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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-K/A-2

### ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2000

Commission File No. 000-22697

## AT HOME CORPORATION

(Exact name of the Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

77-0408542  
(I.R.S. Employer  
Identification Number)

450 Broadway Street, Redwood City, California 94063  
(Address of principal executive offices) (Zip Code)

(650) 556-5000  
(The Registrant's telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

None

Securities Registered Pursuant to Section 12(g) of the Act:

Series A Common Stock, \$0.01 par value per share

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. ☐

As of  
July 31, 2001

Aggregate market value of the voting stock held by non-affiliates of the Registrant based on the closing bid price per share as reported on the Nasdaq Stock Market on such date <sup>(1)</sup> . . . . .	\$296,520,305
Number of shares of Series A Common Stock outstanding . . . . .	324,076,027
Number of shares of Series B Common Stock outstanding . . . . .	86,595,578

<sup>(1)</sup> Shares of common stock held by each executive officer and director and by each person or entity that owns 10% or more of the outstanding common stock have been excluded in that such persons or entities may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive for other purposes.

### DOCUMENTS INCORPORATED BY REFERENCE

None

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**AT HOME CORPORATION**  
**2000 ANNUAL REPORT ON FORM 10-K/A-2**

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**EXPLANATORY NOTE**

This 10-K/A-2 is being filed for the sole purpose of adding “Ability to Continue Operations” and “Subsequent Events” information to the notes to the financial statements and to revise the Report of Independent Auditors to reflect the addition of an explanatory paragraph expressing substantial doubt about our ability to continue as a going concern.

## PART II

### Item 8. *Financial Statements and Supplementary Data*

#### Index to Consolidated Financial Statements and Supplementary Data

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## **REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS**

The Board of Directors and Stockholders  
At Home Corporation

We have audited the accompanying consolidated balance sheets of At Home Corporation as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule presented at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of At Home Corporation at December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

The accompanying financial statements have been prepared assuming that At Home Corporation will continue as a going concern. As more fully described in Note 1, the Company has incurred recurring operating losses and negative cash flows and has a substantial need for additional funding to support its operations. Furthermore, the Company's \$100 million convertible notes require the Company to maintain the listing of its Series A common stock on either the New York Stock Exchange, the Nasdaq National Market or the American Stock Exchange. The Company currently does not meet Nasdaq's continued listing requirements. If the Company's Series A common stock is delisted, the terms of the convertible notes provide for their acceleration of repayment in cash at that time. These conditions raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of these uncertainties.

/s/ ERNST & YOUNG LLP

Palo Alto, California  
January 24, 2001,  
Except for the second and third paragraphs  
of Note 1, as to which the date is  
August 14, 2001

**AT HOME CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**  
(In thousands, except share and per share data)

	December 31,	
	2000	1999
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (including restricted cash of \$34,139 in 2000 and \$988 in 1999) . . . . .	\$ 98,647	\$ 224,548
Short-term investments . . . . .	102,115	300,675
Total cash, cash equivalents and short-term investments . . . . .	200,762	525,223
Accounts receivable, net of allowance of \$10,000 in 2000 and \$3,454 in 1999 . .	65,899	52,253
Accounts receivable — related parties . . . . .	54,126	18,279
Other current assets . . . . .	42,626	35,151
Total current assets . . . . .	363,413	630,906
Property, equipment and improvements, net . . . . .	366,127	176,077
Investments in affiliated companies . . . . .	35,032	19,015
Other investments . . . . .	73,628	273,005
Distribution agreements, net . . . . .	239,357	313,772
Goodwill and other acquired intangible assets, net . . . . .	908,788	7,614,847
Other assets . . . . .	120,355	76,657
Total assets . . . . .	<u>\$ 2,106,700</u>	<u>\$ 9,104,279</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable . . . . .	\$ 65,060	\$ 44,781
Accounts payable — related parties . . . . .	10,892	22,916
Accrued compensation and related expenses . . . . .	21,940	15,632
Deferred revenue . . . . .	40,381	56,844
Other accrued liabilities . . . . .	101,826	63,044
Current portion of capital lease and other obligations . . . . .	70,258	38,666
Total current liabilities . . . . .	310,357	241,883
Convertible notes and debentures . . . . .	743,525	736,294
Capital lease and other obligations, less current portion . . . . .	85,904	52,552
Other liabilities . . . . .	10,397	6,533
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Convertible preferred stock, \$0.01 par value:		
Authorized shares — 9,650,000		
Issued and outstanding shares — 7,621 in 2000 and 10,134 in 1999 . . . . .	286,208	397,019
Common stock, \$0.01 par value:		
Authorized shares — 1,110,000,000		
Issued and outstanding shares — 405,362,314 in 2000 and 384,754,355 in 1999 . . . . .	9,809,893	9,312,700
Deferred compensation . . . . .	(34,070)	(50,493)
Accumulated other comprehensive income . . . . .	19,085	92,594
Accumulated deficit . . . . .	(9,124,599)	(1,684,803)
Total stockholders' equity . . . . .	956,517	8,067,017
Total liabilities and stockholders' equity . . . . .	<u>\$ 2,106,700</u>	<u>\$ 9,104,279</u>

*The accompanying notes are an integral part of these consolidated financial statements*

**AT HOME CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)

	Year Ended December 31,		
	2000	1999	1998
Revenues <sup>(1)</sup> :			
Consumer access . . . . .	\$ 218,116	\$ 91,128	\$ 22,292
Commercial services . . . . .	61,118	35,487	18,739
Media/advertising . . . . .	308,006	197,067	5,444
International . . . . .	29,135	13,273	1,570
Total revenues: . . . . .	616,375	336,955	48,045
Operating costs <sup>(2)</sup> :			
Cost of services and products . . . . .	290,550	143,056	46,965
Product development and engineering . . . . .	95,615	54,805	17,009
Sales and marketing . . . . .	290,017	130,725	18,091
General and administrative . . . . .	65,886	30,276	12,429
Cost and amortization of distribution agreements . . . . .	171,102	291,967	101,385
Costs and amortization of goodwill, intangible assets, deferred compensation and other acquisition-related amounts . . . . .	2,341,644	1,157,009	2,758
Write-down of goodwill, other intangible assets and other assets . . .	4,635,687	—	—
Total operating costs . . . . .	7,890,501	1,807,838	198,637
Loss from operations . . . . .	(7,274,126)	(1,470,883)	(150,592)
Interest and other income, net . . . . .	9,872	10,253	6,413
Write-down of other investments . . . . .	(129,482)	—	—
Realized gain on investment held . . . . .	—	12,566	—
Equity share of losses of affiliated companies . . . . .	(46,060)	(9,574)	—
Net loss . . . . .	<u>\$(7,439,796)</u>	<u>\$(1,457,638)</u>	<u>\$(144,179)</u>
Net loss per share — basic and diluted . . . . .	<u>\$ (18.73)</u>	<u>\$ (4.61)</u>	<u>\$ (0.63)</u>
Shares used in per share computation — basic and diluted . . . . .	<u>397,235</u>	<u>316,441</u>	<u>228,479</u>
<sup>(1)</sup> Revenue from related parties . . . . .	<u>\$ 45,318</u>	<u>\$ 28,821</u>	<u>\$ 10,458</u>
<sup>(2)</sup> Depreciation and amortization included in operating costs, excluding amortization of distribution agreements and acquisition- related amounts . . . . .	<u>\$ 103,965</u>	<u>\$ 49,467</u>	<u>\$ 15,029</u>

*The accompanying notes are an integral part of these consolidated financial statements*

**AT HOME CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
(In thousands)

	Convertible Preferred Stock		Common Stock		Notes Receivable From Stock-Holders	Deferred Compensation	Accum. Other Comprehensive Income	Accumulated Deficit	Total Stock-holders' Equity
	Shares	Amount	Shares	Amount					
Balances at December 31, 1997	—	\$ —	237,206	\$ 370,111	\$(319)	\$ (4,399)	\$ —	\$ (82,986)	\$ 282,407
Net issuance of Series A common stock in secondary offering	—	—	5,750	125,725	—	—	—	—	125,725
Series A common stock issued and stock options assumed in acquisitions	—	—	2,488	94,953	—	—	—	—	94,953
Series A common stock issued upon exercise of warrants	—	—	192	—	—	—	—	—	—
Series A common stock issued under stock option and employee stock purchase plans, net of repurchases	—	—	910	5,099	16	—	—	—	5,115
Repayment of notes receivable	—	—	—	—	303	—	—	—	303
Warrants to purchase Series A common stock under distribution agreements	—	—	—	124,287	—	—	—	—	124,287
Amortization of deferred compensation, net of cancelled stock options	—	—	—	(499)	—	1,519	—	—	1,020
Net loss	—	—	—	—	—	—	—	(144,179)	(144,179)
Net unrealized gain on available-for-sale investments	—	—	—	—	—	—	4,235	—	4,235
Comprehensive loss	—	—	—	—	—	—	—	—	(139,944)
Balances at December 31, 1998	—	—	246,546	719,676	—	(2,880)	4,235	(227,165)	493,866
Common and preferred stock issued and stock options and warrants assumed in acquisitions	11	418,175	126,808	8,083,468	—	—	—	—	8,501,643
Series A common stock issued upon exercise of warrants	—	—	5,417	10,507	—	—	—	—	10,507
Series A common stock issued under stock option and employee stock purchase plans, net of repurchases	—	—	5,443	57,934	—	—	—	—	57,934
Warrants to purchase Series A common stock under distribution agreements	—	—	—	417,847	—	—	—	—	417,847
Conversion of Series A preferred stock to Series A common stock	(1)	(21,156)	540	21,156	—	—	—	—	—
Warrants to purchase Series A common stock contributed to joint venture	—	—	—	2,112	—	—	—	—	2,112
Deferred compensation from stock options and restricted stock assumed in acquisitions	—	—	—	—	—	(51,061)	—	—	(51,061)
Amortization of deferred compensation	—	—	—	—	—	3,448	—	—	3,448
Net loss	—	—	—	—	—	—	—	(1,457,638)	(1,457,638)
Net unrealized gain on available-for-sale investments	—	—	—	—	—	—	88,456	—	88,456
Foreign currency translation adjustment	—	—	—	—	—	—	(97)	—	(97)
Comprehensive loss	—	—	—	—	—	—	—	—	(1,369,279)
Balances at December 31, 1999	10	397,019	384,754	9,312,700	—	(50,493)	92,594	(1,684,803)	8,067,017
Common and preferred stock issued and stock options and warrants assumed in acquisitions	3	76,258	6,689	137,631	—	—	—	—	213,889
Series A common stock issued upon exercise of warrants	—	—	1,873	6,406	—	—	—	—	6,406
Series A common stock issued under stock option and employee stock purchase plans, net of repurchases	—	—	7,249	71,281	—	—	—	—	71,281
Warrants to purchase Series A common stock under distribution agreements	—	—	—	93,445	—	—	—	—	93,445
Conversion of Series A preferred stock to Series A common stock	(5)	(187,069)	4,797	187,069	—	—	—	—	—
Warrants to purchase Series A common stock contributed to joint venture	—	—	—	1,361	—	—	—	—	1,361
Deferred compensation from stock options and restricted stock assumed in acquisitions	—	—	—	—	—	(5,364)	—	—	(5,364)
Amortization of deferred compensation	—	—	—	—	—	21,787	—	—	21,787
Net loss	—	—	—	—	—	—	—	(7,439,796)	(7,439,796)
Net unrealized loss on available-for-sale investments	—	—	—	—	—	—	(73,668)	—	(73,668)
Foreign currency translation adjustment	—	—	—	—	—	—	159	—	159
Comprehensive loss	—	—	—	—	—	—	—	—	(7,513,305)
Balances at December 31, 2000	8	\$ 286,208	405,362	\$9,809,893	\$ —	\$(34,070)	\$ 19,085	\$(9,124,599)	\$ 956,517

*The accompanying notes are an integral part of these consolidated financial statements*

**AT HOME CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

	<b>Years Ended December 31,</b>		
	<b>2000</b>	<b>1999</b>	<b>1998</b>
<b>CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES</b>			
Net loss	\$(7,439,796)	\$(1,457,638)	\$(144,179)
Adjustments to reconcile net loss to cash used in operating activities:			
Depreciation and amortization	102,945	48,447	14,009
Amortization of distribution agreements	95,551	78,843	51,591
Cost of distribution agreements	75,551	213,124	49,794
Amortization of deferred and other stock-based compensation	21,787	11,179	1,020
Amortization of goodwill and other intangible assets	2,310,273	1,103,005	—
Impairment write-down of goodwill and acquired intangible assets	4,609,086	—	—
Impairment write-down of other investments	129,482	—	—
Accretion of discount on convertible debentures	9,715	6,950	—
Recognition of non-cash gain on investment	—	(12,556)	—
Charge for purchased in-process research and development	—	36,715	2,758
Equity share of losses of affiliated companies	46,060	9,574	—
Changes in assets and liabilities:			
Accounts receivable	(47,179)	(8,972)	(8,099)
Other assets	(8,580)	(6,691)	(9,143)
Accounts payable	(50)	39,198	5,822
Accrued liabilities	44,401	7,983	4,825
Deferred revenues	(27,907)	43,157	3,126
Other long-term liabilities	2,778	85	(1,736)
Cash provided by (used in) operating activities	(75,883)	112,403	(30,212)
<b>CASH USED IN INVESTING ACTIVITIES</b>			
Purchases of short-term investments	(110,786)	(340,050)	(135,342)
Sales and maturities of short-term investments	309,346	178,386	92,922
Purchases of other investments	(38,470)	(104,732)	—
Sales of other investments	46,191	—	4,291
Net purchases of property, equipment and improvements	(129,080)	(57,358)	(16,793)
Capitalized software development costs	(19,712)	(3,451)	—
Payments under backbone agreement	(48,199)	(57,052)	—
Investment in joint ventures	(66,045)	(7,561)	—
Business combinations, net of cash received	(6,397)	(316,383)	144
Cash used in investing activities	(63,152)	(708,201)	(54,778)
<b>CASH PROVIDED BY FINANCING ACTIVITIES</b>			
Proceeds from issuance of convertible debt	—	485,750	222,466
Proceeds from issuance of common stock, net of repurchases	77,687	68,441	130,828
Payments on capital lease obligations	(64,553)	(34,547)	(12,118)
Repayment of notes receivable from stockholders	—	—	303
Cash provided by financing activities	13,134	519,644	341,479
Net increase (decrease) in cash and cash equivalents	(125,901)	(76,154)	256,489
Cash and cash equivalents, beginning of period	224,548	300,702	44,213
Cash and cash equivalents, end of period (including restricted cash of \$34,139 in 2000, \$988 in 1999 and \$ — in 1998)	<u>\$ 98,647</u>	<u>\$ 224,548</u>	<u>\$ 300,702</u>
<b>SUPPLEMENTAL DISCLOSURES</b>			
Interest paid	<u>\$ 36,722</u>	<u>\$ 7,236</u>	<u>\$ 2,148</u>
Acquisition of equipment under capital leases	<u>\$ 129,497</u>	<u>\$ 54,322</u>	<u>\$ 12,872</u>
Warrants to purchase Series A common stock earned by cable partners and capitalized as distribution agreements	<u>\$ 17,894</u>	<u>\$ 204,723</u>	<u>\$ 74,493</u>
Conversion of preferred stock to common stock	<u>\$ 187,069</u>	<u>\$ 21,156</u>	<u>\$ —</u>
Mergers and acquisitions:			
Common and preferred stock issued and options and warrants exercisable for common stock assumed	<u>\$ 213,889</u>	<u>\$ 8,501,643</u>	<u>\$ 94,953</u>
Liabilities assumed	<u>\$ 2,590</u>	<u>\$ 114,697</u>	<u>\$ 2,589</u>

*The accompanying notes are an integral part of these consolidated financial statements*



**AT HOME CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. The Company and Summary of Significant Accounting Policies**

*The Company*

At Home Corporation, or Excite@Home, which was incorporated in the state of Delaware on March 28, 1995, is a global provider of broadband network services. Through its ownership of our common stock, AT&T has majority voting control of our company. Our primary offerings are the @Home service, which is a broadband Internet service delivered, with the assistance of our cable partners, to consumers via the hybrid fiber-coaxial cable infrastructure, and the Excite Network, an Internet portal providing users a broad array of information in categories such as news, finance and entertainment, as well as services such as search, e-mail, chat, voice mail and address books.

