# ACC Claims Holdings, LLC
Financial Statements
and Independent Auditor's Report
December 31, 2021

**ACC Claims Holdings, LLC**
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**Financial Statements**

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# INDEPENDENT AUDITOR'S REPORT

To the Managing Member
of ACC Claims Holdings, LLC

**Opinion**

We have audited the accompanying financial statements of ACC Claims Holdings, LLC (the "Company"), which comprise the balance sheet as of December 31, 2021, and the related statements of operations and changes in members' capital, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Emphasis of Matter**

As discussed in Note 1 to the financial statements, the Company's Managing Member plans to continue existence of the Company until March 3, 2023 and there are no current plans for operations beyond March 3, 2023. Our opinion is not modified with respect to that matter.

**Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal-control related matters that we identified during the audit.

CohnReznick LLP

Hartford, Connecticut
March 14, 2022

**ACC Claims Holdings, LLC**
**Balance Sheet**

| | | As of December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 170,949 |
| Claims in Adelphia Estate, at fair value | | 17,876,314 |
| **Total assets** | $ | 18,047,263 |
| | | |
| **Liabilities and members' capital** | | |
| Accrued expenses | $ | 39,350 |
| Total liabilities | | 39,350 |
| | | |
| Members' capital | | 18,007,913 |
| | | |
| **Total liabilities and members' capital** | $ | 18,047,263 |

See accompanying notes to financial statements

**ACC Claims Holdings, LLC**
**Statement of Operations and Changes in Members' Capital**

| | For the Year Ended December 31, 2021 |
|---|---|
| **Revenues** | |
| Interest income and other | $ 60 |
| Total revenues | 60 |
| **Operating expenses** | |
| General and administrative expenses | 122,393 |
| Change in fair value of Claims in Adelphia Estate | 1,381,291 |
| Total operating expenses | 1,503,684 |
| **Net loss** | $ (1,503,624) |
| **Members' capital, beginning of year** | $ 19,511,537 |
| **Net loss** | (1,503,624) |
| **Members' capital, end of year** | $ 18,007,913 |

See accompanying notes to financial statements

**ACC Claims Holdings, LLC**
**Statement of Cash Flows**

| | | For the Year Ended December 31, 2021 |
|---|---|---|
| **Operating activities** | | |
| Net loss | $ | (1,503,625) |
| Adjustments to reconcile net loss to net cash used by operating activities: | | |
| Change in fair value of Claims in Adelphia Estate | | 1,381,291 |
| Changes in operating assets and liabilities: | | |
| Accrued expenses | | (5,169) |
| Net cash used by operating activities | | (127,503) |
| **Net decrease in cash and cash equivalents** | | (127,503) |
| **Cash and cash equivalents, beginning of period** | | 298,452 |
| **Cash and cash equivalents, end of period** | $ | 170,949 |

See accompanying notes to financial statements

**ACC Claims Holdings, LLC**
**Notes to Financial Statements**
**December 31, 2021**

## 1. Nature and Purpose

On November 18, 2015, ACC Claims Holdings, LLC (the "Company") was formed as a limited liability company under the Delaware Limited Liability Company Act (the "Act"), by ACC Claims Managing Member, LLC (the "Managing Member"), the Company's sole member at that time. On December 2, 2015, the Managing Member enacted a limited liability company agreement for the Company.

On March 3, 2016, the Company made an initial offer to exchange specified claims for Company interests (the "Exchange Offer") to qualified purchasers ("Qualified Purchasers") as defined in Section 2(a)(51)(A) of the Investment Company Act of 1940, as amended, except to the extent waived by the Company's Managing Member. The Exchange Offer excluded Benefit Plan Investors (as defined in the Exchange Offer), and was made to holders (the "Claim Holders") of ACC Senior Notes Claims ("Senior Claims"), ACC Trade Claims and to holders of ACC Other Unsecured Claims (collectively, "Other Claims") which were allowed under the *First Modified Fifth Amended Joint Chapter 11 Plan for Adelphia Communications Corporation and Certain of Its Affiliated Debtors* (the "*Plan*"). The Senior Claims and Other Claims included all post-petition interest to and including May 26, 2016 against Adelphia Communications Corporation ("Adelphia Estate" or "Adelphia") (collectively, the "Claims"). The Exchange Offer, as amended, provided certain Claim Holders who were Qualified Purchasers an opportunity to exchange Senior Claims for Class A Interests (the "Class A Interests") and Other Claims for Class B Interests (the "Class B Interests") (collectively, the "Interests") in the Company. The Exchange Offer expired on May 26, 2016 (the "Expiration Date").

