

# ADELPHIA ORPHANS CLEC UNIT

By Jim Barthold

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Adelphia Business Solutions finds itself in a situation similar to that of South Vietnam in 1975, when the U.S. pulled out and the North Vietnamese overran the country. In Adelphia Business' case, parent company Adelphia Communications spun off the CLEC in January, and debtors forced it into Chapter 11 bankruptcy last week.

The bankruptcy didn't surprise John Laprise, an analyst for **New Paradigm Resources Group**. "The telecom sector has not yet bottomed out; this is the second shakeout," he said. "Our impression of events leading up to the bankruptcy was that the Rigas family [that controls Adelphia Communications] had made the strategic decision to write off Adelphia Business." Adelphia distanced itself when discussing its fourth-quarter results the same day the bankruptcy was filed.

"Adelphia Business Solutions is no longer a subsidiary, and we cannot comment on what it intends to do or achieve or what may happen in its reorganization," Adelphia Communications Chief Financial Officer Timothy Rigas told analysts.

Adelphia Communications reported a fourth-quarter loss of \$1.33 billion after writing down the value of Adelphia Business. Its sales jumped to \$950 million from \$805 million, and subscriber numbers grew in the digital and cable modem space. But the company's stock price fell dramatically under the burden of a \$14.6 billion debt load.

The cable operator hasn't completely abandoned its former subsidiary. The Rigas family is contributing \$67.5 million, and the corporation is kicking in \$65.8 million in debtor-in-possession financing to help Adelphia Business maintain its business during the bankruptcy process.

Adelphia Business, with debts of \$882.5 million and assets of \$222.8 million - including money owed to the Bank of New York and Sprint - had no choice but to file Chapter 11, said Jeff Nodland, Adelphia Business' legal and regulatory affairs manager.

"We looked at a lot of different alternatives to restructure for financing, and the most viable alternatives are to use the protections of Chapter 11 to continue forward," Nodland said.

When Adelphia Business will emerge from bankruptcy, how it will look then is "a very nebulous question," Nodland said.

"It's not a deal where we have something prepackaged," he said. "We're negotiating with these noteholders, and we're using the protections of Chapter 11 to do this and restructure. There's no set timeframe to do it - you just work through the process."

Most likely, the company won't re-emerge, Laprise said.

"Right now, CLECs are going for about a nickel on a dollar, so the debtors are not going to end up with any great prize in Adelphia Business," he said.