*Ability to Continue Operations*

We have had operating losses and negative cash flow since our inception. In 2001, the expansion and enhancement of our broadband network has required significant ongoing capital outlay, and the weakened demand for Internet advertising has resulted in decreasing revenue and negative cash flow for our media operations. Although we raised \$185 million in June 2001 through a convertible note arrangement with third party investors and a separate financing arrangement with AT&T involving our backbone capacity agreement, we announced in July 2001 that we would need to raise additional funding prior to December 31, 2001 to support our operations. Some of the factors contributing to this forecast include our belief that there will not be a near-term recovery in the demand for our online advertising and marketing services and also include our inability to secure financing terms from some of our equipment vendors, to obtain standard payment terms from several critical suppliers, or to recover previously expected amounts in connection with real estate lease commitments. In addition, we have not yet completed the possible sale or restructuring of our media operations not directly supporting our broadband strategy as contemplated in our April 17, 2001 announcement, or other financing transactions. Additionally, our \$100 million of convertible notes require that we maintain the listing of our Series A common stock on either the New York Stock Exchange, the Nasdaq National Market or the American Stock Exchange. We do not currently meet the Nasdaq's continued listing requirement because our net tangible assets and stockholders' equity are below the minimum thresholds and the bid price of our Series A common stock is currently less than the minimum \$3.00 bid price required when such thresholds are not met. If we do not meet the continued listing requirements of one of these stock markets at any time after receiving a redemption notice from a note holder, if our Series A common stock were delisted, or if we fail to meet other specified conditions in our agreements with the note holders, the notes provide for acceleration of repayment in cash at that time. Our stockholders have approved a reverse stock split which would, if our board of directors elects to implement it, increase the trading price of our Series A common stock above \$3.00, but we cannot assure you that this would result in a sustained increase above the minimum bid price requirements. Therefore, our existing cash and other liquid assets may not be sufficient to fund operations through the end of 2001. These conditions raise substantial doubt about our ability to continue as a going concern. We cannot guarantee that we will be able to obtain additional funding on acceptable terms, if at all.

In order to conserve cash reserves, we have implemented targeted expense reductions throughout our company. In August 2001, we commenced an operational and strategic realignment of our entire business that has resulted in the elimination of approximately 200 positions and we have eliminated an additional 90 positions at our MatchLogic subsidiary in order to align expenses with projected revenues. We may undertake further restructuring efforts for the remainder of 2001. In addition, we are continuing to pursue the possible sale of our media operations and other strategic plans, including financing transactions.

*Dependence on Cable System Operators*

We have strategic partnerships with cable system operators that provide, through their cable systems, the principal distribution network for our services to subscribers. Our cable partners have granted us the exclusive

right to offer high-speed residential consumer Internet services over their cable systems, subject to specified exceptions. However, these cable partners are under no obligation to carry our services. In addition, the cable partners' exclusivity obligations to us begin expiring in June 2002, and may be terminated prior to that date under certain circumstances. In March 2000, we executed letter agreements with our principal cable partners, AT&T, Cox and Comcast, to extend our distribution agreements on a non-exclusive basis through June 4, 2006 with Cox and Comcast and June 4, 2008 with AT&T. This letter agreement granted Cox and Comcast the right to terminate their exclusivity obligations with us by delivering written notice to us, on or after June 4, 2001. This letter agreement also granted Cox and Comcast the right to provide a portion of our broadband network services to subscribers themselves, or to terminate entirely our distribution agreements with these cable partners.

Transmission of data over cable is dependent on the availability of high-speed two-way hybrid fiber-coaxial cable infrastructure. Currently, a significant portion of the cable infrastructure in the United States has not been upgraded and is not capable of two-way data transmission. Cable system operators have made major infrastructure investments in order to deploy data-over-cable services, but there are no assurances as to the timing and rate of such infrastructure improvements in the future.

Because we do not offer the @Home service directly to customers, the rate at which we are able to obtain new subscribers depends on the level and effectiveness of the efforts of our cable partners to promote our broadband services in particular regions. We cannot predict the rate at which our cable partners will add new subscribers to our services. If our cable partners do not actively and effectively promote our services, we will not be able to reach the level of subscribers necessary to achieve a profitable business model.

Certain parties, including other Internet service providers, have petitioned federal, state and local authorities to require cable operators to provide Internet and online service providers with unbundled access to their cable systems. The rates that our cable partners charge for this third-party access, or for the @Home services, could also be subject to rate regulation or tariffing requirements. Our financial position and results of operations would likely be materially adversely affected if our cable partners or we are classified as common carriers, or if government authorities require third-party access to cable networks or unaffiliated Internet service providers. In addition, several of our cable partners have initiated trials involving multiple Internet service providers and have announced that they intend to allow customers in their broadband cable systems to choose their Internet service provider upon expiration of our exclusivity agreements with them. The terms and conditions of broadband cable delivery agreements that will be executed by Excite@Home, our cable partners and other Internet service providers after expiration of our exclusivity agreements are uncertain.

#### *Dependence on Key Technology Suppliers*

We currently depend on a limited number of suppliers for certain key technologies, including cable modems, which are needed to build, manage and operate our services. Although we believe that there are alternative suppliers for each of these technologies, the loss of any of our relationships with our current suppliers could have a material adverse effect on our financial condition and results of operations.

#### *Significant Accounting Policies*

##### *Basis of Presentation*

The consolidated financial statements include the accounts of Excite@Home and its consolidated subsidiaries, all of which are wholly owned. All significant intercompany transactions and balances have been eliminated in consolidation. Investments, including joint ventures, in entities owned 20% or more but less than majority owned and not otherwise controlled by us are accounted for under the equity method and presented in the consolidated balance sheets as investments in affiliated companies.

### *Reclassifications*

Certain reclassifications have been made to previously reported amounts in the consolidated financial statements in order to conform to the current presentation.

### *Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported results of operations during the reporting period. Actual results could differ from those estimates.

### *Revenue Recognition*

Our revenues are recorded in accordance with the Securities and Exchange Commission's (SEC) Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition". We recognize revenues when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, fees are fixed and determinable, and collectibility is reasonably assured. For contracts with multiple elements, we allocate the contract value to each element based on its fair value and we recognize revenue as each element is delivered.

Monthly customer subscription revenue for the @Home and @Work services is recognized in the period in which subscription services are provided. We also earn revenue from cable system operators for providing certain support services, such as customer support, local area content development and pre-commercial deployment fees, and this revenue is recognized as the services are performed. We have also entered into agreements with cable system operators and other third parties for the development, deployment and marketing of additional services. Revenue for these development agreements is recognized on the percentage of completion basis.

Our revenues also include online advertising revenue derived from short-term advertising contracts in which we guarantee a minimum number of impressions (a view of an advertisement by a consumer) for a fixed fee. We also enter into a number of longer-term advertising and sponsorship agreements. Under these agreements, which range from 3 month to 3 years, we earn fees for generating impressions which in some instances are guaranteed. We generally recognize advertising revenue over the term of the agreements, provided that we do not have any significant remaining obligations such as impression guarantees and collection of the resulting receivable is probable. To the extent that impression deliveries do not meet the guarantees, we defer recognition of the corresponding revenue until impressions are delivered.

Revenue from barter transactions involving the exchange of advertising on our Excite Network for online, print and television advertising, was \$19.6 million and \$19 million for the years ended December 31, 2000 and 1999, respectively; there was no such revenue during the year ended December 31, 1998. Revenue from these exchanges is recorded at the lower of the fair value of the advertising delivered or the advertising received. In accordance with Emerging Issues Task Force (EITF) Issue No. 99-17, "Accounting for Advertising Barter Transactions", effective January 20, 2000, the fair value of advertising delivered is based on similar advertising transactions for which we received cash during the six months prior to the advertising barter transactions. Advertising barter transactions generally result in the recognition of equivalent amounts of revenue and expense.

Revenue recognized from other barter transactions involving primarily the exchange of MatchLogic data-marketing services for software and property and equipment for internal use, was \$16.7 million and \$3.7 million for the years ended December 31, 2000 and 1999, respectively; there was no such revenue during the year ended December 31, 1998. Revenue from these exchanges is generally recorded at the fair value of the services provided unless the fair value of the services or products received is more readily determinable.

### *Cash and Cash Equivalents*

Cash equivalents are highly liquid investments with insignificant interest rate risk and maturities of 90 days or less and are stated at amounts that approximate fair value, based on quoted market prices. Cash equivalents consist principally of investments in interest-bearing demand deposit accounts with financial institutions and highly liquid debt securities of corporations and the U.S. Government. We include in cash and cash equivalents all short-term, highly liquid investments that mature within 90 days of their purchase date.

### *Other Investments*

Other investments primarily consist of strategic investments of less than 20% equity interest in publicly held and private companies. We do not have the ability to exercise significant influence over any of these companies and therefore account for investments in publicly held companies as available-for-sale securities under Statement of Financial Accounting Standards (SFAS) No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments in publicly held companies are recorded at fair value as measured by quoted market prices and investments in privately held companies, which are recorded at cost, are accounted for under the cost method of accounting. Changes in fair value are included in comprehensive loss and unrealized gains and losses are included in accumulated other comprehensive income or loss. Realized gains and losses are recorded in net interest and other income when the related investments are sold.

We perform periodic reviews of our investments for impairment. Our investments in publicly held companies are generally considered impaired when a decline in the fair value of an investment as measured by quoted market prices is less than its carrying value and such decline is not considered temporary. In general, a decline in fair value below carrying value for a continuous period of six months or more is not considered temporary. Impaired publicly held companies are written down to fair value in our consolidated balance sheets by recording as realized losses (included in impairment write-downs in our consolidated statements of operations) the amount of unrealized losses related to impaired investments that were previously included in accumulated other comprehensive income. Our investments in privately held companies are considered impaired when a review of operations and other indicators of impairment indicate that the carrying value of the investment is not likely to be recoverable. Such indicators include limited liquidity and limited prospects of receiving additional financing. Impaired investments in privately held companies are written down to estimated fair value, which is the amount we believe is recoverable from our investment, by a reduction of other investments and a corresponding amount recorded as impairment write-downs in our consolidated statements of operations. Impairment write-downs create a new carrying value for both publicly and privately held investments and we do not record subsequent increases in fair value in excess of the new carrying value. We recorded write-downs of \$129.5 million during the quarter ended December 31, 2000 related to impairments of our publicly and privately held investments.

### *Property, Equipment and Improvements*

Property, equipment and improvements are stated at cost. Depreciation and amortization are computed using the straight-line method over the shorter of the estimated useful life of the asset or the lease term.

### *Intangible Assets*

Intangible assets consist of purchased technology, acquired workforce, acquired brand name and content, and goodwill related to the acquisitions of Narrative Communications Corp., Full Force Systems, Inc., Excite, Inc., iMALL, Inc., Hartford House, Ltd. and its wholly-owned subsidiary Bluemountain.com, Webshots Corporation, certain assets of Perspecta, Inc., Excite Espana, Rucker Design Group, Kendara, Inc., Worldprints.com International, Inc., DataInsight and Join Systems. These acquisitions were accounted for as purchases and are further described in Note 3. Amortization of goodwill and intangible assets is provided on the straight-line basis over the estimated useful lives of the assets, which range from three to four years. Acquired in-process research and development without alternative future use is charged to operations at the date of acquisition.

We record impairment losses or write-downs on intangible assets when events and circumstances indicate that an impairment assessment should be performed and that assessment indicates that there is an impairment. Events and circumstances that would trigger an impairment assessment include a significant decrease in the market value of an asset, a significant change in the manner or extent that an asset is used including a decision to abandon acquired products, services or technologies, a significant adverse change in operations or business climate affecting the asset, and historical operating or cash flow losses expected to continue for the foreseeable future associated with the asset. An asset is considered impaired when the undiscounted cash flows projected to be generated from the asset over its remaining useful life is less than the recorded amount of that asset. Impairment losses are measured based on the difference between the asset's fair value and carrying amount and are recorded as impairment write-downs in the consolidated statements of operations in the period that an indicator of impairment arises. Measurement of fair value is based on estimated expected future cash flows, including terminal value cash flows expected to result from the disposition of the asset at the end of its useful life, discounted at our weighted average cost of capital. Weighted average cost of capital is based on historical risk premiums required by investors for companies of our size, industry and capital structure and includes risk factors specific to us. In some instances, the measurement of fair value includes a factor, if appropriate, for market comparables, representing our estimate of the value that a buyer is willing to pay for similar assets in terms of products and services, customer base, risks and earnings capabilities. During the fourth quarter of 2000, we recorded impairment write-downs related to intangible assets of \$4.6 billion. Previous to this, no impairments of our intangible assets had occurred.

#### *Stock-Based Compensation*

We account for stock-based awards to employees in accordance with Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees", and have adopted the disclosure-only alternative of SFAS No. 123, "Accounting for Stock-Based Compensation".

#### *Advertising Costs*

All advertising costs are expensed as incurred. Advertising costs, which are included in sales and marketing expenses, were \$34.3 million, \$18.3 million and \$1.8 million for the years ended December 31, 2000, 1999 and 1998, respectively.

