

Financial Highlights

Results of Operations

2002 compared with 2001

Total revenues for the year ended December 31, 2002 were \$5,038.6 million, an 18% increase over revenues of \$4,253.2 million for the year ended December 31, 2001. This increase includes the effects of:

- a 44% increase in customers for advanced services, including digital cable, high-speed Internet access and telephony customers;
- a 6% increase in basic cable rates resulting from increased programming costs and inflation, as well as increased channel availability;
- an increase in commercial broadband customers;
- a continuing rebound in local and national advertising sales; and
- an increase due to costs associated with Cox's high-speed Internet service of approximately \$91.6 million, which had been netted against revenues in 2001 under a revenue sharing agreement with Excite@Home, and included in cost of services in 2002 as Cox no longer has a revenue sharing agreement with Excite@Home.

Cost of services, which includes programming costs, other direct costs and field service costs, was \$2,130.9 million for the year ended December 31, 2002, an increase of 13% over the same period in 2001. This was primarily due to a 12% increase in programming costs reflecting rate increases, channel additions and customer growth. Other cost of services increased 15%, primarily due to:

- increased labor costs due to the transition from upgrade construction and new product launches to maintenance and related customer costs directly associated with the growth of new subscribers;
- costs associated with Cox's high-speed Internet service of approximately \$91.6 million, which had been netted against revenues in 2001 under a revenue sharing agreement with Excite@Home, and included in cost of services in 2002 as Cox no longer has a revenue sharing agreement with Excite@Home; and
- a one-time non-recurring charge of \$9.8 million related to the continuation of Excite@Home high-speed Internet service through February 2002;
- partially offset by a one-time non-recurring charge in 2001 of approximately \$150.2 million associated with the continuation of Excite@Home high-speed Internet service and the transition to Cox High Speed Internet service following the bankruptcy of Excite@Home.

Selling, general and administrative expenses for the year ended December 31, 2002 increased 19% to \$1,128.5 million due to:

- a 21% increase in marketing expense relating to the promotion of new services and bundling alternatives; and

- an 18% increase in general and administrative expenses relating to increased salaries and benefits resulting from an increase in headcount, and increased property taxes resulting from capital expenditures.

Depreciation and amortization decreased to \$1,357.9 million for the year ended December 31, 2002 from \$1,539.2 million for the comparable period in 2001 due to a reduction of approximately \$352.6 million in amortization of intangible assets determined to have an indefinite life, offset by an increase in depreciation from Cox's continuing investments in its broadband network in order to deliver additional programming and services. Operating income for the year ended December 31, 2002 was \$417.4 million compared to operating loss of \$118.3 million for the year ended December 31, 2001. The operating loss in 2001 was primarily due to a one-time non-recurring charge of approximately \$150.2 million in the fourth quarter of 2001 associated with the continuation of Excite@Home high-speed Internet service and the transition to Cox high-speed Internet service following the bankruptcy of Excite@Home.

Interest expense decreased to \$550.6 million primarily due to interest savings as a result of Cox's interest rate swap agreements and repayment of all commercial paper borrowings.

For the year ended December 31, 2002, Cox recorded a \$1.1 billion pre-tax gain on derivative instruments due to the following:

- a \$268.8 million pre-tax gain due to the termination of Cox's series of costless equity collar arrangements;
- a \$583.1 million pre-tax gain due to a decrease in the fair value of certain embedded derivatives contained in Cox's exchangeable subordinated debentures; and
- a \$359.3 million pre-tax gain due to a decrease in the fair value of certain embedded derivatives contained in Cox's zero-coupon debt;
- partially offset by a \$85.6 million pre-tax loss due to a decrease in the fair value of Cox's stock purchase warrants.

Net loss on investments for the year ended December 31, 2002 of \$1.3 billion was primarily due to:

- \$170.4 million pre-tax loss related to the sale of 23.9 million shares of AT&T Wireless common stock;
- \$390.6 million pre-tax loss as a result of the change in market value of Cox's investment in Sprint PCS common stock classified as trading; and
- \$807.9 million decline in the fair value of certain investments, primarily Sprint PCS, considered to be other than temporary.

Equity in net losses decreased 20% to \$32.2 million, primarily due to a \$23.9 million loss in 2001 related to Cox's investment in Discovery. Partially offsetting the decrease was increased equity in net losses in 2002 due to additional equity investments.

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Minority interest, net of tax, of \$37.3 million primarily represents distributions on Cox's obligated capital and preferred securities of subsidiary trusts, referred to as FELINE PRIDES and RHINOS. During 2002, Cox settled the FELINE PRIDES primarily with the issuance of Class A common stock and redeemed the RHINOS with cash. Net loss for the year ended December 31, 2002 was \$274.0 million compared to net income of \$755.0 million for the comparable period in 2001, which included an after-tax cumulative effect of change in accounting principle from adoption of Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended that increased earnings by \$717.1 million.

