

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

MARKED VERSION REFLECTING
EVIDENTIARY RULINGS
FOR CONVENIENCE ONLY
DOES NOT SUPERCEDE
TRANSCRIPT

In re)	Chapter 11 Cases
Adelphia Communications Corporation, <u>et al.</u> ,)	Case No. 02-41729 (REG)
Debtors.)	Jointly Administered

**DECLARATION OF DANIEL ARONSON IN
SUPPORT OF CONFIRMATION OF FIFTH
AMENDED JOINT CHAPTER 11 PLAN FOR ADELPHIA
COMMUNICATIONS CORPORATION AND CERTAIN AFFILIATED DEBTORS**

DANIEL ARONSON, makes this declaration, and says:

1. I am a Managing Director at Lazard Freres & Co. LLC (“Lazard”), a financial advisory and investment banking firm retained to provide restructuring advice to the debtors and debtors in Possession in the above-captioned cases.
2. I submit this declaration in support of confirmation of the Fifth Amended Joint Chapter 11 Plan for Adelphia Communications Corporation and Certain of its Affiliated Debtors (as may be amended or modified, the “Plan”).¹ The facts and opinions set forth in this declaration are based upon my personal knowledge, as well as knowledge I have acquired from my colleagues.
3. I have extensive hands-on experience in matters relating to corporate restructuring, having worked as a restructuring professional for approximately seventeen years. Prior to joining Lazard in 2000, I was an Associate Director with Peter J. Solomon’s

¹ Capitalized terms used but not defined herein have the meanings ascribed to them in the Plan or the Memorandum In Support of Confirmation of Fifth Amended Joint Chapter 11 Plan for Adelphia Communications Corporation and Certain of its Affiliated Debtors, and in Response to Objections Thereto, dated December 4, 2006, (the “Confirmation Brief”).

Restructuring Practice. I joined Peter J. Solomon Company in 1999 from Ernst & Young, where I was a Partner in the Restructuring Practice. I began my career as a financial professional in 1988 with Ernst & Young Entrepreneurial Services Group, where I provided clients with audit, tax and systems consulting.

4. Over the course of my career as a financial professional, I have been involved in a broad range of financial advisory assignments and engagements. By way of example only, and without limitation, I provided restructuring advice and services in connection with the engagements set forth below:

- Aeromexico / Mexicana Airlines
- American Rice
- Armstrong World Industries
- Calpine
- Comdisco
- Crown Vantage
- Edison Brothers Stores
- Empress Casino
- Exodus Communications
- First Merchants Acceptance Corp.
- Genuity
- Halston
- Hyundai Construction & Engineering
- Iowa Select Farms
- Iridium
- Long John Silver's Restaurants
- Kleinfeld's
- MIDCOM Communications
- Olympia & York (USA)
- Oxford Automotive
- Northwest Airlines
- Parmalat US
- Payless Cashways
- R.H. Macy
- Stroh Brewing Company
- Thorn Apple Valley
- Tokheim Corp.
- Trump Hotel & Casino Resorts
- Tower Automotive
- Tru-Serv
- Wilcox & Gibbs
- ZiLOG

5. Throughout my career, I have had extensive experience preparing, and/or assisting various management teams in preparing, hypothetical liquidation analyses to assist in the determination of whether proposed plans of reorganization satisfy the "best interests" test, including providing such services in many of the engagements listed in paragraph 4, above. More specifically, I was involved in the preparation of hypothetical liquidation analyses in the

following chapter 11 cases, in which all, or substantially all, of the assets were sold or otherwise disposed: Genuity and Exodus Communications.

6. I have appeared as a witness (both as a fact witness and as an expert witness), or my testimony has been proffered, on many occasions with regard to the preparation and presentation of liquidation analyses, including in the following chapter 11 cases: Armstrong World Industries, Edison Brothers Stores, Exodus, Genuity, Oxford Automotive, Thorn Apple Valley, Trump Hotel & Casino Resorts and ZiLOG.

7. I am a Certified Public Accountant and have my Series 7 and 24 licenses.

Debtors' Liquidation Analysis

8. At the request of the Debtors, I, along with members of my team, have rendered advice to the management of the Debtors that was used in preparation of a hypothetical analysis (the "Liquidation Analysis") of the impact on estimated recoveries that holders of Claims and Equity Interests in the Debtors would receive if the Debtors were liquidated under chapter 7 of the Bankruptcy Code as of the anticipated effective date of the Plan.