#### *Software Development Costs*

Costs of software developed internally by us for use in our operations are accounted for under the American Institute of Certified Public Accountants' Statement of Position (SOP) No. 98-1, "Internal Use Software", which we adopted on January 1, 1999. In May 2000, the Emerging Issues Task Force (EITF) reached a consensus on Issue 00-2, "Accounting for Web Site Development Costs" and we adopted this consensus on July 1, 2000. This consensus requires that entities treat most web site development as internal use software under SOP No. 98-1. Under these accounting pronouncements, we expense costs of research, including pre-development efforts related to determining technological or product alternatives, and costs incurred for training and maintenance. Software and web site development costs, which include direct costs such as labor and contractors, are capitalized when it is probable that the project will be completed and the software or web sites will be used as intended. Costs incurred for upgrades and enhancements to our software or web sites are capitalized when we believe such efforts result in additional functionality. Capitalized software and web site costs are amortized to expense over the estimated useful life of the software or web sites, which range from one to three years. Costs capitalized under SOP No. 98-1 were \$19.7 million and \$3.5 million during the years ended December 31, 2000 and 1999, respectively. Amortization of capitalized costs was not significant during the years ended December 31, 2000 and 1999.

#### *Income Taxes*

Income taxes are computed using the asset and liability method, under which deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets

and liabilities and are measured using the currently enacted tax rates and laws. A valuation allowance is provided for the amount of deferred tax assets that, based on available evidence, are not expected to be realized.

#### *Effect of New Accounting Standards*

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This Statement requires that entities recognize all derivatives in the balance sheet at fair value and record gains and losses resulting from changes in fair value according to the purpose of the derivative and whether it qualifies as a hedge. We adopted SFAS No. 133 on January 1, 2001 and its adoption did not have a material impact on our financial position or results of operations, as we hold no derivative financial instruments and we do not currently engage in hedging activities.

In December 1999, the SEC issued SAB No. 101, "Revenue Recognition," which provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SAB No. 101 outlines the basic criteria that must be met in order to recognize revenue and provides guidance for disclosures related to revenue recognition policies. In October 2000, the SEC issued additional written guidance to further supplement SAB 101. The adoption of SAB No. 101 in 2000 did not have a material impact on our financial position and results of operations.

In March 2000, the FASB issued Interpretation (FIN) No. 44, "Accounting for Certain Transactions Involving Stock Compensation." FIN 44 clarifies the application of Accounting Principles Board Opinion No. 25 for certain issues relating to stock compensation such as criteria for determining when a plan is non-compensatory, the accounting consequences of modifications to the terms of a fixed award, and the accounting for stock compensation related to business combinations, among others, and is effective July 1, 2000. The adoption of FIN 44 did not have a material impact on our financial position or results of operations.

On February 14, 2001, the FASB issued a limited revision of its September 7, 1999 Exposure Draft, "Business Combinations and Intangible Assets", that proposes to significantly change the accounting for goodwill acquired in a purchase business combination. Under the revised proposal, goodwill would not be amortized but would be reviewed for impairment, using a complex methodology different from the original proposal, when an event occurs indicating the potential for impairment. Goodwill impairment charges would be presented as a separate line item within the operating section of the income statement. The nonamortization approach would apply to previously recorded goodwill as well as goodwill arising from acquisitions completed after the application of the new standard. Amortization of the remaining book value of goodwill would cease and the new impairment-only approach would apply. The FASB expects to release the final statement in June 2001. The provisions of the proposed statement are to be applied at the beginning of the first fiscal quarter following its issuance.

#### ***Components of Impairment Write-Down of Goodwill, Other Intangible Assets and Other Assets***

The components of the write-down of goodwill, other intangible assets and other assets for the year ended December 31, 2000 were as follows (in thousands):

	<u>Amount</u>
Goodwill and acquired identifiable intangible assets (Note 3) . . . . .	\$4,609,086
Other assets . . . . .	26,601
	<u>\$4,635,687</u>

The write-down of other assets primarily included costs that would have been capitalized upon the formation of the Excite Chello joint venture and the acquisition of Pogo.com, Inc. On December 4, 2000, we announced the termination of the agreement to combine our international operations under a joint venture to be named Excite Chello in partnership with UPC and its parent company, UnitedGlobalCom. On January 8, 2001, we announced that we had terminated our agreement to acquire Pogo.com in accordance with the terms of the agreement.

## Balance Sheet Components

	As of December 31,	
	2000	1999
	(in thousands)	
Other current assets:		
Current prepaid assets . . . . .	\$ 39,745	\$ 14,079
Other . . . . .	2,881	21,072
	<u>\$ 42,626</u>	<u>\$ 35,151</u>
Goodwill and other intangible assets, net:		
Goodwill, net . . . . .	\$707,920	\$7,306,280
Acquired identifiable intangible assets, net . . . . .	200,868	308,567
	<u>\$908,788</u>	<u>\$7,614,847</u>
Other accrued liabilities:		
Accrued network and connection costs . . . . .	\$ 26,960	\$ 9,186
Accrued sales and marketing related costs . . . . .	17,652	6,892
Other accrued operations costs . . . . .	18,215	6,119
Other . . . . .	38,999	40,847
	<u>\$101,826</u>	<u>\$ 63,044</u>

## 2. Calculation of Net Loss Per Share

Basic and diluted net loss per share is computed using the weighted average number of common shares outstanding during the period. Since we have a net loss for all periods presented, net loss per share on a diluted basis is equivalent to basic net loss per share because the effect of converting outstanding stock options, warrants, common stock subject to repurchase, convertible debt, preferred stock and other common stock equivalents would be anti-dilutive. See Note 10 for amounts and descriptions of instruments convertible into common stock.

The computation of basic and diluted net loss per share is as follows (in thousands, except per share data):

	Year Ended December 31,		
	2000	1999	1998
Net loss . . . . .	<u>\$(7,439,796)</u>	<u>\$(1,457,638)</u>	<u>\$(144,179)</u>
Weighted average shares of common stock outstanding . . . .	399,541	322,456	240,108
Less: weighted average shares of common stock subject to repurchase . . . . .	<u>(2,306)</u>	<u>(6,015)</u>	<u>(11,629)</u>
Shares used in per share calculations . . . . .	<u>397,235</u>	<u>316,441</u>	<u>228,479</u>
Net loss per share—basic and diluted . . . . .	<u>\$ (18.73)</u>	<u>\$ (4.61)</u>	<u>\$ (0.63)</u>

### 3. Business Combinations

The following is a summary of acquisitions made during the years ended December 31, 2000, 1999 and 1998, all of which were accounted for as purchases:

	<u>Primary Service or Product</u>	<u>Acquisition Date</u>
Full Force Systems, Inc. . . . .	Set-top applications for interactive television	November 30, 1998
Narrative Communications Corp. . . . .	Rich media Internet advertising solutions	December 30, 1998
Excite, Inc. . . . .	Internet portal and targeted marketing	May 28, 1999
iMALL, Inc. . . . .	Integrated e-commerce solutions	October 25, 1999
Perspecta, Inc. . . . .	Online database development	October 25, 1999
Webshots Corporation . . . . .	Online digital photos and viewing software	October 27, 1999
Excite Espana, SL . . . . .	International Excite-branded portal	November 30, 1999
Hartford House, Ltd. (Bluemountain.com) . .	Free online greeting cards	December 13, 1999
Rucker Design Group . . . . .	Graphics design	January 21, 2000
Kendara, Inc. . . . .	Browser-based marketing services	February 10, 2000
Worldprints.com International, Inc. . . . .	Online digital photos and screensavers	April 4, 2000
DataInsight, Inc. . . . .	Online and offline database marketing systems	July 14, 2000
Join Systems, Inc. . . . .	Internet protocol engineering	July 14, 2000

Our consolidated financial statements include the results of operations of acquired companies commencing on the date of acquisition. The total purchase consideration for each of the above acquisitions was allocated to the assets acquired and liabilities assumed based on their estimated fair values as of the date of the acquisition. Purchase consideration includes the fair value of our Series A common stock and preferred stock (which is convertible into Series A common stock) based generally on the trading price of our Series A common stock at the earlier of the date that an acquisition is announced or the date that an acquisition is consummated. For assumed employee stock options, purchase consideration includes the fair value of vested stock options on the date of consummation as determined by the Black-Scholes valuation method. In accordance with the FASB's FIN 44, effective July 1, 2000, purchase consideration includes the fair value of both vested and unvested stock options. The intrinsic value of assumed unvested stock options is allocated to deferred compensation and amortized to expense on a straight-line basis over the vesting period of such options. For stock-based awards to nonemployees (all of which to date have been fully vested on the date of consummation), purchase consideration is determined based on fair value as calculated using the Black-Scholes valuation method. We generally assume all outstanding employee stock options, warrants and other stock-based awards of acquired companies and convert them to options, warrants and awards to acquire our Series A common stock. Converted stock-based awards are subject to the terms and conditions, including exercisability and vesting schedules, of the original awards.

Goodwill represents the excess of purchase consideration over the fair value of assets, including identifiable intangible assets, net of the fair value of liabilities assumed. Goodwill and intangible assets related to our acquisitions are amortized to expense on a straight-line basis generally over three to four years.



### ***Allocation of Purchase Consideration***

Purchase consideration was allocated to the acquired assets and assumed liabilities based on fair values as follows (in thousands):

	Acquisitions in 1998		Acquisitions in 1999				
	Narrative	Full Force	Excite	iMALL	Webshots	Blue Mountain	Others <sup>(1)</sup>
Cash . . . . .	\$ 77	\$ 69	\$ 34,341	\$ 8,974	\$ 73	\$ 611	\$ 432
Accounts receivable and other assets . . . . .	584	60	233,338	884	—	1,204	2,716
Property and equipment . . . . .	520	5	48,376	3,368	68	3,577	78
Purchased technology . . . . .	22,900	215	94,500	13,200	2,200	800	—
Other identified intangible assets . . . . .	1,050	101	162,700	35,600	22,800	27,000	—
Goodwill . . . . .	68,404	1,318	6,723,796	577,567	33,110	938,585	11,088
Purchased in-process research and development . . . . .	2,700	58	34,400	1,890	425	—	—
Deferred compensation . . . . .	—	—	—	—	25,000	30,922	—
Liabilities assumed . . . . .	(2,435)	(154)	(105,743)	(3,282)	(378)	(1,986)	(3,308)
Total purchase consideration . . .	<u>\$93,800</u>	<u>\$1,672</u>	<u>\$7,225,708</u>	<u>\$638,201</u>	<u>\$83,298</u>	<u>\$1,000,713</u>	<u>\$11,006</u>

	Acquisitions in 2000			
	Kendara	Worldprints	DataInsight	Others <sup>(1)</sup>
Cash . . . . .	\$ 3,908	\$ 1,351	\$ 131	\$ 70
Accounts receivable and other assets . . . . .	73	17	465	122
Property and equipment . . . . .	944	143	26	67
Purchased technology . . . . .	—	—	—	—
Other identified intangible assets . . . . .	5,600	—	5,100	—
Goodwill . . . . .	99,534	66,920	9,662	7,235
Purchased in-process research and development . . . . .	—	—	—	—
Deferred compensation . . . . .	—	—	529	—
Liabilities assumed . . . . .	(440)	(1,115)	(780)	(255)
Total purchase consideration . . . . .	<u>\$109,619</u>	<u>\$67,316</u>	<u>\$15,133</u>	<u>\$7,239</u>

<sup>(1)</sup> Includes the 1999 acquisitions of Perspecta and Excite Espana and the 2000 acquisitions of Rucker and Join.

### ***Description of Significant Business Combinations***

The total purchase consideration for Narrative of \$93.8 million was based on the issuance of 2.4 million shares of our Series A common stock with a fair value of \$84.2 million; converted stock options to acquire 0.3 million shares of Series A common stock of \$9.2 million; and \$0.4 million of direct acquisition costs.

The total purchase consideration for Excite of \$7,225.7 million was based on the issuance of 115.4 million shares of our Series A common stock with a fair value of \$6,051 million; converted stock options to acquire 25.7 million shares of Series A common stock of \$1,105 million; converted warrants and convertible debt instruments to acquire 0.2 million shares of Series A common stock with a fair value of approximately \$10 million; and direct merger costs of \$59.7 million consisting primarily of investment banking fees, severance and stock compensation to certain employees and other professional fees.

The total purchase consideration for iMALL of \$638.2 million was based on the issuance of 9.3 million shares of our Series A common stock with a fair value of \$481.2 million; converted stock options to acquire 1.5 million shares of our Series A common stock of \$61.5 million; iMALL warrants assumed and converted

into warrants to acquire 2.5 million shares of our Series A common stock with a fair value of \$90.2 million; and direct merger costs of \$5.3 million consisting primarily of investment banking fees.

The total purchase consideration for Webshots of \$83.3 million was comprised of the issuance of 2 million shares of our Series A common stock with an aggregate fair value of \$82.5 million and \$0.8 million of direct acquisition costs. The resale of 30% of the Series A common stock issued in this acquisition is subject to vesting during the employment of their holders over the 24 months following the acquisition. The \$25 million aggregate fair value of such restricted stock was allocated to deferred compensation in the purchase price allocation. The deferred compensation is being amortized on a straight-line basis over 24 months.

The total purchase consideration for Bluemountain.com of \$1,000.7 million was based on a cash payment of \$350 million; the issuance of 10,674 shares of our Series A non-voting preferred stock with a fair value of \$418.2 million; 3.5 million shares of Series A common stock, earned as performance-based consideration during December 1999, with a fair value of \$149.4 million; converted stock options to acquire 3.6 million shares of our Series A common stock of \$76.1 million (including options to acquire 0.5 million shares earned as performance-based consideration during December 1999); and \$7 million of direct acquisition costs consisting primarily of investment banking and legal fees. Each share of Series A preferred stock issued in the acquisition is convertible into 1,000 shares of Series A common stock, at an aggregate rate of 500,000 shares of common stock per month, during the twelve months following the acquisition, and the remaining shares will become fully convertible after two years. Unvested stock options assumed in the acquisition were recorded as deferred compensation of \$30.9 million based on their intrinsic value, because Bluemountain.com issued such options in connection with the acquisition. Deferred compensation is amortized as the related stock options vest and become exercisable. We recorded the remainder of stock options assumed in the acquisition at fair value, representing fully vested options and options held by third parties.

The total purchase consideration for Kendara of \$109.6 million was based on the issuance of 1.5 million shares of our Series A common stock with a fair value of \$52.3 million; the issuance of 202 shares of our Series B non-voting preferred stock and 1,279 shares of our Series C non-voting preferred stock with a fair value of \$52.5 million; converted stock options to acquire 0.2 million shares of Series A common stock of \$4.2 million; and \$0.6 million of direct acquisition costs. The Series B preferred stock is being held in escrow for one year and will automatically convert into approximately 0.2 million shares of our Series A common stock upon the expiration of the one year escrow period. The Series C preferred stock is convertible into approximately 1.3 million shares of Series A common stock, subject to a vesting schedule and one year escrow period.

The total purchase consideration for Worldprints of \$67.3 million was based on the issuance of 0.8 million shares of our Series A common stock with a fair value of \$23.8 million and 804 shares of our Series B non-voting preferred stock with a fair value of approximately \$23.8 million; converted stock options to acquire 0.3 million shares of Series A common of \$4.2 million; converted warrants to acquire 0.2 million shares of Series A common stock with a fair value of \$5.8 million; payment of outstanding debt plus interest prior to the completion of the acquisition and the assumption of loans that we previously made to Worldprints, net of other cash transactions, for an aggregate of \$8.8 million; and \$0.9 million of direct acquisition costs. The Series B preferred stock will convert into approximately 0.8 million shares of Series A common stock subject to a vesting schedule and one year escrow period.