Liquidity and Capital Resources

Uses of Cash

As part of Cox's ongoing strategic plan, Cox has invested, and will continue to invest, significant amounts of capital to enhance the reliability and capacity of its broadband network in preparation for the offering of new services and to make investments in companies primarily focused on cable programming, technology and telecommunications.

During 2002, Cox made capital expenditures of \$1.9 billion. These expenditures were primarily directed at costs related to electronic equipment located on customers' premises, costs to upgrade and rebuild Cox's broadband network to allow for the delivery of advanced broadband services and costs associated with network equipment used to enter new service areas. Capital expenditures for 2003 are expected to be approximately \$1.6 billion.

In addition to improvement of its own networks, Cox made strategic investments in businesses focused on cable programming, technology and telecommunications. Investments in affiliated companies of \$18.8 million included debt and equity funding. Future funding requirements are expected to total approximately \$20.0 million over the next two years. These capital requirements may vary significantly from the amounts stated above and will depend on numerous factors as many of these affiliates are growing businesses and specific financing requirements will change depending on the evolution of these businesses.

Net commercial paper repayments during 2002 were \$727.4 million.

As a result, Cox had no outstanding commercial paper borrowings at December 31, 2002. During 2002, Cox repaid \$705.0 million of other debt, which primarily consisted of the repurchase of a portion of its convertible senior notes, the repurchase of its Floating Rate MOPPRS/CHEERS and the repayment of 6.5% senior notes upon their maturity.

During 2002, Cox redeemed the senior notes held by the Cox RHINOS Trust for approximately \$502.6 million, and the Cox RHINOS Trust, in turn, redeemed its preferred securities, the RHINOS. Distributions paid on capital and preferred securities of subsidiary trusts of \$47.8 million consisted of quarterly interest payments on the FELINE PRIDES and RHINOS.

Sources of Cash

During 2002, Cox generated \$1.8 billion from operations. Proceeds from the sale and exchange of investments of \$1.3 billion primarily include:

- the sale of 25.2 million shares of Sprint PCS common stock for aggregate net proceeds of approximately \$238.7 million;
- the sale of 35.0 million shares of AT&T common stock for aggregate net proceeds of approximately \$542.6 million;
- the sale of 23.9 million shares of AT&T Wireless common stock for aggregate net proceeds of approximately \$248.2 million; and
- the termination of all costless equity collar arrangements with respect to Sprint PCS common stock, AT&T common stock and AT&T Wireless common stock for aggregate proceeds of approximately \$264.4 million.

Proceeds from the issuance of debt, net of debt issuance costs, underwriting commissions and discounts included the issuance of 7.125% notes due 2012 for net proceeds of approximately \$986.1 million. The proceeds from this offering were primarily used to redeem the senior notes held by the Cox RHINOS Trust, repurchase the Floating Rate MOPPRS/CHEERS and repay the 6.5% senior notes.

Other

At December 31, 2002, Cox had approximately \$7.3 billion of outstanding indebtedness (including cumulative derivative adjustments made in accordance with SFAS No. 133 which reduced reported indebtedness by approximately \$1.4 billion). In addition, Cox had approximately \$2.0 billion of total available borrowings under its revolving credit facilities and commercial paper program at December 31, 2002.

Investments

Cox has certain investments in companies focused on cable programming, technology and telecommunications. The following summarizes Cox's significant investment activity in 2002.

Discovery Communications, Inc. During 2002, Cox received a \$27.1 million partial return on its investment from Discovery. Since Cox's cumulative proportionate share of equity in net losses attributable to Discovery exceeded the carrying amount of its investment in Discovery, this resulted in a pre-tax gain of \$27.1 million. At December 31, 2002, Cox owned a 24.9% interest in Discovery.

Sprint PCS. In February and March 2002, Cox terminated its series of costless equity collar arrangements, which managed its exposure to market price fluctuations of 15.8 million shares of Sprint PCS common stock, for aggregate proceeds of approximately \$151.6 million and recognized an aggregate pre-tax derivative gain of approximately \$168.9 million. In connection with the terminations, Cox also sold the 15.8 million shares of Sprint PCS common stock covered by the collar arrangements for aggregate net proceeds of approximately \$155.9 million. In addition, Cox sold 9.4 million shares of Sprint PCS common stock that were not covered by the collar arrangements for aggregate net proceeds of approximately \$82.8 million. Cox recognized an aggregate pre-tax gain of \$32.8 million on the sale of these shares.