9. The Liquidation Analysis examines the effects that a conversion of the Debtors' Chapter 11 Cases to cases under chapter 7 could have on the proceeds that could otherwise be available for distribution to holders of Claims against and Equity Interests in the Debtors. The Liquidation Analysis is set forth in the Second Disclosure Statement Supplement (pp. DSS2-113 through DSS2-115), and attached hereto as Exhibit A, and is subject to all the assumptions and limitations set forth therein.

10. As noted in the Liquidation Analysis, substantially all of the Debtors' assets have been sold or liquidated already, and the Estates consist primarily of Cash, TWC Class A Common Stock and the value to be realized from the Contingent Value Vehicle. Accordingly, the determination of whether the Plan satisfies the best interests test (i.e., whether holders of

Claims against and Equity Interests in the Debtors will receive or retain under the Plan no less than the value such holders would receive under a chapter 7 liquidation of the Estates) necessarily focuses on the incremental costs that may accrue in a chapter 7 that the Estates need not absorb under the Plan.

11. [As further set forth in the Liquidation Analysis, there are five significant factors that would reduce recoveries for the Debtors' creditors in a chapter 7. First, a significant cost of a chapter 7 liquidation of the Estates would be the costs of an initial public offering (the "IPO") of the TWC Class A Common Stock — costs which the Debtors would incur if they were unable to qualify for an exemption pursuant to section 1145 of the Bankruptcy Code. These costs would include, among others, an IPO discount (i.e., the market perception that an issuer undertaking an IPO must offer its shares at a discount to their intrinsic value), which some capital market professionals believe is typically 10% of the value of the stock issued.] Such costs would also include underwriting fees — for IPOs of over \$1 billion in the last five years, such underwriting fees have typically ranged between 3% and 5% of the value of the IPO. I understand the nature and extent of those costs, and believe that they are adequately described (along with other risks) in the Second Disclosure Statement Supplement dated as of October 16, 2006 (see p. DSS2-113). In the aggregate, costs associated with the IPO of all of the TWC Class A Common Stock (or, in the case of a partial IPO, additional costs associated with subsequent public sales) could be in excess of \$700 million (assuming that all of the TWC Class A Common Stock were sold in the IPO and/or subsequent public sales, an IPO discount of 10%, an underwriting fee of approximately 4%, and a Deemed Value of \$5.4 billion). Even if only $\frac{1}{3}$ of the TWC Class A Common Stock were sold in an IPO, the costs would exceed \$200 million, not to mention additional costs associated with subsequent secondary offerings.]

12. [Second, there would be additional administrative expense costs of having a chapter 7 trustee appointed to liquidate the Estates, which would directly reduce the value available to be distributed to the Debtors' creditors. A chapter 7 trustee is entitled to a statutory fee of up to 3% on all distributions made by the trustee in excess of \$1 million. In addition, such trustee's advisors, who would be required to devote significant amounts of time to familiarizing themselves with the Debtors' cases, would be entitled to reasonable compensation for such services. I understand that such compensation would be entitled to treatment as an administrative expense. Furthermore, in light of the Inter-Creditor Dispute, if a chapter 7 trustee declined to implement a settlement similar to the Global Settlement, one or more of the Debtors might require a separate chapter 7 trustee and related professionals, thereby magnifying the costs of administering the chapter 7 cases. Accordingly, the costs associated with the management of the Estates in a chapter 7 scenario could approximate at least tens of million dollars, further reducing creditor recoveries. Indeed, even if a single chapter 7 trustee were appointed and received a 0.5% fee on all distributions, assuming approximately \$15 billion in distributions, the trustee's fee would exceed \$70 million.]

13. Third, a chapter 7 case would likely involve the appointment of one or more chapter 7 trustees who have no specific familiarity with the Debtors' business, assets and/or liabilities. In contrast, the Plan contemplates the appointment of Quest as Plan Administrator. Quest has been serving as an advisor to the Creditors Committee since August 2006 and has been working with the Debtors, the Creditors Committee and their professionals to familiarize itself with the Debtors' cases and steps needed to implement the Plan. Under the Plan, the Plan Administrator will be charged with determining which of the Debtors' remaining employees will be retained to consummate and administer the Plan. The retention of certain key remaining

employees and advisors who have significant experience and background knowledge relating to, among other key areas of concern to the Estates, (a) the Causes of Action included in the Contingent Value Vehicle, (b) the Sale Transaction for purposes of negotiating the release of reserves or protecting the Estates against indemnity claims under the Purchase Agreements, (c) assumed or rejected executory contracts and related cure and rejection damage Claims, (d) general Claims reconciliation, and (e) tax strategies. The loss of such personnel could result in, *inter alia*, reduced recovery in certain litigation for the Estates and the diminished ability of the Estates to defend against certain Claims.

