members of the Class.

735. By virtue of the foregoing, the Lending Bank Defendants, and each of them, engaged in conscious misconduct. With knowledge, such defendants, and each of them, provided substantial assistance to the Rigas Defendants and Adelphia in the perpetration of the fraud alleged herein. The Lending Bank Defendants, and each of them, thereby aided and abetted such fraud.

736. As a result of the foregoing, plaintiffs and the other members of the Class suffered damages in amounts to be determined at trial.

737. The conduct of the Lending Bank Defendants in aiding and abetting the fraudulent scheme alleged herein was malicious, willful, wanton, and oppressive, and in reckless disregard of the rights of Plaintiffs and the other members of the class, thereby warranting the imposition of punitive damages against the Lending Bank Defendants, and each of them, in addition to the compensatory damages in accordance with the proof at trial.
COUNT XII

Violations of Substantive Provisions of the Trust Indenture Act Against BONY

738. Plaintiffs repeat and reallege the foregoing paragraphs, except Counts I-III above, as if fully set forth herein.

739. This Count is brought against BONY, for violations of substantive provisions of the TIA, and Section 313, 15 U.S.C. §77mmm, on behalf of Plaintiffs and the Class, who were damaged thereby.

740. As set forth in greater detail above, BONY was the Indenture Trustee under the Indentures pursuant to which debt securities of Adelphia were issued and sold to Plaintiffs and the Class during the Class Period.

741. BONY possessed multiple Statutory Conflicts in violation of the TIA because Adelphia was in default on the Indenture securities while at the same time BONY was both a creditor of Adelphia and under common control with defendant BNY, an underwriter of Adelphia securities.

742. BONY had actual notice of the Company’s defaults under the Indentures because, in its capacity as lender and underwriter, BONY had access to the operative loan agreements, financial records and due diligence materials which showed such defaults. Nevertheless, BONY violated the TIA in that at no time did BONY notify Plaintiffs, Class members or the SEC of the existence of BONY’s lending relationships with Adelphia, or Adelphia’s defaults under the Indentures.

743. BONY further violated the TIA in that it failed to, inter alia (i) disclose the existence and terms of its loan arrangements with Adelphia, including “the amount, interest rate, and maturity date of all other indebtedness owing to it” by Adelphia; (ii) disclose that Adelphia was in default under the Indentures; (iii) disclose the existence of the Statutory Conflicts that
BONY had which, under the TIA, compelled BONY’s disqualification as trustee under the Indentures; (iv) resign as trustee under the Indentures despite the existence of Adelphia’s defaults and the existence of BONY’s disqualifying conflicts; and (v) exercise the degree of skill and care of a “prudent man” required under the TIA.

744. In violation of its “prudent man” responsibilities, BONY failed to:

1) notify bondholders of the default;
2) prohibit further issuance of bonds pursuant to the Indentures;
3) collect Adelphia’s assets for the benefit of bondholders; and
4) discontinue lending under the Co-Borrowing Credit Facilities and other credit agreements pursuant to which it and other lending banks obtained a priority over the debt holders.

Most importantly, BONY failed to apprise Class members as to the total bank debt outstanding. In fact, BONY at all times knew that the publicly disclosed debt at Adelphia was materially less than the actual amount loaned pursuant to the Co-Borrowing Credit Facilities.

745. Although the duty to resign upon the creation of a relationship specified as a statutory conflict under the TIA arises only if the indenture securities are in default (whether or not the Indenture Trustee has notice of such default), Section 313 of the TIA requires that the Indenture Trustee report the existence, creation or any change to any relationship concerning a Statutory Conflict even if the indenture securities are not in default. BONY’s failure to disclose the existence and circumstances concerning its lending arrangements with Adelphia in violation of Section 313 establishes BONY’s bad faith and failure to act as a “prudent man” per se in this case.