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At December 31, 2002, Cox's investment in Sprint PCS was comprised of 66.7 million shares of Sprint PCS common stock and warrants and convertible preferred stock that are exercisable for, or convertible into, approximately 10.3 million shares of Sprint PCS common stock. Of the shares of Sprint PCS common stock owned by Cox, approximately 47.2 million shares are identified with Cox's exchangeable subordinated debentures, the PRIZES, Premium PHONES and Discount Debentures, and 19.5 million are pledged in connection with Cox's prepaid forward contracts to sell up to 19.5 million shares of Sprint PCS common stock. The estimated fair value of Cox's investment in Sprint PCS was \$349.2 million at December 31, 2002. Cox recognized an aggregate pre-tax loss of \$390.6 million during 2002 as a result of the change in market value of its investment in Sprint PCS common stock classified as trading, and an aggregate pre-tax impairment charge of approximately \$795.7 million on its Sprint PCS common stock classified as available-for-sale as a result of a decline in market value that was considered other than temporary.

AT&T Corp. and AT&T Wireless Services, Inc. In February and March 2002, Cox terminated its costless equity collar arrangements which managed its exposure to market price fluctuations of 22.5 million shares of AT&T common stock and 17.2 million shares of AT&T Wireless common stock for aggregate proceeds of approximately \$112.8 million and recognized an aggregate pre-tax derivative gain of \$99.9 million. In connection with the terminations, Cox also sold the 22.5 million shares of AT&T common stock and 17.2 million shares of AT&T Wireless common stock covered by these collar arrangements for aggregate net proceeds of approximately \$527.0 million. In addition, Cox sold 12.5 million shares of AT&T common stock and 6.7 million shares of AT&T Wireless common stock that were not covered by collar arrangements for aggregate net proceeds of approximately \$263.8 million. Cox recognized an aggregate pre-tax loss of \$170.1 million on the sale of these shares. As a result of these transactions, Cox no longer holds any shares of AT&T common stock or AT&T Wireless common stock.

Cox Interactive Media Joint Ventures. From 1997 through 2002, Cox entered into a series of local joint ventures with Cox Interactive Media, Inc. (CIM), an indirect wholly-owned subsidiary of Cox Enterprises, to develop, operate and promote advertising-supported local Internet content, or "City Sites," in the markets where Cox operates cable television systems featuring high-speed Internet access. During 2002, Cox and CIM agreed to terminate the relationship and entered into a transition services agreement for CIM to continue to operate Cox's City Sites during a transition period. The joint venture entities were dissolved as of December 31, 2002.

Motorola, Inc. In June 2002, Cox sold its remaining 1.7 million shares of Motorola, Inc. common stock for aggregate net proceeds of approximately \$24.5 million and recognized aggregate pre-tax loss of \$1.5 million.

Intangible Assets

On January 1, 2002, Cox adopted SFAS No. 142, *Goodwill and Other Intangible Assets*, which requires that goodwill and certain intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually. Cox's indefinite lived intangible assets are comprised of cable franchise value, which Cox obtained through acquisitions of cable systems. The standard also requires the completion of a transitional impairment test with any resulting impairment identified treated as a cumulative effect of a change in accounting principle.

Prior to adoption of SFAS No. 142, Cox described the excess purchase price over the fair value of the identified net assets acquired associated with its acquisitions as either goodwill or franchise value and amortized these assets over 40 years. Cox believes that the franchises, although contractually non-exclusive, provide economic exclusivity for broadband video services to an incumbent cable operator. Accordingly, Cox does not believe it has any goodwill separate and distinct from the value of its cable franchises, and, as such, the nature of the recorded excess purchase price associated with Cox's acquisitions is more appropriately characterized as franchise value. Therefore, in connection with the adoption of SFAS No. 142, Cox reclassified the net carrying value of its goodwill of \$3.7 billion to franchise value in order to eliminate the distinction between these two assets. In connection with this reclassification, Cox recorded an additional deferred tax liability of \$2.2 billion and a corresponding increase to franchise value, in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*, related to the difference in the tax basis compared to the book basis of franchise value. This reclassification, including the related deferred taxes, was not reflected in Cox's consolidated balance sheet until December 31, 2002 and had no impact on Cox's consolidated statements of operations.

In connection with the adoption of SFAS No. 142, Cox completed a transitional impairment test of its franchise value as of January 1, 2002. Cox assesses franchise value for impairment under SFAS No. 142 by utilizing a residual approach whereby Cox measures the implied fair value of each franchise value intangible asset subject to the same unit of accounting by deducting from the fair value of each cable system cluster the fair value of the cable system cluster's other net assets, including previously unrecognized intangible assets. Upon adoption of SFAS No. 142, Cox determined that no impairment of franchise value intangible assets existed as of January 1, 2002. When Cox completes its next annual impairment test as of January 1, 2003, Cox will, when measuring the fair value of the cable system cluster's other net assets, consider the guidance contained in EITF Issue No. 02-17, *Recognition of Customer Relationship Intangible Assets Acquired in a Business Combination*, which was issued in October 2002. Cox anticipates that consideration of the guidance in EITF Issue No. 02-17 whereby Cox will consider assumptions that marketplace participants would consider, such as expectations of future contract renewals and other benefits related to the intangible asset, when measuring the fair value of the cable system cluster's other net assets will result in a non-cash impairment charge as of January 1, 2003, and such charge may be significant.