14. Fourth, in a chapter 7 scenario, the Debtors' creditors would likely be forced to wait a significant period of time before receiving distributions, either due to the IPO (and any resulting "lock-up" period) or the delayed and perhaps disrupted prosecution of the CVV litigation, for example. There is a risk that distribution of the proceeds of a hypothetical chapter 7 liquidation might not occur for one or more years after the completion of such liquidation in order to resolve Claims and prepare for distribution, and the "time value" of distributions must be factored into the "best interests" analysis. Delayed distributions would be less valuable than the near-term distributions contemplated by the Plan.

15. *[* Lastly, any chapter 7 scenario must be examined in light of the Global Settlement that has been reached by various creditor constituencies. The Proponents have indicated that it is reasonable to assume that a duly-authorized chapter 7 trustee would adopt compromises similar to the Global Settlement and the Bank Lender settlement embodied in the Plan (together, the "Plan Settlements") in order to avoid the costs and uncertainties associated with litigation. It is therefore reasonable to assume that recoveries under a chapter 7 scenario would not exceed recoveries under the Plan, as the Plan contemplates implementation of the Plan Settlements. *]*

NOT OFFERED FOR TRUST OF MATTER ASSETED

16. Accordingly, I believe that the Liquidation Analysis demonstrates that the best interests test is satisfied by the Plan, as holders of Claims against and Equity Interests in the Debtors will not receive more under a chapter 7 than is contemplated under the Plan.

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CONCLUSION

Recovery Scenarios

The “Waterfall” Model

17. The Debtors and other parties in these cases have analyzed how value would be allocated and flow through the Debtors’ complicated corporate structure through an economic model (the “Waterfall Model”) developed by Lazard with the assistance and input of the Debtors and their legal advisors. Although the Waterfall Model last was constructed to replicate the 20 “Debtor Group” structure that was contained in the April Plan, as a general matter, the model and that Debtor Group structure was designed to follow the Debtors’ corporate structure and respect the structural priorities of creditors’ Claims and the flow of residual equity after satisfaction of Claims. Thus, under the Waterfall Model, distributable value of a Debtor Group is used to pay creditors of such Debtor Group and then residual value, if any, flows to the parent of such Debtor Group.

18. The preparation of the Waterfall Model was guided by and based upon two fundamental principles: the absolute priority rule and the Debtors’ corporate structure. First, within a Debtor Group, all assets and liabilities of each Debtor are consolidated for distribution purposes. Second, within a Debtor Group, all obligations of the Debtor Group are paid to creditors (including Intercompany Claims) in accordance with the absolute priority rule. Importantly, certain “toggles” are built into the Waterfall Model to account for potentially different treatments of Intercompany Claims. Third, after the payment of all claims against a Debtor Group, the residual equity value, if any, of such group, flows to the owner of the Debtor

Group. By way of example, after a subsidiary Debtor Group pays its creditors, the residual value of that Debtor Group flows to its parent Debtor Group.

19. There are several general rules that apply to the Waterfall Model. At the top of the Waterfall Model for each Debtor Group is an assessment of such Debtor Group's initial value. This includes the value of the assets plus the value of intercompany receivables and cash, net of any adjustments for holdbacks and other reserves. Secured Claims are then deducted from this value. Accordingly, the Waterfall Model begins with a pool of assets and pays out claims in the following general order: (a) DIP Claims; (b) Administrative Expense Claims; (c) Priority Claims; (d) Bank Claims; (e) Trade Claims; (f) Other Unsecured Claims; and (g) Equity Claims. Intercompany Claims can be "slotted" into several places in the priority structure, depending on the desired scenario.