Upon the Expiration Date of the Exchange Offer, the Company and the Claim Holders that accepted the Exchange Offer for their Claims (the "Members") entered into the Third Amended and Restated Operating Agreement of the Company (the "LLC Agreement") to, among other things, amend and restate the prior limited liability company agreements and formalize understandings of the Company and its Members with respect to (i) the manner in which the Company will be organized and operated and (ii) their respective ownership Interests and related rights and restrictions. The issuance of the Interests occurred on June 7, 2016 (the "Closing" or "Inception") and the Company commenced operations.

Among other things, the LLC Agreement established that the purpose of the Company shall be to directly or indirectly, (a) initially complete the Exchange Offer and the Closing, (b) hold, dispose of and facilitate the liquidation of all of the Claims, whether by sale, transfer or other disposition of the Company or the Claims held thereby, or by merger, consolidation or other reorganization of or involving the Company, or by dissolution of the Company, and/or otherwise, (c) receive dividends, interest or other passive income and gains in connection therewith, and (d) take any action that is necessary, advisable or appropriate in connection with the foregoing. For the avoidance of doubt, the Company exists solely to dispose of or liquidate all of the Claims in a reasonably prompt and orderly fashion in order to seek to maximize the value of the Claims, and will not conduct a trade or business or engage in any transactions other than transactions merely incidental to such liquidation, whether by sale, transfer or other disposition of the Company or the Claims held thereby, or by merger, consolidation or other reorganization of or involving the Company, or by dissolution of the Company, or otherwise. The Claims are more fully described in Note 2 under the heading "Claims in Adelphia Estate". The Company will not acquire investments or other assets except for temporary investments in cash, money market instruments, U.S. government securities, and other investment grade short-term investments pending the distribution of proceeds to the Members.

Except as otherwise expressly required under the Act, the full, absolute and exclusive right, power and authority to manage the Company is vested in the Managing Member. The Company is managed and conducted, and its capital, assets (including, without limitation, the Claims), funds and liabilities are managed, dealt with and disposed of, exclusively by and under the direction of the Managing Member and, except as otherwise expressly required under the Act, all decisions to be made by or on behalf of the Company or in respect of the capital, assets (including, without limitation, the Claims), funds and liabilities of the Company will be made solely and exclusively by the Managing Member. The Managing Member has no fiduciary responsibility to the Company but does retain an obligation to act in good faith as described in the LLC Agreement.

In connection with the execution of the LLC Agreement, each Member irrevocably exchanged, assigned and transferred to the Company all right, title and interest of their Claims ("Initial Capital Contribution") to the Company in the amount of the Claims. In consideration thereof, the Company has issued to each Member the number of Interests as required in the Exchange Offer that are Class A Interests or Class B Interests. Additional information about Class A and Class B Interests is included in Note 3 – "Members Capital".

Members are not allowed to transfer any Interests at any time unless such transfer complies with the stipulations described in the LLC Agreement. Per the terms of the LLC Agreement, neither the Company nor any Member (including the Managing Member) may, directly or indirectly, create or otherwise facilitate the creation of an active trading market in the Interests.

On March 3, 2021, the Managing Member determined in good faith consistent with the LLC Agreement to continue the existence of the Company until March 3, 2022 to allow more time to liquidate the Company's assets. On March 3, 2022, the Company extended its existence through March 3, 2023 to allow more time to liquidate the Company's assets.

The Company shall be dissolved and its affairs shall be wound up upon the first of the following to occur: (i) a determination by the Managing Member to dissolve the Company; (ii) the sale of all or substantially all of the Company's assets; (iii) March 3, 2023, unless otherwise determined by the Managing Member in good faith; or (iv) any dissolution required by operation of law. Dissolution of the Company shall be effective as of the day on which the event occurs giving rise to the dissolution, but the Company shall not terminate until there has been a winding up of the Company's business and affairs, and the Company's assets have been distributed as provided in the Act and the LLC Agreement.