The total purchase consideration for DataInsight of \$15.1 million was based on the issuance of 0.7 million shares of our Series A common stock with a fair value of approximately \$14.2 million; converted stock options to acquire 0.3 million shares of Series A common stock of \$0.8 million; and direct acquisition costs of \$0.1 million. Deferred compensation of \$0.5 million was recorded based on the intrinsic value of unvested employee stock options and is being amortized to expense over the vesting period of such options. Under performance-based terms of the purchase agreement, we will issue up to 0.7 million additional shares of our Series A common stock as well as additional employee stock options if DataInsight achieves certain revenue and profit performance targets by July 31, 2001.

### ***Pro Forma Results of Operations***

The following unaudited pro forma summary represents the consolidated results of operations as if our acquisitions had occurred at the beginning of each of the years presented and includes the amortization of goodwill and other intangible assets. Pro forma shares include a factor for the number of shares of Series A common stock issued or issuable, excluding employee stock options, as if such shares were converted and outstanding at the beginning of each of the years presented. The pro forma summary excludes the results of operations of Perspecta and Excite Espana for 1999 prior to their acquisition because they are not material to the consolidated pro forma disclosures (in thousands, except per share data):

	Year Ended December 31,	
	2000	1999
Pro forma revenues . . . . .	\$ 629,181	\$ 430,849
Pro forma net loss . . . . .	\$(7,510,592)	\$(2,772,808)
Pro forma net loss per share — basic and diluted . . . . .	\$ (18.60)	\$ (6.98)
Pro forma shares used in per share calculation — basic and diluted . . . . .	403,860	397,008

The pro forma results of operations are not necessarily indicative of the results that would have occurred if our business combinations had occurred at the beginning of each year presented and are not intended to be indicative of future results of operations.

### ***Acquisition-Related Costs***

Acquisition-related costs were as follows for the periods indicated (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Amortization of goodwill and other acquired intangible assets . . .	\$2,310,273	\$1,103,005	\$ —
Amortization of acquisition-related deferred compensation . . . . .	20,767	2,428	—
Write-off of purchased in-process research and development . . . .	—	36,715	2,758
Compensation expense from acquisition-related acceleration of stock option vesting . . . . .	—	7,900	—
Other acquisition-related costs . . . . .	10,604	6,961	—
Total acquisition-related costs and expenses . . . . .	<u>\$2,341,644</u>	<u>\$1,157,009</u>	<u>\$2,758</u>

### ***Amortization of goodwill and other acquired intangible assets***

Through December 31, 2000, we had recorded goodwill of \$8,537.2 million and other acquisition-related intangible assets of \$393.8 million. These assets are being amortized to expense generally over three to four years. Amortization of goodwill and acquisition-related intangibles was \$2,310.3 million and \$1,103 million for the years ended December 31, 2000 and 1999, respectively. Accumulated amortization of goodwill and acquisition-related intangibles was \$158.2 million and \$1,103.6 million as December 31, 2000 and 1999, respectively. As a result of the impairment write-down to a new cost basis of the goodwill and acquired intangible asset balances discussed below, accumulated amortization as of December 31, 2000 of \$152.8 million was reduced from \$3,413.3 million prior to the write-down. Future amortization related to goodwill and other acquired intangible assets recorded as of December 31, 2000 will be based on new carrying values as adjusted by the impairment write-down.

#### *Amortization of acquisition-related deferred compensation*

Amortization of deferred compensation related to acquisitions was \$20.8 and \$2.4 for the years ended December 31, 2000 and 1999; there was no amortization of deferred compensation for the year ended December 31, 1998. Acquisition-related deferred compensation resulted from certain outstanding employee stock options and restricted stock that we assumed in the acquisitions of Webshots and Bluemountain.com in 1999 and DataInsight in 2000. Deferred compensation is measured as the difference between the exercise price of an unvested award and the fair market value of our Series A common stock at the date of the acquisition and is amortized over the vesting term of the award.

Amortization of deferred compensation related to the issuance of restricted stock and stock options to employees under our own stock purchase agreements was \$1 million during each of the three years ended December 31, 2000, 1999 and 1998. This amortization, which is not acquisition-related, is included in the category of operating costs in which the related employee salaries were recorded.

#### *Write-off of purchased in-process research and development*

The fair value assigned to purchased in-process research and development in the allocation of purchase consideration includes research and development projects for which technological feasibility had not been achieved at the date of acquisition and which had no alternative future use. This allocation of fair value is charged to operations at the date of acquisition. There were no such charges in 2000. However, during 1999, we recorded charges related to purchased in-process research and development of \$34.4 million for our acquisition of Excite, \$1.9 million for iMALL, and \$0.4 million for Webshots, and during 1998, we recorded a charge of \$2.8 million related primarily to our acquisition of Narrative.

In order to determine the fair value of purchased in-process research and development, we estimated the date of completion of the research and development effort, assessed the state of such effort at the acquisition date, and calculated the estimated net present value of cash flows expected to result from the successful deployment of the new technology or product resulting from the in-process research and development effort. The state of completion was determined by estimating the costs and time incurred to date relative to the costs and time to be incurred to develop the in-process technology into a commercially viable technology or product. The estimated net present value of cash flows was based on incremental future cash flows from revenues expected to be generated by the technology or products being developed, taking into account the characteristics and applications of the technology or product, the size and growth rate of existing and future markets and an evaluation of past and anticipated technology and product life cycles. Estimated net future cash flows also included allocations of operating costs, sales and marketing, general and administrative expenses, fixed charges, the portion of product development costs related to maintenance and the net impact of income taxes. Estimated net future cash flows were discounted to arrive at a net present value and were allocated to in-process research and development based on the percentage of completion at the date of acquisition. The discount rate included a factor that took into account the uncertainty surrounding the successful development of in-process technology projects.

For each of our acquisitions that resulted in an allocation to purchased in-process research and development, the actual completion date and the actual cost to complete in-process projects were consistent with the estimates used in determining the fair values assigned to purchased in-process research and development.

#### *Compensation expense from acquisition-related acceleration of stock option vesting*

The vesting of certain stock options issued to employees was accelerated as a result of our acquisition of Excite in May 1999 and the \$7.9 million intrinsic value of these options was charged to operations during the year ended December 31, 1999. There have been no other acquisition-related accelerations of stock option vesting.

#### *Other acquisition-related costs*

Costs directly associated with our acquisitions that were not capitalized as part of the purchase consideration were \$10.6 million and \$7 million for the years ended December 31, 2000 and 1999, respectively. These costs were incurred primarily as a result of personnel, systems and technology integration efforts related to Excite, iMALL, Bluemountain.com, Kendara and Worldprints, and included \$4 million in 2000 for a pre-acquisition contingency related to Excite that required an adjustment more than 12 months after the date of the acquisition.

#### ***Impairment Write-down of Goodwill and Other Acquired Intangible Assets***

During the fourth quarter of 2000, our management identified indicators of possible impairment of our long-lived assets, principally goodwill and other acquired intangible assets. Such indicators included deterioration in the business climate for Internet advertising and other web-related companies, reduced levels of venture capital funding activity for Internet-based consumer businesses, significant declines in the market values of our competitors in the Internet advertising industry, recent changes in our 2001 operating and cash flow forecasts, and changes in our strategic plans for certain of our acquired businesses.

With the assistance of independent valuation experts, we performed asset impairment tests by business unit, the lowest level for which there are identifiable cash flows. The tests were performed by comparing the expected undiscounted cash flows for a five-year period, plus a terminal value for future cash flows, to each business unit's carrying amount of the goodwill and other intangible assets resulting from purchase business combinations in which the acquired operations have continued to be managed as separate business units. We determined that the carrying amount of property and equipment and other tangible assets was not significant for the business units tested for impairment. Based on the results of these tests, we determined that business-unit goodwill and other intangible assets initially recorded in connection with the acquisitions of Narrative, Excite, iMALL, Perspecta, Webshots, Bluemountain.com, Kendara and Worldprints were impaired.

With the assistance of independent valuation experts, we determined the fair value of the impaired long-lived assets for the respective business units. Fair value was determined using the discounted cash flow method and the market comparison method. A write-down of goodwill and intangible assets totaling \$4,609.1 million was recorded during the fourth quarter of 2000, reflecting the amount by which the carrying amount of the assets exceed their respective fair values. The write-down consisted of \$4,604 million for goodwill and \$5.1 million for other acquired intangible assets. These assets were related primarily to the Media/Advertising segment. No write-downs of goodwill or other acquired intangible assets were recorded during 1999 and 1998.

#### **4. Cash and Cash Equivalents and Short-Term Investments**

Our short-term investments as of December 31, 2000 consist primarily of highly liquid debt instruments with original maturities at the date of purchase of between three and twelve months as well as other highly liquid investments which generally mature in one year or less. Highly liquid short-term investments maturing in 90 days or less at the date of purchase are included in cash and cash equivalents. We have classified all short-term investments as available-for-sale. Available-for-sale securities are carried at amounts that approximate fair market value based on quoted market prices. Realized gains and losses and declines in fair market value judged to be other-than-temporary are included in interest income and were not material during the years ended December 31, 2000, 1999, and 1998. The cost of securities sold is based on the specific identification method. Interest on securities classified as available-for-sale is included in interest income.

Short-term investments included the following securities as of the dates indicated (in thousands):

	December 31,	
	2000	1999
Corporate bonds and notes . . . . .	\$ 72,739	\$330,759
Market auction preferred stock . . . . .	—	1,000
U.S. government obligations . . . . .	29,376	67,534
Money market instruments . . . . .	45,605	100,142
Certificates of deposit . . . . .	34,356	19,626
Total short-term available-for-sale securities . . . . .	182,076	519,061
Less amounts included in cash and cash equivalents . . . . .	79,961	218,386
Short-term investments . . . . .	<u>\$102,115</u>	<u>\$300,675</u>

Unrealized gains and losses on short-term investments for the years ended December 31, 2000, and 1999 were not material. Accordingly, we have not made a provision for such amounts in our consolidated balance sheets.

Cash and cash equivalents and short-term investments restricted or reserved for designated use were \$34.1 million and \$1 million as of December 31, 2000 and 1999, respectively. These balances were restricted or reserved for leasehold improvements on new facilities and for facilities leases, including secured standby letters of credit.

## 5. Investments in Affiliated Companies

Our investments in affiliated companies represent equity investments in certain companies in which we do not have majority voting control, and which are organized as corporate joint ventures. Although our ownership interests in the Excite Japan and Excite UK joint ventures exceed 50%, our majority voting interest is restricted in certain respects by approval, veto, or participatory rights granted to the minority shareholders, and therefore these joint ventures have not been consolidated in our financial statements. Our international joint ventures were generally formed for the purpose of expanding the distribution of our @Home broadband and Excite content services internationally. In general, we license technology to our joint ventures that deliver the @Home or Excite service outside the United States and some of these joint ventures make royalty payments to us. In addition, we have service agreements with joint ventures under which we have agreed to provide consulting services on a cost-plus basis (see Note 13).

Investments in affiliated companies are accounted for under the equity method. We record our share of the losses of our joint ventures in our consolidated statements of operations up to the amount of our investment, including future commitments to make contributions. Our joint venture agreements generally authorize the boards of directors of the joint ventures to determine the timing and amount of cash contributions to be made by the joint venture partners to fund operations. Cash contributions are generally made in proportion to each partner's ownership interest in the joint venture. Unless otherwise noted below, we do not have future commitments to make contributions to fund the operations of our joint ventures, although our ownership interest in a joint venture may be diluted if we choose not to participate in a cash contribution requested by its board of directors.

Condensed financial information of our equity-method investments is not presented, as the financial condition and results of operations of these companies was not material to our consolidated financial statements as of December 31, 2000 and 1999 and for the years then ended.

The following is a list of our investments accounted for under the equity method as of December 31, 2000:

<u>Name</u>	<u>Date of Formation</u>	<u>Excite@Home Ownership %</u>	<u>Joint Venture Partners</u>	<u>Countries of Operations</u>
At Home Benelux	May 1999	15%	Intel Corporation; EDON Beheer B.V.; Essent Kabelcom	Belgium, Netherlands
Excite@Home Australia, Pty. Ltd.	June 1999	50%	Optus Vision Pty Limited	Australia
At Home Japan Limited	August 1999	43%	Jupiter Telecommunications Co., Ltd.; Sumitomo Corporation	Japan
Excite Japan Co., Ltd.	July 1997	66.6%	Itochu Corporation; Itochu Techno-Science Corporation; Dai Nippon Printing	Japan
Excite UK Limited	May 1997	58%	BT Holdings Limited	United Kingdom
Excite Italia B.V.	March 1999	50%	Telecom Italia S.p.A.	Italy
Excite Canada	March 1999	50%	Rogers Media Limited	Canada
At Home Solutions	May 1999	46%	General Instrument Corporation; Cisco Systems; Motorola	United States
Work.com	March 2000	50%	Dow Jones & Co.	United States

We invested \$66 million in our affiliated companies during the year ended December 31, 2000, including \$15 million to form Work.com and \$51 million in cash funding of Excite@Home Australia, At Home Japan, Excite Japan and Excite UK based on operational funding requirements and for other purposes. Our investments of \$7.6 million during 1999 were related to the formation of At Home Australia and At Home Japan.

#### ***Excite@Home Australia***

In March 2000, At Home Australia acquired Excite Asia Pacific Pty Ltd and the combined entity was renamed Excite@Home Australia Pty Limited. We retained our 50% interest in the combined joint venture (previously, we owned 50% of each joint venture) and remain subject to the contribution requirements under the At Home Australia joint venture agreement. Under that agreement, each joint venture partner is required to contribute to the joint venture up to 32 million Australian Dollars, or approximately \$18 million. Through December 31, 2000, we have met this contribution requirement and have no future commitments to make additional contributions.

#### ***At Home Japan***

The joint venture partners of At Home Japan have agreed to contribute to the joint venture up to 7.8 billion Yen, or approximately \$68.2 million, based on amounts and timing determined by At Home Japan's board of directors. Our share of this funding obligation is 3.4 billion Yen, or approximately \$30 million, and we have contributed approximately \$17 million through December 31, 2000. Under specified circumstances, we may sell up to 50% of our interest in At Home Japan. Additionally, in 1999 we issued performance-based warrants to our Japanese cable partners under which up to 0.9 million shares of our Series A common stock may be issuable (see Note 10). Through December 31, 2000, 0.2 million of these warrants have become exercisable and their fair value of \$3.4 million was recorded as investments in affiliated companies.

## ***At Home Solutions***

At Home Solutions offers production, packaging, marketing, distribution and support of the @Home service for delivery by small and medium-sized cable operators to residential and small office customers in the United States. We have an option for a three-year period commencing on April 1, 2002 to purchase the interest owned by each of the other partners in the At Home Solutions joint venture at fair market value. If we do not exercise the purchase option, each joint venture partner will have the right to sell its interest in At Home Solutions to the other partners, and the partners collectively will have the right to require At Home Solutions to register the sale of their interests to the public or collectively to purchase our interest in At Home Solutions for a nominal price.