20. The Waterfall Model was built, refined, and checked during thousands of hours of work by the members of my team throughout the past four years. I personally checked the results of the Waterfall Model and verified that the output was correct with regards to the logic above. Lazard has distributed the Waterfall Model to all participants in the Inter-Creditor Dispute that requested to receive it. In the numerous months/years that these parties have had the working versions, I have received only one suggestion for improving the Waterfall Model. That suggestion, which came in 2004 from the ACC Senior Noteholders Committee, proposed dividing the old Century Silo into Century, CCHC and CCC. Such proposal was considered, tested, and later incorporated into the Waterfall Model. Every time that an update was needed for the Waterfall Model, the Debtors provided Lazard with several backup schedules regarding claims, taxes, reserves, operating cash flow, subscribers, and other necessary information. I am not aware of any complaint that the Waterfall Model does not produce the output it was designed

to produce. Indeed, at the Bankruptcy Court's direction, Lazard has input and run various assumptions and scenarios provided to Lazard by certain participants in the Inter-Creditor Dispute, and the relevant results were included in the various disclosure materials that were approved by the Bankruptcy Court. To my knowledge, none of these participants (who have the ability to check Lazard's output because they have been provided with working versions of the Waterfall Model) have asserted that the Waterfall Model does not work as it was designed.²

21. Several years ago, Lazard, under my direction, produced a 230+ entity model designed to show recoveries to stakeholders without any form of substantive consolidation. Although I concluded that the 230+ entity model required significant assumptions beyond those litigated in the Resolution Process and for which the Debtors did not maintain information in a manner conducive to this treatment, such model did not demonstrate material differences in recoveries as compared with the 18 Debtor Group Waterfall Model then in use.

22. In September 2006, the Bankruptcy Court again requested that Lazard act as "number crunchers" with respect to assumptions and positions proposed by certain of the participants in the Inter-Creditor Dispute. As such, we did not independently verify the assumptions or positions provided by the various contentious parties (the ACC Bondholder Group, the Arahova Noteholders Committee and FrontierVision Noteholders Committee).

The ACC Bondholder Group's Scenarios

23. On September 13, 2006, counsel for the ACC Bondholder Group sent a letter to counsel for the Debtors that set forth the recovery scenarios that the ACC Bondholder Group wanted to include in its position statement. On that same date, I received a copy of the letter

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² It should be noted that the Waterfall Model was supplied to Goldin Associates LLC on September 28, 2006. To date, we have not received any correspondence nor any comments from the Goldin Associates LLC professionals.

from counsel to the Debtors. A copy of the letter is attached hereto as Exhibit B. Thereafter, Lazard had numerous conversations with John Pike of Elliott Associates, LP, a member of the ACC Bondholder Group, to discuss the Waterfall Model inputs requested, clarify certain assumptions and suggest that we would have difficulty showing the number of scenarios they had requested in a meaningful presentation. As such, we received further instructions from Mr. Pike and were able to complete the requested scenarios over the weekend. As a courtesy, we invited Mr. Pike to our offices on Saturday, September 16, 2006, to review the model outputs and show him our suggested presentation. The result of that meeting and subsequent work was the recovery scenarios (the "**ACC Recovery Scenarios**") contained in the Position Statement of ACC Bondholder Group for Second Disclosure Statement Supplement, attached to the Second Disclosure Statement Supplement as Exhibit GG. Each of the ACC Recovery Scenarios accurately reflects the projected recoveries generated from the Waterfall Model based on the assumptions provided by the ACC Bondholder Group. Lazard takes no position on the merits of such assumptions.

The Arahova Noteholders Committee's Recovery Scenarios

24. On September 13, 2006, counsel for the Arahova Noteholders Committee sent an email to counsel for the Debtors that set forth recovery scenarios that the Arahova Noteholders Committee wanted to include in its position statement. A copy of the Arahova Noteholder Committee's instructions is attached hereto as Exhibit C. Lazard participated in a call with Debtors' counsel and counsel for the Arahova Noteholders Committee to clarify certain assumptions and to request additional information regarding the allocation of value from the Sale Transaction. On September 14, 2006, we reviewed the output with Greenhill & Co., LLC, financial advisors to the Creditors Committee. The result of such meeting and subsequent work performed by Lazard was the recovery scenarios (the "**Arahova Recovery Scenarios**")

contained in the Arahova Noteholders Committee Statement, attached to the Second Disclosure Statement Supplement as Exhibit BB. Each of the Arahova Recovery Scenarios accurately reflects the projected recoveries generated from the Waterfall Model based on the assumptions provided by the Arahova Noteholders Committee. Lazard takes no position on the merits of such assumptions.