## 2. Significant Accounting Policies

### Basis of Accounting

The Company has assessed the requirements to report under the liquidation basis of accounting. The Financial Accounting Standards Board stipulated in its Accounting Standards Update 2013-07 update that an entity with a limited life, as stipulated in its formation documents, should not apply the liquidation basis of accounting. Consequently, the Company will report under accounting principles generally accepted in the United States of America ("US GAAP") for going-concern entities as stipulated in the LLC Agreement. The Company will assess the need to adopt any required changes to its current basis of accounting on an ongoing basis.

As stipulated in the LLC Agreement, Member Capital Contributions are subject to any and all creditor claims against the Company although no Member, including the Managing Member, is liable for debts, liabilities, contracts, or obligations of the Company.

### Use of Estimates

The financial statements were prepared in conformity with US GAAP and require the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. Actual results are likely to differ from those estimates and those differences may be significant.

### Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents. Substantially all cash and cash equivalents are held in the trust department of a financial institution. The amount on deposit does not exceed the federally insured limit. As of December 31, 2021, all cash equivalents consist of bank deposits, bank certificates of deposit ("CDs") or money market funds which are invested in US Government Treasury obligations in accordance with the LLC Agreement investment policy.

### Claims in Adelphia Estate

The Company has elected to record the Claims in Adelphia Estate at fair value as determined by the Managing Member. The Managing Member determined that fair value reporting is most meaningful to the Members for assessing the liquidation value of their Interests. The fair value calculation is further described in Note 5. The holders of the Interests in the Company transferred their Claims in Adelphia's net assets to the Company on the Closing Date in exchange for their Interests. Adelphia's net assets on the Closing Date and as of December 31, 2021 consisted primarily of interests in certain life insurance policies (the "Policy Interests") and cash less certain projected costs and liabilities. The Company completed a valuation of Adelphia's net assets on the Closing Date and at subsequent balance sheet dates. Adelphia's Policy Interests were valued by estimating the projected liquidation date using Social Security Life Expectancy Tables to determine the life expectancy of the insured. The net proceeds from the Policy Interests on the projected liquidation date were then discounted to the Closing Date and subsequent balance sheet dates, the Members' share of Adelphia's cash and the fair value of its Policy Interests less projected costs and liabilities, represented the fair value of the Claims in the Adelphia Estate (the "Claims in Adelphia Estate").

The Claims transferred to the Company also include rights to certain contingent tax attributes of Adelphia that may prove to be substantial if the Company can utilize them. The Alternative Minimum Tax ("AMT") credits have now been fully realized. Adelphia received the final installment of approximately $45 million in AMT refunds claimed in 2020 in conjunction with the filing of Adelphia's 2018 federal income tax return. The refund was expected to be recovered over the next two years; however, a provision of the Coronavirus Aid, Relief, and Economic Security Act that went into effect in April 2020 accelerated the timing of the refund such that the full remaining amount was immediately recoverable. The Managing Member, along with other experts and consultants, are engaged in the process to value and monetize the Federal Tax Net Operating Losses ("NOLs"). As described in Note 5, the Managing Member has attributed no value to the Claims related to the NOLs as of December 31, 2021.

The balance of the Claims in Adelphia Estate will be reduced for any distributions made by Adelphia to the Company. There have been three distributions made by Adelphia. There was an Adelphia distribution on July 24, 2019 to ACC Senior Creditors as of the Record Date of June 17, 2019. As holders to claims in the Adelphia Estate, the Company received $4,484,909 as a result of the distribution. There was an Adelphia distribution on February 19, 2020 to ACC Senior Creditors as of the Record Date of February 13, 2020. As holders to claims in the Adelphia Estate, the Company received $29,678,739 as a result of the distribution. There was an Adelphia distribution on December 17, 2020 to ACC Senior Creditors as of the Record Date of December 10, 2020. As holders to claims in the Adelphia Estate, the Company received $39,018,708 as a result of the distribution.