## **6. Other Investments**

Our other investments, consisting of minority investments in the equity of privately and publicly held companies not accounted for under the equity method of accounting, were \$73.6 million and \$273 million as of December 31, 2000 and 1999, respectively. As of December 31, 2000 and 1999, net unrealized gains related to other investments of \$19.1 million and \$92.6 million, respectively, were included in accumulated other comprehensive income.

In February 1999, we recorded a \$12.6 million realized gain on our investment in a privately held company due to its acquisition in a common stock exchange with a publicly traded company.

In December 2000, we recorded impairment write-downs related to our other investments of \$129.5 million, including write-downs related to publicly held investments of \$107.1 million recorded against unrealized losses included in accumulated other comprehensive income and write-downs related to privately held investments of \$22.4 million recorded directly against other investments. The impairment write-downs related to publicly held investments resulted from our management's conclusion that declines in the market value of certain investments below their carrying value were not temporary (generally, the market value was below the carrying value for a continuous period of six months or more.) The impairment write-downs related to privately held investments resulted from our management's conclusion that the carrying value of certain investments was not recoverable, based on indicators such as limited liquidity and poor prospects for additional financing.

In conjunction with many of our investments, we have strategic arrangements to provide services to our investees consisting of the delivery of advertising impressions, e-commerce sponsorships and revenue share arrangements on our web sites. Revenue under these arrangements is recognized based on the fair value of the services provided and was \$68.6 million, \$26.1 million and \$0.8 million for the years ended December 31, 2000, 1999 and 1998, respectively. Investments under these arrangements are recorded at their fair values. The fair values of investments in privately held companies are determined based on the price per share paid by an independent third party in the same round of financing in which we participate.

## **7. Property, Equipment and Improvements**

The components of property, equipment and improvements, as of the dates indicated, were as follows (in thousands):

	<b>December 31,</b>		<b>Estimated Useful Lives</b>
	<b>2000</b>	<b>1999</b>	
Computer equipment and software . . . . .	\$442,151	\$206,865	3 to 4 years
Furniture and fixtures . . . . .	33,718	27,086	5 years
Leasehold improvements . . . . .	70,923	36,474	7 years/Lease term
Land . . . . .	5,239	5,239	n/a
Total property, equipment and improvements . . . . .	552,031	275,664	
Less accumulated depreciation and amortization . . . . .	185,904	99,587	
Net property, equipment and improvements . . . . .	<u>\$366,127</u>	<u>\$176,077</u>	



Equipment and improvements include amounts for assets acquired under capital leases, principally computer equipment and software and furniture and fixtures, of approximately \$224.3 million and \$133.5 million as of December 31, 2000 and 1999, respectively. Accumulated amortization of these assets was approximately \$102.2 and \$64.4 million as of December 31, 2000 and 1999, respectively.

## 8. Commitments and Contingencies

### *Facility and Equipment Leases*

We lease certain office facilities under non-cancelable operating leases that expire at various dates through 2014, and which require us to pay operating costs, including property taxes, insurance and maintenance. These facility leases generally contain renewal options and provisions adjusting the lease payments based upon changes in the consumer price index and increases in real estate taxes and operating expenses or in fixed increments. Rent expense is recorded on a straight-line basis over the terms of the leases. We also have obligations under a number of capital equipment leases generally with terms of 36 months. Additionally, as a result of our acquisition of Excite, we assumed obligations related to non-lease equipment financing arrangements secured by specific computer equipment, purchased software and office furniture.

Future minimum lease payments under non-cancelable operating and capital leases having original terms in excess of one year were as follows as of December 31, 2000 (in thousands):

<u>Year Ending December 31,</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Equipment Financings</u>
2001 .....	\$ 23,874	\$ 77,496	\$4,301
2002 .....	30,157	66,952	—
2003 .....	30,594	31,983	—
2004 .....	31,266	—	—
2005 .....	31,246	—	—
Thereafter .....	224,137	—	—
Total minimum lease payments .....	<u>\$371,274</u>	176,431	4,301
Less amounts representing interest .....		24,467	103
Present value of minimum capital lease and other obligations . . . .		151,964	4,198
Less current portion .....		66,060	4,198
Noncurrent portion .....		<u>\$ 85,904</u>	<u>\$ —</u>

We paid expenditures for tenant improvements, primarily related to our headquarters facilities, of approximately \$35 million and \$26.2 million during the years ended December 31, 2000 and 1999, respectively. In addition, we had commitments for leasehold improvements related to additional facilities under construction of \$19.5 million as of December 31, 2000.

Facility rent expense amounted to approximately \$18 million, \$10.2 million, and \$3.6 million for the years ended December 31, 2000, 1999 and 1998, respectively.

### *Litigation*

Sheldon Pittleman and Ralph Zonies each filed purported derivative lawsuits on behalf of Excite@Home against, among others, AT&T and Messrs. Armstrong, Petrillo, Roberts, Woodrow, Doerr, Hearst, Bell, Malone, Shaw and Jermoluk, all of whom were our directors when the lawsuits were initiated on October 15, 1999, in the Court of Chancery of the State of Delaware. We are named as a nominal defendant in each complaint. Each complaint alleges breaches of fiduciary duty to Excite@Home and its public stockholders. Each of Messrs. Pittleman and Zonies sought an injunction requiring us to alter our corporate governance, including appointing new, unaffiliated directors, as well as payment of monetary damages, costs and attorneys'

fees. On August 2, 2000, Pittleman filed an amended complaint alleging that the reorganization of Excite@Home contemplated by our March 28, 2000 letter agreement would impair protection of Excite@Home and its public stockholders from “complete domination by the conflicted majority shareholder, AT&T.” On December 6, 2000, AT&T and Excite@Home moved to dismiss the Pittleman action for failure to adequately allege that a demand on the board of directors would be futile. We believe these actions are without merit and intend to defend against them vigorously. If we do not prevail in these actions, we may be required to alter our corporate governance and pay substantial damages, which could seriously harm our business.

Fred and Roberta Lipschutz, Arthur Simon and John Galley, III, as named plaintiffs, filed a purported class action suit against us, AT&T, Service Co L.L.C. and entities affiliated with eight other cable companies in the United States District Court for the Central District of California on November 10, 1999. The complaint alleges violations of the federal antitrust laws. The plaintiffs seek an injunction prohibiting the alleged acts, damages (including treble damages), costs and attorneys’ fees. We filed an answer to the complaint in this matter on January 21, 2000, denying the allegations of unlawful conduct in the complaint. The trial court has issued an order denying plaintiffs’ motion to certify the plaintiff class, and plaintiffs are appealing that order. We believe this action is without merit and intend to defend against this action vigorously. If we do not prevail in this action, we may be required to pay substantial damages, or we may be forced to alter the way in which we do business. Either of these results could seriously harm our business and could encourage others to initiate litigation on similar legal theories in the future.

On May 26, 2000, a purported class action suit was initiated in the San Mateo County Superior Court by an alleged Excite@Home stockholder against Excite@Home, AT&T Corp., Comcast Corporation and Cox Communications, Inc., as well as each member of our board of directors. The complaint alleges that the defendants breached fiduciary duties to Excite@Home stockholders by approving or entering into, as applicable, the letter agreement among Excite@Home, AT&T, Comcast and Cox on March 28, 2000, and by agreeing to consummate the transactions contemplated by this agreement. In the complaint, the plaintiffs seek a court order nullifying the letter agreement, monetary damages, and a court order establishing a stockholders’ committee comprised of unidentified class members to provide input regarding the transactions contemplated by the letter agreement. This action has now been stayed in favor of the action filed by Messrs. Pittleman and Zonies in the Court of Chancery of the State of Delaware. We believe this action is without merit and intend to defend against this action vigorously. If we do not prevail in this action, we may be required to alter our corporate governance and pay substantial damages, which could seriously harm our business.

Between November 14, 2000 and December 20, 2000, four purported class action suits were filed against Excite@Home and its MatchLogic subsidiary for alleged violations of federal and state privacy laws arising out of MatchLogic’s online preference marketing services and practices. The actions have been consolidated and are currently pending in United States District Court for the District of Colorado. Each action seeks an order requiring MatchLogic to change its business practices regarding online preference marketing services, disgorgement of profits derived from current and past marketing practices, monetary damages, and statutory and punitive damages. We believe this action is without merit and intend to defend against this action vigorously. If we do not prevail in this action, we may be required to alter our business practices and pay substantial damages, which could seriously harm our business.

On March 19, 2001, Pogo.com, Inc., filed suit against Excite@Home in San Mateo County Superior Court for alleged breach of a merger agreement under which we were to acquire Pogo.com in exchange for shares of our Series A common stock. On January 5, 2001, Excite@Home notified Pogo.com that it had terminated the merger agreement in accordance with the provisions of the agreement. The complaint seeks damages for breach of contract and breach of the implied covenant of good faith and fair dealing. We believe this action is without merit and intend to defend against this action vigorously. If we do not prevail in this action, we may be required to pay substantial damages, which could seriously harm our business.

In addition to the above, we are currently party to various other legal proceedings. While management, including internal counsel, currently believes that the ultimate outcome of these other proceedings, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations, litigation is subject to inherent uncertainties. We cannot give assurance that we will prevail in any litigation. Regardless of the outcome, any litigation may require that we incur significant litigation expenses and may result in significant diversion of management. An unfavorable outcome in any of these matters may have a material adverse effect on our financial position or results of operations for the period in which the ruling occurs.

## **9. Convertible Debt and Other Liabilities**

### ***Convertible Debt***

On December 28, 1998, we issued \$437 million principal amount of convertible subordinated debentures in a private offering within the United States to qualified institutional investors. The issue price was 52.464% of the \$437 million principal amount due at maturity and issuance costs were \$6.9 million, resulting in net proceeds to us of \$222.4 million. The carrying amount, including accretion of original issue discount, of these convertible debentures was \$243.5 million and \$236.3 million as of December 31, 2000 and 1999, respectively. The debentures mature on December 28, 2018, and interest on the debentures at the rate of 0.5246% per annum on the \$437 million principal amount due at maturity is payable semi-annually commencing on June 28, 1999. The effective annual interest rate on the debentures, including accretion of original issuance discount and amortization of issuance costs, is approximately 4%. Each \$1,000 debenture is convertible at the option of the holder at any time prior to maturity, unless redeemed or otherwise purchased, into 13.1 shares of our Series A common stock. No conversions of these debentures have occurred through December 31, 2000. At our option, we may redeem the debentures beginning in December 2003 for cash equal to the issue price plus accrued original issue discount and accrued interest.

On December 15, 1999, we issued \$500 million principal amount of convertible subordinated notes in a private offering within the United States to qualified institutional investors. The net proceeds from this issuance were \$485.7 after deduction of issuance costs of \$14.3 million. The notes mature on December 15, 2006 and bear interest at an annual rate of 4.75%. Each \$1,000 note is convertible into our Series A common stock at a conversion price of \$56.52 per share. No conversions of these notes have occurred through December 31, 2000. We may redeem these notes beginning in December 2002 for cash equal to a redemption price that decreases ratably from 102.7% of the principal balance in December 2003 to 100% of the principal balance in December 2006, plus accrued interest.

Issuance costs related to our convertible debt were recorded as other assets and are being amortized by charges to interest expense ratably over the term of the debt.

### ***Promissory Note***

Through our acquisition of Excite, we assumed a convertible promissory note issued by Excite to Itochu Corporation and certain affiliated entities for the principal amount of \$5 million, which is included in other liabilities in our consolidated balance sheet as of December 31, 2000 and 1999. The note matures on October 27, 2002 and bears interest at the London Interbank Offer Rate plus 1%, resulting in an interest rate of approximately 7.21% as of December 31, 2000. The unpaid principal amount at the date of maturity is convertible, at the option of the note holder, into shares of Series A common stock at a conversion price equal to the average closing price of the stock for the 30 day trading period preceding the conversion. In addition, we may elect to prepay this note at any time by converting it to Series A common stock using the same exchange ratio.

### ***Term Loan Agreement***

We have available a \$15 million term loan agreement with Silicon Valley Bank to finance the acquisition of property, equipment and improvements, and to collateralize letters of credit. At our option, borrowings under this term loan bear interest either at the bank's prime rate or at LIBOR plus 2.5%. Under the terms of the term

loan, we are required to meet certain financial covenants as long as there are unsecured borrowings under the term loan. There were no unsecured borrowings under the term loan as of December 31, 2000, although there were fully secured letters of credit in the amount of \$13.9 million related to facilities leases. The term loan expires in October 19, 2002.

## 10. Stockholders' Equity

### *Common Stock*

Common stock consisted of the following as of the dates indicated:

<u>Series</u>	<u>Shares Authorized December 31,</u>		<u>Shares Issued and Outstanding December 31,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
A . . . . .	1,000,000,000	683,700,000	318,766,736	351,954,355
B . . . . .	110,000,000	30,800,000	86,595,578	30,800,000
K . . . . .	—	5,219,414	—	2,000,000
	<u>1,110,000,000</u>	<u>719,719,414</u>	<u>405,362,314</u>	<u>384,754,355</u>

In June 2000, our board of directors authorized and our stockholders approved an increase in the authorized number of shares of Series A common stock from 683.7 million shares to 1 billion shares, an increase in the authorized number of shares of Series B common stock from 30.8 million shares to 110 million shares and the elimination of authorized shares of Series K common stock. In addition, our board of directors authorized and our stockholders approved the issuance to AT&T, our controlling stockholder, of approximately 55.8 million shares of Series B common stock in exchange for the equivalent number of shares of Series A common stock held by AT&T.

The Series A common stock entitles its holders to one vote per share and the Series B common stock entitle AT&T, who currently holds all outstanding shares of Series B common stock, to ten votes per share. As of December 31, 2000, AT&T controlled approximately 74% of our voting power. As a result of amendments in our corporate governance, authorized by our board of directors and approved by our stockholders in June 2000, the following rights related to our common stock have changed during the year ended December 31, 2000:

- the designation of Series B directors was eliminated and holders of Series B common stock no longer have special approval and veto rights;
- Comcast and Cox have waived most of their rights under the stockholders' agreement including the right to each designate a Series B director;
- all supermajority, unanimous and special board voting requirements have been eliminated;
- the holders of Series B common stock, voting together as a separate series, are entitled to elect a majority of the board of directors, the holders of Series A common stock, voting together as a separate series, are entitled to elect two outside directors who are not affiliates or associates of Excite@Home, and all holders of outstanding voting stock, voting together as a single class, are entitled to elect any additional directors, as long as there are 10,000,000 shares of Series B common stock outstanding;
- the maximum number of directors is 17; so long as there are 10,000,000 shares of Series B common stock outstanding, the minimum number of directors on the board is seven, otherwise the minimum number of directors is three; and
- all board actions are approved by a majority vote of the board of directors or relevant committee of the board.