The Frontiervision Noteholders Committee's Recovery Scenarios

25. On September 13, 2006, Houlihan Lokey Howard & Zukin, financial advisors for the Frontiervision Noteholders Committee, sent an email to me and to counsel for the Debtors that set forth recovery scenarios that the Frontiervision Noteholders Committee wanted to include in its position statement. A copy of the Frontiervision Noteholder Committee's instructions is attached hereto as Exhibit D. Lazard participated in various calls with the advisors for the Frontiervision Noteholders Committee to clarify certain assumptions and to explain the output. The result of such conversations and subsequent work performed by Lazard was the recovery scenarios (the "**Frontiervision Recovery Scenarios**") contained in the Frontiervision Noteholders Committee Statement, attached to the Second Disclosure Statement Supplement as Exhibit AA. Each of the Frontiervision Recovery Scenarios accurately reflects the projected recoveries generated from the Waterfall Model based on the assumptions provided by the Arahova Noteholders Committee. Lazard takes no position on the merits of such assumptions.

The Creditors Committee's Recovery Scenarios

26. Recently, counsel to the Creditors Committee requested that Lazard run several additional recovery scenarios (the "**Creditors Committee Recovery Scenarios**") through the Waterfall Model. Such recovery scenarios used some of the same assumptions used in the ACC Recovery Scenarios and the Arahova Recovery Scenarios, but in different combinations.

Attached hereto as Exhibit E are charts summarizing the output from the Waterfall Model for the Creditors Committee Recovery Scenarios. Each such chart lists the assumptions used in each of the Creditors Committees Recovery Scenarios. Each of the Creditors Committee Recovery Scenarios accurately reflects the projected recoveries generated from the Waterfall Model based on the assumptions provided by the Creditors Committee. Lazard takes no position on the merits of such assumptions.

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The General Effect of MIA Issues On Recoveries

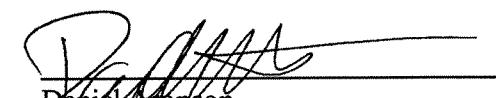
27. The ACC Bondholder Group has asserted that “there are only two or three MIA issues that materially impact creditor recoveries.” (Memorandum of Law in Support of the ACC Bondholder Group’s Objection to Approval of the Global Settlement and Confirmation of the Fifth Amended Joint Chapter 11 Plan for Adelphia Communications Corporation and Certain of its Affiliated Debtors, p. 15). Although many of the 14 issues for which the Bankruptcy Court, in connection with Hearing Two of the Resolution Process, requested post-trial briefs (the “14 Issues”) involve significant dollar amounts and some of the 14 Issues may have an impact on the materiality of the resolution of other of the 14 Issues on creditor recoveries, in general, based on the work Lazard has performed in connection with the Waterfall Model, I agree that the AIH \$16.8 billion receivable and application of the Bank of Adelphia Paradigm have the most material impact on recoveries of the holders of Arahova Notes Claims and the ACC Senior Notes Claims. However, there are certain issues other than the 14 Issues that also could materially impact the recoveries of the holders of Arahova Notes Claims and the ACC Senior Notes Claims, including: (a) the valuation of the different operating subsidiaries and the allocation of the proceeds of the Sale Transaction amongst the Debtors; (b) the alleged fraudulent conveyances in September 2001 between certain Debtors that were the subject of the Resolution Process; (c)

whether the Debtor Groups can net receivables from different legal entities; and (d) the allocation of costs and benefits of the Government Settlement.

28. It is clear from a review of the charts generated at the request of the ACC Bondholder Group, the Arahova Noteholders Committee, the FrontierVision Noteholders Committee and the Creditors Committee that, depending on the assumptions used, recoveries to the creditors of Arahova could range anywhere from 28.6% to 140.1%,³ and that recoveries to the creditors of ACC could range from anywhere from 50.3% to 125.4%. It is also clear that the Global Settlement embodied in the Plan falls within the range of possible outcomes modeled by the parties.

I declare under penalty of perjury that the foregoing is true and correct.

Executed this 4th day of
December, 2006.



Daniel Aronson
Managing Director
Lazard Frères & Co. LLC

³ Does not include residual value in excess of allowed claim.