**Income Taxes**

The Company is treated as a partnership for Federal income tax purposes. Consequently, Federal and state income taxes are not payable by the Company but are the responsibility of the Company's Members.

**3. Members' Capital**

Each Member has contributed capital to the Company in the amount of their Senior Claims for Class A Interests and/or in the amount of their Other Claims for Class B Interests in the Company. The following are the number of Interests issued and outstanding as of December 31, 2021:

| | |
|---|---|
| Class A Interests | 3,445,195,173 |
| Class B Interests | 342,911,375 |
| Total Interests Issued | 3,788,106,548 |

Except as otherwise expressly required under the LLC Agreement or the Act, the full, absolute and exclusive right, power and authority to manage the Company is vested in the Managing Member. The Company is managed and conducted, and its capital, assets (including, without limitation, the Claims), funds and liabilities are managed, dealt with and disposed of, exclusively by and under the direction of the Managing Member and, except as otherwise expressly required under the Act, all decisions to be made by or on behalf of the Company or in respect of the capital, assets (including, without limitation, the Claims), funds and liabilities of the Company will be made solely and exclusively by the Managing Member.

Except as otherwise required by non-waivable provisions of the Act or as otherwise expressly provided in the LLC Agreement, Members are not entitled to any vote nor have any consent right with respect to any Interests. The terms and provisions of the LLC Agreement may be modified or amended from time to time only by a written instrument executed by the Managing Member; provided that the LLC Agreement may not be materially amended without the written consent of (i) the Managing Member and (ii) the Members holding at least 80% of the then outstanding Class A Interests and Class B Interests (treating such classes as a single class of Interests acting together).

From time to time during the life of the Company, the Managing Members may request additional capital contributions from its Members. The capital contributions may not exceed $500,000 in total in any one-year period, each Member only being responsible for their pro-rata share based on their capital contribution percentage as defined in the LLC Agreement.

Members are not allowed to transfer any Interests at any time unless such transfer complies with the stipulations described in the LLC Agreement. Per the terms of the LLC Agreement, neither the Company nor any Member (including the Managing Member) may, directly or indirectly, create or otherwise facilitate the creation of an active trading market in the Interests.

Subject to the Managing Member's obligation to act in good faith and the terms of the LLC Agreement, the Managing Member may admit one or more persons by issuing new interests ("Preferred Interests") to the person (the "Preferred Holder") or persons (the "Preferred Holders"). As of December 31, 2021, the Company has no Preferred Interests issued or outstanding. If and when Preferred Interests are issued and outstanding, the person (or persons) holding such Preferred Interests will also be considered a Member (or Members) of the Company.

**Distributions**

Pursuant to the LLC Agreement, distributions to Members are subject to satisfaction by the Company of its debts and liabilities and the maintenance by the Company of appropriate reserves as reasonably determined by the Managing Member.

Distributions to Class A and Class B Interest Holders may be made in cash or property, as reasonably determined by the Managing Member; provided, that any distribution of cash and property shall be allocated so that such distributions to each Member are of a substantially equal percentage by type of consideration distributed. In the event the Company distributes non-marketable securities, certain Member rights and requirements may be triggered as described fully in the LLC Agreement. Generally, distributions to Class A and Class B Interest Holders pursuant to the LLC Agreement shall be made to the Members in the following manner:

(a) First, 100% to the Preferred Interests until each such Preferred Interest shall have received distributions pursuant to the LLC Agreement in an amount equal to (i) the number of Preferred Interests held by such Preferred Holder, multiplied by the Preferred Interest Issuance Price (as defined in the LLC Agreement) paid for such Preferred Interests, plus (ii) the accrued and unpaid distributions in respect of such Preferred Interests; and

(b) Thereafter,

(i) Class A Proceeds (as defined in the LLC Agreement) shall be distributed to the Class A Interests pro rata in accordance with the LLC Agreement; and

(ii) Class B Proceeds (as defined in the LLC Agreement) shall be distributed to the Class B Interests pro rata in accordance with the LLC Agreement.

All determinations regarding the source of proceeds for a distribution and the allocation thereof among Interests shall be determined by the Managing Member in good faith in accordance with the LLC Agreement. Any such determination made in good faith by the Managing Member shall, absent manifest error, be final and conclusive as to all Members.