Each share of Series B common stock is convertible into one share of Series A common stock at the option of the holders. During the years ended December 31, 2000, 1999 and 1998, 2 million shares, 3.2 million shares and 24.5 million shares, respectively, were converted by holders of Series K common stock into Series A common stock.

### ***Preferred Stock***

Our board of directors is authorized, subject to any limitation prescribed by Delaware law, to issue up to 9,650,000 shares of preferred stock, with such designation, preferences, special rights, qualifications, limitations or restrictions as expressed in a board resolution, without any further vote or action by the voting stockholders. The board may authorize the issuance of such preferred stock with voting or conversion rights that could adversely affect the voting power or other rights of the holders of common stock. Thus, the issuance of preferred stock may have the effect of delaying, deferring or preventing a change in control of our company.

In December 1999, we issued 10,674 shares of Series A non-voting preferred stock in connection with the acquisition and merger of Hartford House, Ltd. and Bluemountain.com. Each share of Series A preferred stock is convertible into 1,000 shares of Series A common stock at a rate of 500 shares of Series A preferred stock per month during the first 12 months following the acquisition, with the remainder convertible 24 months after such date. Preferred stock converted during the first 12 months may be accelerated under certain circumstances, including the charitable contribution of such shares. During the years ended December 31, 2000 and 1999, 4,567 shares and 540 shares, respectively, of Series A preferred stock were converted into 4.6 million shares and 0.5 million shares, respectively, of Series A common stock. As of December 31, 2000, 5,567 shares of Series A preferred stock were outstanding.

In February 2000, we issued 202 shares of Series B non-voting preferred stock and 1,279 shares of Series C non-voting preferred stock in connection with the acquisition of Kendara, Inc. Each share of Series B preferred stock will automatically convert into 1,000 shares of Series A common stock upon the expiration of a one year escrow period in February 2001. Each share of Series C preferred stock is convertible into 1,000 shares of Series A common stock subject to a vesting schedule and a one year escrow period. During the year ended December 31, 2000, 230 shares of Series C preferred stock were converted into 0.2 million shares Series A common stock. As of December 31, 2000, 1,049 shares of Series C preferred stock were outstanding.

In April 2000, we issued 804 shares of Series B non-voting preferred stock in connection with the acquisition of Worldprints.com International, Inc. Each share of Series B preferred stock is convertible into 1,000 shares of Series A common stock subject to a vesting schedule and a one year escrow period. As of December 31, 2000, no conversions had occurred and all 804 shares of Series B preferred stock were outstanding.

The above series of preferred stock do not have special liquidation privileges and are not entitled to dividends.

### ***Warrants***

#### ***Lessor Warrants***

In October 1996, we issued a warrant to our facilities lessor that gives the lessor the right to purchase 0.4 million shares of Series A common stock for \$7.50 per share. The warrant is exercisable for a five-year period beginning in October 1997. We deemed the warrant to have insignificant fair value at the time of issuance. The lessor exercised the substantial portion of these warrants prior to 2000 and an insignificant number of shares remained available for issuance as of December 31, 2000.

### *Warrants to Initial Investors*

In April 1997, we issued warrants for 4 million shares of Series A common stock with an exercise price of \$5.00 per share to Rogers and Shaw, our primary cable partners in Canada that were Series C preferred stock investors prior to our initial public offering. The warrants are exercisable beginning June 2004 or earlier subject to certain performance standards being met by the cable system operators as specified in the agreement. We deemed the warrants to have insignificant fair value at the time of issuance. Through December 31, 2000, warrants for 2.4 million shares were exercised on a net basis, resulting in the issuance of 2.2 million shares of Series A common stock. Of the 1.6 million shares remaining outstanding under these warrants at the end of 2000, 0.8 million were vested and exercisable.

### *Intel Warrants*

In July 1997, we issued a warrant to Intel Corporation in connection with a development agreement that gives Intel Corporation the right to purchase 0.2 million shares of Series A common stock for \$5.00 per share. The shares exercisable under this warrant vest 25% on the six-month anniversary of the agreement and the remainder vests monthly for two years thereafter. In September 1997, we issued a second warrant that gives Intel the right to purchase an additional 0.2 million shares of Series A common stock for \$10.50 per share. The second warrant is exercisable beginning in September 2004 or earlier subject to certain performance standards being met by Intel as specified in the amended development agreement. We deemed the warrants to have insignificant fair value at the time of issuance. During the year ended December 31, 2000, warrants for 0.2 million shares were exercised on a net basis and we issued less than 0.1 million shares of Series A common stock. Of the 0.2 million shares remaining outstanding under these warrants at the end of 2000, 0.1 million were vested and exercisable.

### *Warrants Subject to Distribution Agreements*

#### *Cablevision*

In October 1997, we entered into a contract with Cablevision Systems Corporation and certain affiliates in connection with a master distribution agreement with Cablevision for the exclusive distribution of our @Home service on substantially the same terms and conditions as our principal cable partners. This agreement provided for the issuance to Cablevision of a warrant to purchase 15.8 million shares of our Series A Common Stock at an exercise price of \$0.25 per share. The warrant was immediately exercisable. During the year ended December 31, 1997, we recorded \$172.6 million as distribution agreements in our consolidated balance sheet representing the fair value of the warrant, and we are amortizing the amount ratably over 56 months, the remaining term of the exclusivity obligations at the time the warrant became exercisable.

The agreement with Cablevision provided for the issuance of an additional warrant to Cablevision to purchase up to 6.1 million shares of our Series A common stock at an exercise price of \$0.25 per share under certain conditions. This contingent warrant was not immediately exercisable and becomes exercisable as and to the extent certain cable television systems are transferred from TCI (now AT&T Broadband) and its controlled affiliates to Cablevision. During the year ended December 31, 1998, the contingent warrant became exercisable for 4.7 million shares of Series A common stock or \$74.5 million at fair value. No further shares became exercisable under the contingent warrant through December 31, 2000. We capitalized the fair value of the contingent warrant as distribution agreements in our consolidated balance sheet and we are amortizing the amount ratably over 51 months, the remaining term of the exclusivity obligations at the time the contingent warrant became exercisable.

For the years ended December 31, 2000, 1999 and 1998, amortization of intangible assets under the exclusive provisions of this distribution agreement was \$54.6 million, \$54.5 million and \$51.6 million, respectively. As of December 31, 2000 and 1999, accumulated amortization of the cost of the distribution agreement totaled \$169.9 million and \$115.3 million, respectively. No shares have been issued under exercises of either the warrant or contingent warrant through December 31, 2000.

### *Other cable system operators*

At various dates during the years ended December 31, 1999 and 1998, we issued performance-based warrants to other cable system operators as part of the execution of exclusive distribution agreements related to the cable systems of these operators. Warrants to purchase up to 2.6 million and 10.5 million shares of Series A common stock were issued during 1999 and 1998, respectively, at an exercise price of \$5.25 per share. We also issued additional warrants to a cable operator in March 1999 to purchase up to 3.6 million shares of Series A common stock at an exercise price of \$23.13 per share under a similar arrangement. As a result of changes in ownership during 1999 of certain cable systems covered by warrants with a \$5.25 exercise price, warrants to purchase 0.4 million shares of Series A common stock were canceled. During the years ended December 31, 2000 and 1999, warrants to purchase 1.4 million shares and 4.4 million shares, respectively, became exercisable as a result of the cable system operators meeting certain system upgrade and subscriber performance milestones. As the warrants became exercisable, we recorded, net of cancellations, \$17.6 million and \$204.7 million during the years ended December 31, 2000 and 1999, respectively, as distribution agreements in our consolidated balance sheets. The amounts recorded as distribution agreements represented the fair value of exercisable warrants at the date they were earned, and we are amortizing these amounts ratably over the remaining terms of the exclusive distribution agreements, which expire at various dates through 2004. Amortization under these distribution agreements during the year ended December 31, 2000 and 1999 was \$41.1 million and \$22.9 million, respectively and the related accumulated amortization as of December 31, 2000 and 1999 was \$62 million and \$22.9 million, respectively. Exercises of warrants for 0.5 million shares resulted in the net issuance of 0.4 million shares of Series A common stock during the year ended December 31, 1999; there were no issuances in other years. Of the 15.8 million shares remaining outstanding under these warrants as of December 31, 2000, 5.3 million were vested and exercisable.

### *Extension of distribution agreements with AT&T, Comcast and Cox*

On March 28, 2000, we entered into letter agreements with AT&T, Comcast and Cox under which we extended our distribution agreements with these partners on a non-exclusive basis through June 4, 2006 with respect to Cox and Comcast and through June 4, 2008 with respect to AT&T. Under these letter agreements, which became effective in August 2000, we issued to AT&T one warrant for Series A common stock and one warrant for Series B common stock for each home passed by AT&T's cable systems as adjusted for planned acquisitions and dispositions, resulting in the issuance of warrants to purchase 27.9 million shares each of Series A common stock and Series B common stock (a total of 55.8 million shares). We issued to Cox and Comcast two warrants for Series A common stock for each home passed by each respective cable partner's systems as adjusted for planned acquisitions and dispositions, resulting in the issuance of warrants for 44.7 million shares to these cable partners. Warrants issued to these cable partners each have an exercise price of \$29.54 per share.

The warrants issued to AT&T will vest and become fully exercisable as to all shares on June 4, 2002 and are subject to upward or downward adjustment if the number of cable systems that are in compliance with the terms of the letter agreements increases or decreases during the period from and including June 4, 2002 through June 4, 2008. In addition, shares acquired through exercises of these warrants have volume restrictions that lapse at each anniversary date as to 16.67% of the shares exercisable starting June 4, 2002. We will record the fair value of these warrants in our consolidated balance sheets as distribution agreements at the time and to the degree that conditions related to any downward adjustment in the number of warrants earned by AT&T lapse. We have not recorded any amounts to date related to these warrants. The distribution agreement will be amortized to expense over its term of six years starting June 4, 2002.

The warrants issued to Cox and Comcast vest as to 16.67% on June 4, 2001 and an additional 8.33% each December 4 and June 4 thereafter, as long as the current and new distribution agreements are in place. These warrants are subject to upward or downward adjustment if the number of cable systems that are in compliance with the terms of the letter agreements increases or decreases during the period from and including June 4, 2002 through June 4, 2006. In addition, the shares issuable to a cable partner under these warrants are subject

to forfeiture, at a rate proportionate with the remaining term of the new distribution agreement if, and at the time, that a cable partner terminates the new distribution agreement prior to June 4, 2006. As a result, we did not record these warrants as distribution agreements as of December 31, 2000. We will record the fair value of the warrants as distribution agreements in our consolidated balance sheet as the forfeiture provisions lapse and we will make future adjustments as appropriate to reflect any changes in the number of shares subject to these warrants. The distribution agreements will be amortized to expense over their term of four years starting June 4, 2002.

#### *Cable System Operator Performance Warrants*

In February 1998, we issued performance-based warrants to Rogers and Shaw to purchase up to 10 million shares of Series A common stock, respectively, at an exercise price of \$5.25 per share. Warrants to purchase 2.7 million shares, 5.5 million shares and 1.8 million shares became exercisable when Rogers and Shaw met certain subscriber performance milestones during the years ended December 31, 2000, 1999 and 1998, respectively. We recorded non-cash charges to operations for the fair value of these warrants of \$75.6 million, \$213.1 million and \$49.8 million during the years ended December 31, 2000, 1999 and 1998, respectively. Exercises of warrants for 4.6 million shares resulted in the net issuance of 4.4 million shares of Series A common stock through December 31, 2000. All of the 5.4 million shares remaining outstanding under these warrants as of December 31, 2000 were vested and exercisable.

#### *Warrants Issued to Joint Venture Partners*

In April 1999, we issued performance-based warrants to cable partners in our At Home Japan joint venture to purchase up to 0.9 million shares of Series A common stock at an exercise price of \$32.50. These warrants become exercisable based on the achievement of certain system upgrade, subscriber and other performance milestones by the cable partners. Warrants to purchase 0.1 million shares became exercisable during each of the years ended December 31, 2000 and 1999, at the time that our cable partners met certain of these performance milestones. We recorded \$1.3 million and \$2.1 million during the years ended December 31, 2000 and 1999 as an additional non-cash investment in the joint venture based on the fair value of the warrants when they were earned. None of these warrants have been exercised through December 31, 2000.

#### *Warrants Assumed in Acquisitions*

As a result of our merger with Excite in May 1999, we assumed warrants that Excite had issued to Netscape to purchase, on a converted basis, 0.2 million shares of Series A common stock at an exercise price of \$66.28 per share. These warrants are exercisable until April 30, 2001 and were fully vested at the date of the acquisition of Excite. The purchase consideration for Excite included the fair value of these warrants at the date of acquisition (see Note 3). None of these warrants have been exercised as of December 31, 2000.

In our acquisition of iMALL in October 1999, we issued warrants to First Data Corporation to purchase 2.3 million shares of Series A common stock at an exercise price of \$36.96 per share, with a fair value of \$82.8 million. In addition, we also assumed warrants to purchase 0.1 million shares, on a converted basis, of Series A common stock at an exercise price of \$6.96, with a fair value of \$7.4 million. All warrants issued and assumed in the iMALL acquisition were exercisable at the date of acquisition and their fair values were included in the purchase consideration (see Note 3). Through December 31, 2000, we have issued 0.1 million shares of Series A common stock in connection with exercises of these warrants. As of December 31, 2000, warrants for 2.3 million shares remained outstanding.

In our acquisition of Worldprints in April 2000, we assumed fully-vested warrants to purchase 0.2 million shares of Series A common stock with an average exercise price of \$4.95. The purchase consideration for Worldprints included the fair value of these warrants at the date of acquisition (see Note 3). We issued 0.2 million shares of Series A common stock in connection with exercises of these warrants during the year ended December 31, 2000.



## ***Stock Options***

Our stock option plans provide for incentive stock options, nonqualified stock options and restricted stock awards and bonuses to our employees, directors and consultants. We adopt stock option plans at the discretion of management and the board of directors and upon approval by stockholders, if required. We have also assumed the stock option plans of several acquired entities.

### ***Stock Option Plans We Have Adopted***

In January 1996, our board of directors adopted, and our stockholders approved, the 1996 Incentive Stock Option Plan, and in July 1996, we adopted the 1996 Incentive Stock Option Plan No. 2. These plans authorize incentive stock options, as defined by the Internal Revenue Code, to be granted to employees at an exercise price not less than 100% of the fair value at the grant date as determined by the board of directors. The 1996 plans also authorize nonqualified stock options to be issued to nonemployee officers, directors and consultants at an exercise price of not less than 85% of the fair value at the grant date. The options granted under the 1996 plans were exercisable immediately upon issuance and generally have a term of ten years. Upon termination of employment, unvested shares may be repurchased by us at the original purchase price. The repurchase right for vested shares expired upon the completion of our initial public offering. Stock options generally vest at the rate of 25% after one year and ratably on a monthly basis for three years thereafter and are exercisable at the earlier of 90 days after termination or 10 years from the date of grant.