746. As a direct and proximate result of BONY’s acts and omissions in violation of the TIA, as set forth above, Plaintiffs and the members of the Class suffered substantial damage, in amounts to be determined at trial.
COUNT XIII

Common Law Breach of Contract Against BONY

747. Plaintiffs repeat and reallege the foregoing paragraph, except Counts I-III above, as if fully set forth herein.

748. This Count is brought against BONY, for common law breach of contract on behalf of Plaintiff and the Class who were damaged thereby.

749. As set forth in greater detail above, the Indentures referenced above constitute valid and enforceable contracts by and between BONY and the purchasers of Adelphia debt securities issued pursuant thereto, including Plaintiffs and the Class. By virtue of Section 318 of the TIA, 15 U.S.C. § 77rrr, the provisions of the TIA imposing duties on Indenture Trustees are automatically deemed to be included, part of and to govern all trust indentures, including those referenced here, whether or not physically contained therein, and are not waivable.

750. Plaintiffs and members of the Class performed all of their obligations pursuant to the Indentures. However, BONY breached the terms of the Indentures by virtue of the acts and omissions set forth above.

751. As a direct and proximate result of BONY’s breach of contract, Plaintiffs and the members of the Class suffered substantial damage, in amounts to be determined at trial.

COUNT XIV

Common Law Breach of Fiduciary Duty Against BONY

752. Plaintiffs repeat and reallege the foregoing paragraphs, except Counts I-III above, as if fully set forth herein.

753. This Count is brought against BONY, for common law breach of fiduciary duty, on behalf of Plaintiffs, who were damaged thereby.
754. As set forth in greater detail above, by virtue of its position as Indenture Trustee under the Indentures, BONY owed a fiduciary duty to Plaintiffs and members of the Class.

755. By virtue of the conduct and omissions alleged above including BONY’s post-default conduct whereby it favored itself and the Lending Bank Defendants over Plaintiffs and members of the Class, BONY has breached its fiduciary duties to Plaintiffs and the members of the Class.

756. As a direct and proximate result of BONY’s breach of fiduciary duties, Plaintiffs and members of the Class suffered substantial damage, in amounts to be determined at trial.

**COUNT XV**

**Common Law Negligence Against BONY**

757. Plaintiffs repeat and reallege the foregoing paragraphs, except Counts I-III above, as if fully set forth herein.

758. This Count is brought against BONY, for common law negligence, on behalf of Plaintiffs, who were damaged thereby.

759. As set forth in greater detail above, by accepting the position of trustee under the Indentures, BONY undertook a duty to Plaintiffs and to each Class Member to exercise reasonable care and skill in the performance of its rights and duties under the Indentures, including, in the event of a default, the duty to act as a prudent man under the circumstances.

760. By virtue of Adelphia’s default under the Indentures and BONY’s acts and omissions set forth above, BONY breached its duty to exercise reasonable skill and care in the performance of its rights and duties under the Indentures, and breached its duty to act as a prudent man.
As a direct and proximate result of BONY’s breach of its duties as set forth above, Plaintiffs and the Class suffered substantial economic damage only, in amounts to be determined at trial.

**PRAYER FOR RELIEF**

WHEREFORE, plaintiffs pray for relief and judgment, as follows:

1. Determining that this action is a proper class action, designating Lead Plaintiffs and/or other additional named plaintiffs as class representatives under Rule 23 of the Federal Rules of Civil Procedure, and designating Lead Plaintiffs’ Counsel as counsel for the Class;

2. Awarding compensatory damages in favor of plaintiffs and the other members of the Class against all defendants, jointly and severally, for all damages sustained as a result of defendants' wrongdoing, in an amount to be proven at trial, including interest thereon;

3. Awarding rescission in favor of plaintiffs and the other members of the Class against all Defendants, jointly and severally, for the damages sustained as a result of the wrongdoings of Defendants, together with interest thereon;

4. Awarding plaintiffs and the Class their reasonable costs and expenses incurred in this action, including counsel fees and expert fees; and

5. Such other and further relief as the Court may deem just and proper.
DEMAND FOR JURY TRIAL

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, Plaintiffs hereby demand a trial by jury as to all issues so triable.

Dated: December 22, 2003

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