## 4. Other Related Party Transactions

The Company holds Claims in Adelphia Estate. Adelphia provides administrative support to the Company including maintaining electronic data and paper documents used for Company financial, tax and operational reporting, for support in the efforts to liquidate the Claims, and for support in completing distributions by the Company to its Members when they might occur. These services have and will continue to be provided by Adelphia to the Company under an agreement at an annual cost of approximately $60,000. At December 31, 2021, the Company owed Adelphia $15,000 for services provided.

The Company's Managing Member is ACC Claims Managing Member, LLC. The officers of ACC Claims Managing Member, LLC are also employed by a Member of the Company who holds substantial Interests in the Company. ACC Claims Managing Member, LLC takes no fees in exchange for the services they provide as the Managing Member of the Company. The Managing Member has no fiduciary responsibility to the Company but does retain an obligation to act in good faith as described in the LLC Agreement.

## 5. Fair Value Measurements

Claims in Adelphia Estate – The Claims contributed to the Company by the Members were initially recorded at a fair value of $27.8 million at the Closing Date. The fair value of the Claims in Adelphia Estate is determined using unobservable inputs (i.e. Level 3, as defined in Accounting Standards Codification 820-10) and approximates $17.9 million as of December 31, 2021. The fair value is determined by discounting the net proceeds of Adelphia's Policy Interests from the projected liquidation date to the measurement date. The projected liquidation date was calculated using recent Social Security Life Expectancy Tables to determine the life expectancy of the insured. The discount rate of 18% was derived using the judgment of the Managing Member based on its experience in the liquidation of similar assets. The fair value of Adelphia's Policy Interests of $13.4 million plus Adelphia's cash of $4.5 million determined the fair value on December 31, 2021. The fair value of the Claims in Adelphia Estate decreased by $1.4 million from December 31, 2020 to December 31, 2021 due primarily to cash used to fund Estate operations in 2021.

An additional tax attribute held by Adelphia is the NOLs. As of December 31, 2021, Adelphia has federal NOLs of approximately $10.9 billion. These NOLs may be available to offset future taxable income recognized by Adelphia. The NOLs incurred prior to December 31, 2017, expire at various amounts over future years up to a maximum of 20 years. Any NOLs incurred after December 31, 2017, can be carried over for an indefinite time period but are subject to other limitations on utilization. The Managing Member has attributed no value to the Claims related to those tax attributes as of December 31, 2021. The following reflects the activity of the Claims in the Adelphia Estate for the year ended December 31, 2021:

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

| | | |
|---|---|---|
| Opening balance at December 31, 2020 | $ | 19,257,605 |
| Change in fair value of Claims in Adelphia Estate | | (1,381,291) |
| Closing balance at December 31, 2021 | $ | 17,876,314 |

## 6. Risk Factors

The Company operates under the LLC Agreement and acknowledges the following risks associated with its operations as of December 31, 2021. The following is not meant to be an exhaustive list of all potential risks to the Company:

A. The calculation of the fair value of the Claims in Adelphia Estate is speculative. The impact of any change to the discount rate utilized in the calculation of the fair value of the Claims in Adelphia Estate could materially alter the valuation calculation.
B. The actual liquidation date for the Policy Interests could be materially different than as projected in the life expectancy tables that were utilized by the Managing Member in the calculation of the fair value of the Claims in Adelphia Estate. A significant change in the liquidation date could materially alter the valuation calculation.
C. The timeframe for determining the economic value of Adelphia's tax attributes could extend beyond March 3, 2023, the timeframe that was identified in the Consent of the Sole Managing Member of ACC Claims Holdings, LLC dated March 3, 2022. This could result in an extension of time for the Managing Member to conclude the business of the Company beyond March 3, 2023. These factors could alter the projected fair value of the Claims in Adelphia Estate.

## 7. Subsequent Events

On March 3, 2022, the Managing Member extended the existence of the Company until March 3, 2023 to allow more time to liquidate the Company's assets.

The Company has evaluated events and transactions for potential recognition or disclosure through March 14, 2022, which is the date the financial statements were available to be issued. Through that date there were no subsequent events requiring disclosure.