Our 1997 Equity Incentive Plan was adopted by the board of directors in May 1997 and approved by the stockholders in July 1997 as the successor to the 1996 plans. The 1997 plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock awards and stock bonuses to our employees, directors and consultants. Options granted to new employees under the 1997 plan generally vest at the rate of 25% after one year and ratably on a monthly basis for three years thereafter; subsequent option grants generally vest ratably on a monthly basis over 48 months. All options granted under the 1997 plan are exercisable at the earlier of 90 days after termination or 10 years from the date of grant.

Our 2000 Equity Incentive Plan was adopted by the board of directors in January 2000 as a supplemental plan to the 1997 plan designed to meet the “broadly based plans” exemption from the stockholder approval requirements for stock option plans under the Nasdaq National Market listing requirements. The 2000 plan provides for the grant of up to 2 million nonqualified stock options, restricted stock awards and stock bonuses to employees, directors and consultants.

Our board of directors authorized, and in June 2000, our stockholders approved an amendment and increase in the total number of shares of Series A common stock reserved for issuance under the 1997 Equity Incentive Plan. As of December 31, 2000, the total number of shares reserved for issuance under the 1997 plan was 106.9 million less the total number of shares issued or issuable to employees, officers, directors and consultants under restricted stock purchase agreements and the 1996 plans. Previous to this amendment, shares reserved for issuance under the 1997 plan were reduced by shares reserved for issuance under the 1997 Employee Stock Purchase Plan, discussed below.

### Stock Option Plans Assumed Through Mergers and Acquisitions

Shares issuable under stock option plans assumed in acquisitions are converted to stock options to purchase shares of our Series A common stock based on the respective share exchange ratio in the merger or acquisition. The following summarizes stock options to purchase shares of Series A common stock which were assumed in acquisitions (see Note 3):

Assumed during the year ended December 31, 1998:	
Narrative Plans <sup>(1)</sup> . . . . .	1,177,070
Assumed during the year ended December 31, 1999:	
Excite Plans . . . . .	25,713,702
iMALL Plans . . . . .	1,497,165
Hartford House Ltd. Plan (Bluemountain.com) <sup>(2)</sup> . . . . .	3,552,875
Assumed during the year ended December 31, 2000:	
DataInsight Plan . . . . .	336,451
Kendara Plan . . . . .	194,573
Worldpints Plan . . . . .	278,198

<sup>(1)</sup> Includes options to purchase 894,600 shares issued to existing Narrative employees on December 30, 1998, the date of Narrative's acquisition.

<sup>(2)</sup> As a result of meeting certain performance criteria during the month of December 1999, the number of shares issuable under stock options assumed in the acquisition of Bluemountain.com was increased from 3,011,348 to 3,552,875 during the first quarter of 2000.

Stock options available for grant under assumed stock option plans are eliminated at the date of acquisition and outstanding options are subject to existing vesting and exercise terms, which are generally similar to options issued under the 1997 plan. However, the vesting schedules of stock options under several of the assumed plans vary. The most significant variations include iMALL stock options that vest at a rate of 33% per year and Hartford House stock options that vest subject to a number of different schedules, the most common of which is 12.5% vesting after six months with the remainder vesting ratably over 42 months. Outstanding stock options under plans assumed in acquisitions are included as options granted in the following table summarizing activity under our stock option plans.

### Stock Option Plan Activity

The following summarizes the activity related to our stock options for the periods indicated:

	Year ended December 31,					
	2000		1999		1998	
	Number Of Shares	Weighted Average Exercise Price	Number Of Shares	Weighted Average Exercise Price	Number Of Shares	Weighted Average Exercise Price
Outstanding at beginning of year . .	59,610,284	\$27.23	20,026,590	\$16.72	6,116,270	\$ 5.13
Options granted . . . . .	55,047,958	\$16.88	50,176,276	\$29.24	15,295,304	\$20.37
Options exercised . . . . .	(6,956,582)	\$ 8.88	(5,045,756)	\$10.44	(849,106)	\$ 3.51
Options cancelled . . . . .	(24,551,416)	\$27.96	(5,546,826)	\$22.75	(535,878)	\$ 9.42
Outstanding at end of year . . . . .	83,150,244	\$21.70	59,610,284	\$27.23	20,026,590	\$16.72
Options exercisable at year-end . . .	24,646,685	\$23.56	14,846,032	\$16.50	3,232,786	\$ 3.35

As of December 31, 2000, there were 10.8 million shares available for grant under our stock option plans. The following table summarizes information about stock options outstanding as of December 31, 2000:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 0.01–\$ 9.22	7,549,878	7.66	\$ 4.28	3,845,329	\$ 2.60
\$ 9.31–\$10.15	9,446,009	9.79	\$10.08	443,800	\$10.02
\$10.26–\$16.50	9,198,084	8.61	\$13.49	2,611,191	\$13.33
\$16.53–\$16.56	14,938,404	9.31	\$16.56	3,216,945	\$16.56
\$16.74–\$18.25	11,003,891	9.06	\$17.83	2,053,194	\$17.46
\$18.48–\$32.39	11,712,872	8.34	\$23.87	5,163,844	\$23.11
\$32.61–\$37.13	10,410,502	8.69	\$34.94	3,604,536	\$34.79
\$37.25–\$76.50	8,890,604	8.44	\$52.38	3,707,846	\$53.34
\$ 0.01–\$76.50	<u>83,150,244</u>	8.80	\$21.70	<u>24,646,685</u>	\$23.56

As of December 31, 2000, 0.2 million shares issued under our stock option plans and 0.6 million shares issued under stock option plans assumed in acquisitions were subject to repurchase at our option in the event of employee terminations.

We recorded deferred compensation of \$5.3 million and \$51.1 million during the years ended December 31, 2000 and 1999, respectively, for the deemed fair value of restricted stock issued and stock options assumed in connection with acquisitions. We are amortizing these amounts over the vesting terms of the awards, which range from two to four years. We also recorded \$5.3 million of deferred compensation prior to 1999 related to stock options granted and stock issued under stock purchase agreements prior to our initial public offering in July 1997. These amounts are being amortized on a straight-line basis by charges to operations over the vesting periods of the individual stock options and stock purchase agreements, which are generally four years.

### ***Employee Stock Purchase Plan***

In July 1997, our board of directors adopted, and our stockholders approved, our 1997 Employee Stock Purchase Plan (ESPP) to provide employees with an opportunity to purchase our common stock through payroll deductions. Our board of directors authorized, and in June 2000 our stockholders approved, an increase in the number of shares reserved under the ESPP to 5 million shares. Under the ESPP, our employees may purchase, subject to certain restrictions, shares of common stock at the lesser of 85 percent of the fair value at either the beginning of each two-year offering period or the end of each six-month purchase period within the two-year offering period. As a result of our merger with Excite, we assumed an obligation to issue shares related to outstanding offering periods under Excite's ESPP as of May 28, 1999. Shares purchased by Excite employees under the remaining offering periods of Excite's ESPP are not deducted from the reserve for issuance of shares under our ESPP. During the years ended December 31, 2000, 1999 and 1998, employees purchased 0.6 million shares, 0.7 million shares and 0.5 million shares, respectively, pursuant to our ESPP plans. As of December 31, 2000, there were 3.5 million shares available for issuance under our ESPP.

### ***Pro Forma Disclosures of the Effect of Stock-Based Compensation Plans***

Pro forma information regarding results of operations and loss per share is required by SFAS No. 123, "Accounting for Stock-Based Compensation." Such pro forma information summarizes our results of operations as if stock-based awards to employees had been accounted for using a valuation method permitted under SFAS 123.

The fair value of our stock-based awards to employees prior to our initial public offering in July 1997 was estimated using the minimum value method. Options granted subsequent to the initial public offering have been valued using the Black-Scholes option pricing model. Among other things, the Black-Scholes model considers the expected volatility of our stock price, determined in accordance with SFAS 123, in arriving at an option valuation. The minimum value method does not consider stock price volatility. Further, certain other assumptions necessary to apply the Black-Scholes model may differ significantly from assumptions used in calculating the value of options granted in 1996 and 1997, prior to the initial public offering, under the minimum value method.

The fair value of our stock-based awards to employees was estimated assuming no expected dividends and the following weighted-average assumptions:

	Options			ESPP		
	Year Ended December 31,			Year Ended December 31,		
	2000	1999	1998	2000	1999	1998
Expected life of options . . . . .	4 years	4 years	4 years	6 months	6 months	6 months
Expected volatility . . . . .	0.76	0.82	1.00	0.76	0.80	1.00
Risk free interest rate . . . . .	6.20%	6.46%	4.69%	6.10%	6.01%	4.50%

The following summarizes our pro forma results of operations for the periods indicated had we accounted for our stock-based awards in accordance with SFAS 123 (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Net loss as reported . . . . .	\$(7,439,796)	\$(1,457,638)	\$(144,179)
Pro forma net loss . . . . .	\$(7,546,132)	\$(1,583,777)	\$(166,401)
Basic and diluted net loss per share — as reported . . . . .	\$ (18.73)	\$ (4.61)	\$ (0.63)
Pro forma basic and diluted net loss per share — as adjusted . . . . .	\$ (19.00)	\$ (5.00)	\$ (0.73)

The weighted-average fair value of options granted during the years ended December 31, 2000, 1999 and 1998 was \$10.33, \$28.70 and \$14.01, respectively. The weighted-average fair value of ESPP rights granted during the years ended December 31, 2000, 1999 and 1998 was \$11.85, 18.80 and \$2.67, respectively.

### ***Shares Authorized for Future Issuance***

The following represents common stock authorized for future issuance as of December 31, 2000:

#### Potentially dilutive shares:

Preferred stock . . . . .	7,621,261
Stock options . . . . .	83,150,244
Warrants not subject to forfeiture for non-performance . . . . .	35,757,812
Convertible debt . . . . .	14,663,506
Repurchasable shares . . . . .	766,777
Total . . . . .	141,959,600

#### Shares reserved for future issuance:

Stock option plans . . . . .	10,814,037
ESPP . . . . .	3,484,335
Warrants subject to forfeiture for non-performance . . . . .	113,114,962
Total . . . . .	127,413,334

Total shares authorized for future issuance . . . . .	<u>269,372,934</u>
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## 11. Retirement Plan

We have a retirement plan under Section 401(k) of the Internal Revenue Code. Under the retirement plan, participating employees may defer a portion of their pretax earnings up to the Internal Revenue Service annual contribution limit. We may make contributions to the plan at the discretion of the board of directors. To date, no such contributions have been made by us.

## 12. Income Taxes

Our income tax benefit differed, as of the dates indicated, from the income tax benefit determined by applying the U.S. federal statutory rate to the net loss as follows (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Income tax benefit at U.S. statutory rate . . . . .	\$(2,603,929)	\$(510,173)	\$(50,463)
Non-deductible amortization . . . . .	2,474,456	388,144	—
Acquisition-related costs . . . . .	(8,994)	18,305	—
Valuation allowance for deferred tax assets . . . . .	138,467	103,724	50,463
Income tax benefit . . . . .	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities for federal and state income taxes as of the dates indicated were as follows (in thousands):

	December 31,	
	2000	1999
Deferred tax assets:		
Net operating loss carryforwards . . . . .	\$ 288,981	\$ 169,798
Stock options assumed in acquisitions . . . . .	269,248	269,248
Cost and amortization of distribution agreements . . . . .	197,435	168,877
Accrued costs and expenses . . . . .	38,784	27,969
Deferred revenue . . . . .	438	19,058
Depreciation and amortization . . . . .	36,862	12,054
Research and experimentation credits . . . . .	2,248	2,248
Capitalized research and development costs . . . . .	5,450	4,922
Other . . . . .	(52,956)	88
Total gross deferred tax assets . . . . .	<u>786,490</u>	<u>674,262</u>
Less valuation allowance . . . . .	<u>(702,566)</u>	<u>(528,065)</u>
Deferred tax assets . . . . .	<u>83,924</u>	<u>146,197</u>
Deferred tax liabilities:		
Acquisition-related intangibles . . . . .	<u>83,924</u>	<u>146,197</u>
Total gross deferred tax liabilities . . . . .	<u>83,924</u>	<u>146,197</u>
Net deferred tax assets . . . . .	<u>\$ —</u>	<u>\$ —</u>

Realization of deferred tax assets is dependent on future earnings, if any, the timing and amount of which are uncertain. Accordingly, a valuation allowance, in an amount equal to the net deferred tax assets as of December 31, 2000 and 1999, has been established to reflect these uncertainties. The valuation allowance increased by \$174.5 million, \$435.6 million and \$59.3 million during the years ended December 31, 2000, 1999 and 1998, respectively. As of December 31, 2000, \$140.3 million of the valuation allowance was

attributable to stock option deductions, the benefit of which will be credited to paid-in-capital when realized. As of December 31, 2000, \$269.2 million of the valuation allowance was attributable to deferred tax assets that, when realized, will first reduce unamortized goodwill, then other non-current intangible assets of acquired subsidiaries, and then income tax expense.

As of December 31, 2000, we had net operating loss carryforwards for federal and state tax purposes of approximately \$895 million and \$312 million, respectively. We also had research and experimentation credit carryforwards for federal and state tax purposes of \$1.1 million and \$1.6 million, respectively. These carryforwards will expire beginning in 2002, if not utilized.

Utilization of the net operating loss and tax credit carryforwards may be subject to an annual limitation due to the ownership change limitations provided by the Internal Revenue Code of 1986, as amended, and similar state provisions. The annual limitation may result in the expiration of net operating loss and tax credit carryforwards before utilization.

### **13. Related Party and Other Significant Transactions**

We are involved in transactions with related parties in the ordinary course of business. These related parties include stockholders and cable partners with significant investments in our common stock, our joint venture entities and their partners, and our executive officers and members of our board of directors.

Total revenue from related parties was \$45.3 million, \$28.8 million, and \$10.5 million for the years ended December 31, 2000, 1999 and 1998, respectively. Revenue from related parties included revenue of \$25 million, \$18.6 million and \$10.5 million for the years ended December 31, 2000, 1999 and 1998, respectively, related to services such as advertising arrangements, support services including customer service, local area content development, development of set-top devices and pre-commercial deployment consulting provided to our cable partners with significant investments in our common stock. Revenue from related parties also included revenue of \$20.3 million and \$10.2 million for the years ended December 31, 2000 and 1999, respectively, related to consulting and other services rendered to our international and other joint ventures, including arrangements on a cost-plus basis; there was no such revenue for the year ended December 31, 1998.

Our agreements with cable partners and communications providers for license and distribution of our services involve significant costs, including payments under our backbone agreement with AT&T, which amounted to \$48.2 million and \$57.1 million during the years ended December 31, 2000 and 1999, respectively.

We have issued warrants to cable partners and others in connection with license and distribution agreements as described in Note 10.

### **14. Segment Reporting**

Our key operating segments are organized around our customers and services and aggregated into the reported business segments based on how our management organizes, manages and internally reports our revenues. Key operating segments and the reported business segments they were aggregated into as of December 31, 2000 were: (1) Consumer Access, which includes the @Home service, premium broadband services, customers care and set-top development; (2) Commercial Services, which includes the @Work service and e-commerce applications; (3) Media/Advertising, which includes the Excite, Bluemountain.com and Webshots narrowband content services, broadband content services, and targeted and other advertising services provided by MatchLogic; and (4) International, which provides our broadband and narrowband services in Europe, Australia and Japan. Information used by our key operating decision makers (consisting of our executive management team) in reviewing operations and in allocating resources includes revenue and for each key operating segment. Information such as operating costs, loss from operations, net loss and assets and liabilities is not produced internally for each key operating segment. Although we allocate limited operating

costs to our segments, a significant portion of operating costs such as network operations and engineering are not allocated, and thus our key operating decision makers do not utilize this limited information in reviewing operations and allocating resources. In addition, we have corporate marketing, corporate development, general and administrative, and other operations that generate no revenues and are not part of a key operating segment.

Our reportable segments have changed from prior years, and the 1999 and 1998 information has been restated accordingly.

The following represents information for our reported business segments for the periods indicated (in thousands):

	Year Ended December 31,		
	2000	1999	1998
Revenues:			
Consumer Access . . . . .	\$218,116	\$ 91,128	\$22,292
Commercial Services . . . . .	61,118	35,487	18,739
Media/Advertising . . . . .	308,006	197,067	5,444
International . . . . .	29,135	13,273	1,570
Total consolidated revenues . . . . .	<u>\$616,375</u>	<u>\$336,955</u>	<u>\$48,045</u>

Media/Advertising and Commercial Services revenues were derived predominantly from customers located in the United States during the years ended December 31, 2000, 1999 and 1998.

Consumer Access revenue derived from customers located outside the United States, and excluded from International, consisted primarily of revenue from our cable partners and their cable customers located in Canada, and accounted for approximately 16%, 16% and 17% of total Consumer Access revenue during the years ended December 31, 2000, 1999 and 1998.

International revenue earned from services provided to our unconsolidated international joint ventures was \$16.4 million and \$10.2 million for the years ended December 31, 2000 and 1999, respectively; there was no such revenue for the year ended December 31, 1998. International revenue earned by our consolidated operations outside of North America was \$12.7 million, \$3.1 million and \$1.6 million for the years ended December 31, 2000, 1999 and 1998, respectively.

No single customer accounted for more than 10% of total consolidated revenues for the years ended December 31, 2000, 1999 and 1998.

## 15. Financial Instruments

Financial instruments that subject us to concentrations of credit risk consist primarily of cash, cash equivalents and short-term investments and trade accounts receivable. We maintain cash, cash equivalents and short-term investments with domestic financial institutions and broker-dealers with a high credit standing. We perform periodic evaluations of the relative credit standing of these institutions and, if warranted, adjust the investment portfolio maintained with these institutions. Our business involves transactions that arise in trade accounts receivable with companies in various industries throughout the United States as well as international locations. Ongoing credit evaluations of corporate customers and other counterparties are performed to limit credit risk. While trade accounts receivable generally do not require collateral, reserves are maintained for potential credit losses. Credit losses to date have been within management's expectations.

We use the following methods and assumptions in estimating the fair values of our financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the consolidated balance sheets for cash and cash equivalents approximates their fair value as of December 31, 2000 and 1999.

*Short-term investments:* The fair values of short-term investments, all of which have been classified as available-for-sale, are based on quoted market prices as reported in the consolidated balance sheets. Thus, the carrying amounts of short-term investments are equal to their fair values as of December 31, 2000 and 1999.

*Accounts receivable and accounts payable:* The carrying amounts reported in the consolidated balance sheets for accounts receivable and accounts payable, which are presented net of reserves, approximate their fair value as of December 31, 2000 and 1999.

*Other investments:* The fair values of our other investments, which are accounted for as available-for-sale investments, are based on quoted market prices for publicly held securities and the lower of cost or estimated fair value for privately held securities as reported in the consolidated balance sheets. Thus, the carrying amounts of other investments are equal to their fair values as of December 31, 2000 and 1999.

*Capital lease and other obligations:* We estimate the fair values of our capital lease and other equipment financing obligations based on the implicit interest rates for capital lease obligations we entered into recently compared to the weighted average interest rates in our existing financings. Based on this analysis, the carrying amounts of capital lease and other obligations approximate their fair values as of December 31, 2000 and 1999.

*Convertible debt:* The fair values of our convertible debentures and notes are estimated using market rates for similar securities. The \$500 million of 4.75% convertible notes issued in December 1999 had an estimated fair value of \$258.8 million and a carrying amount of \$500 million as of December 31, 2000; the \$500 million carrying amount of these notes approximated their fair value as of December 31, 1999. The estimated fair value of our \$437 million principal amount of convertible debentures issued in December 1998 was \$141.8 million and the carrying amount was \$243.5 as of December 31, 2000, and the estimated fair value was \$274 million and the carrying amount was \$236.3 million as of December 31, 1999.

## **16. Subsequent Events (Unaudited)**

### ***Write Down of Goodwill and Other Intangible Assets***

In the first quarter of 2001, we identified indicators of possible impairment of our long-lived assets (principally, goodwill and other acquired intangible assets) on a basis similar to the impairment indicators identified as of December 31, 2000. The impairment indicators included continued deterioration in the business climate of, and reduced levels of venture capital funding activity for, Internet advertising and other Internet-based companies, continued significant declines in the market values of our competitors in the Internet advertising industry, and changes made and announced in April 2001 in our operating and cash flow forecasts for the remainder of 2001.

We performed asset impairment tests with the assistance of independent valuation experts at the business unit level, the lowest level for which we have identifiable cash flows. The tests were performed by comparing the expected undiscounted cash flows for a five-year period, plus a terminal value for future cash flows, to each business unit's carrying amount of the goodwill and other intangible assets resulting from purchase business combinations in which the acquired operations have continued to be managed as separate business units. We determined that the carrying amounts of property and equipment and other tangible assets without alternate use other than as currently used by the business units tested for impairment were not significant. Based on the results of these tests, we determined that the carrying values of business-unit goodwill and other intangible assets related to Excite, Kendara, DataInsight, Rucker, iMALL, Bluemountain.com, Webshots, and Worldprints were impaired in the first quarter of 2001.

We determined, with the assistance of independent valuation experts, the fair value of the impaired long-lived assets for the respective business units. Fair value was determined using the discounted cash flow method and the market comparison method. An impairment write-down of goodwill and other intangible assets totaling \$600.1 million was recorded in the first quarter of 2001, reflecting the amount by which the carrying amounts



of the assets exceeded their respective fair values. The write-down consisted of \$569.1 million for goodwill and \$31 million for other acquired intangible assets. These intangibles assets were associated primarily with business units operating in the Media/Advertising segment.

### ***Work.com***

Our Work.com joint venture discontinued operations on March 31, 2001 as a result of the current decline in online advertising spending. We invested \$15 million in this joint venture in April 2000 and we have fully reduced this investment by our equity share of the joint venture's losses through March 31, 2001.

### ***Cablevision Distribution Agreement***

On April 23, 2001, we announced that we are formally seeking the termination of our relationship with Cablevision and the recovery of warrants to purchase up to 21.9 million shares of our Series A common stock granted to Cablevision in 1997 and 1998 pursuant to a distribution agreement for the deployment of the @Home service on an exclusive basis to customers located in Cablevision's cable markets. We capitalized the cost of these distribution agreements in 1997 and 1998 based on the fair values of the warrants at that time, and we have been amortizing these balances on a straight-line basis through June 4, 2002, the term of exclusivity. However, based on our intention to terminate the agreement and the probability that we will recover the warrants, we recorded a \$12.6 million charge to operations which represents the difference between the unamortized balance of the Cablevision distribution agreement and the \$37.4 million fair value of the warrants which was included in other assets. The remaining balance included in other assets represents the current fair value of the warrants issued to Cablevision.

### ***Restructuring Plans***

On April 30, 2001, we announced a workforce reduction of approximately 380 employees and the expansion of our operational restructuring announced on January 23, 2001. The workforce reduction was approved by our board of directors on April 16, 2001 and impacted all divisions throughout the company, but was more heavily weighted towards our media operations. Subsequently on June 6, 2001, we announced that we would complete the shutdown of consolidated European narrowband operations by July 15, 2001 as contemplated in the April 30, 2001 announcement. Additionally, management determined that several facilities would not be occupied as a result of the workforce reductions and the general reduction in our planned employee levels, and these facilities include recently constructed buildings near our corporate headquarters. We have significant lease obligations in connection with these recently constructed buildings representing the substantial portion of our restructuring costs in the second quarter of 2001.

On January 23, 2001, we announced a workforce reduction of approximately 250 employees and a related operational restructuring, which was approved by our board of directors on January 19, 2001. The majority of reductions and restructuring affected the Excite Network narrowband operations in the Media/Advertising business segment and the iMALL operations in the Commercial Services business segment. We substantially completed the winding down of iMALL activities in the second quarter of 2001. In addition, we sold our Narrative Communications (Enliven) operations in the first quarter of 2001 in exchange for a 20% ownership interest in a newly formed entity that plans to continue the former Enliven operations. We also discontinued our DSL offering to @Work customers in the first quarter of 2001 due to the dissolution of NorthPoint, a wholesale provider of DSL connectivity.

As of June 30, 2001, over 600 positions were eliminated as a result of the January 23 and April 30 workforce reductions, of which approximately 120 employees remained on staff primarily for the purpose of shutting down our consolidated European narrowband operations. We plan to complete the exit activities associated with the January 23 and April 30 workforce reductions prior to the end of 2001.

We incurred restructuring costs of \$158.7 million in the second quarter of 2001 and \$17.1 million in the first quarter of 2001 related to our workforce reductions announced on April 30, 2001 and January 23, 2001, respectively.

### ***Impairment Write-Down of Software***

In May 2001, several in-progress projects in our Media/Advertising business segment were discontinued. This resulted in the impairment of capitalized costs related to these projects, consisting of third-party software recorded in property, equipment and improvements. The software has no alternate use and cannot be sold, and therefore, the \$10.8 million carrying amount of this software was written-off in the second quarter of 2001.

### ***Convertible Note Financing***

On June 8, 2001, we issued convertible notes and entered into related agreements with third party investors under which we received \$100 million in cash financing. The notes do not bear interest and none of the conversion features discussed below resulted in an initial beneficial conversion feature requiring accounting treatment as a discount and amortization to interest expense. However, we incurred approximately \$2 million of debt issuance costs that are being amortized to interest expense over the stated 5-year term of the notes through June 8, 2006. The notes are convertible at any time into shares of our Series A common stock at a rate of \$4.38 per share, based on 110% of the weighted-average price of our Series A common stock on June 8, 2001. This conversion rate is subject to reduction as specified in the agreements upon the issuance of common stock in future equity transactions. The holders of these notes may elect to convert the notes at the original issuance price on each anniversary of the date of issuance starting on June 8, 2002, and therefore we have included the principal amount in current liabilities. The notes are also redeemable by us on the second, third and fourth anniversary of the date of issuance. At each such conversion or redemption date, as well as at maturity, we have the option of delivering the par amount in cash or Series A common stock at a rate of 95% of the average of the volume-weighted trading price of the common stock over the 10 trading days prior to each date of issuance, and the shares would be issued in eight equal installments over an 80-day period. However, if we have not met specified conditions for redeeming the notes in stock, we may be obligated to pay cash rather than stock to satisfy these redemption obligations. In addition, we may elect to pay cash if redeeming the notes in stock results in an unacceptable level of dilution to our stockholders.

We are required to register the resale of the shares issuable upon conversion of the notes in accordance with timeframes specified in our registration rights agreement with the note holders. We are also required to maintain the listing of our Series A common stock on either the New York Stock Exchange, the Nasdaq National Market or the American Stock Exchange. We do not currently meet the Nasdaq's continued listing requirement because our net tangible assets and stockholders' equity are below the minimum thresholds and the bid price of our Series A common stock is currently less than the minimum \$3.00 bid price required when such thresholds are not met. If we do not meet the continued listing requirements of one of these stock markets at any time after receiving a redemption notice from a note holder, if our Series A common stock were delisted, or if we fail to meet other specified conditions in our agreements with the note holders, the notes provide for acceleration of repayment in cash at that time. Our stockholders have approved a reverse stock split which would, if our board of directors elects to implement it, increase the trading price of our Series A common stock above \$3.00, but we cannot assure you that this would result in a sustained increase above the minimum bid price requirements. In addition, events of default include failure to meet our payment obligations under these notes or our other outstanding debt obligations, failure to meet material provisions of the notes for a period of 30 days after receiving notice, or filing for bankruptcy. A default under these notes could result in the acceleration of the amounts due under our other outstanding convertible subordinated notes and debentures.

We have granted holders of these notes a security interest in \$100 million book value of our assets that are not pledged as security to other creditors, as collateral for the outstanding amounts due under the notes. These notes are senior to our outstanding subordinated notes and debentures.

### ***Backbone Capacity Agreement with AT&T***

On June 19, 2001, we terminated our backbone capacity agreement with AT&T and simultaneously entered into a revised agreement. We received \$85.2 million in cash in exchange for granting AT&T a security interest in the capacity rights under the agreement and we recorded this amount in capital lease and other obligations. The \$85.2 million principal amount, plus interest at a rate of 8%, is required to be repaid to AT&T in monthly installments of approximately \$0.7 million through April 2020, the term of the revised backbone capacity agreement. Additionally, we paid AT&T \$7 million in June 2001 for backbone route extensions and this amount, together with the previously unamortized balance, is being amortized on a straight-line basis to operations over the term of the agreement. The new backbone capacity agreement generally preserves the backbone operations and upgrade and expansion rights provided under the original agreement.

### ***Write-down of Other Investments***

We recorded impairment write-downs of other investments of \$10.6 million and \$23.9 million in the second quarter and first half of 2001, respectively, including \$2.2 million and \$9 million, respectively, of write-downs on publicly traded equity securities representing other-than-temporary unrealized losses included in accumulated other comprehensive income (loss) and \$8.4 million and \$14.9 million, respectively, of write-downs on privately held investments representing a reduction in the investment balance recorded in other investments. There were no impairment write-downs of other investments recorded in the comparable periods in 2000. The impairment write-downs related to publicly traded equity securities resulted from our conclusion that declines in the fair market values of such investments below their carrying values were not temporary (generally, the fair market values were below the carrying values for a continuous period of six months or more). The impairment write-downs related to privately held investments resulted from our conclusion that the carrying values of these investments were not recoverable, based on indicators such as bankruptcy, limited liquidity and low probability of closing required near-term financing.

### ***Announcement of Need for Additional Funding Prior to December 31, 2001***

On July 24, 2001, we announced that we would need to raise additional funding prior to December 31, 2001 to support our operations. We made this announcement because, for the remainder of the year, we do not expect to experience any recovery in the demand for our online advertising and marketing services, to secure financing terms from some of our equipment vendors, to receive standard payment terms from several critical suppliers, or to recover previously expected amounts in connection with real estate lease commitments, as well as due to other factors. We plan to take further measures to conserve cash in addition to the restructuring plans announced in January and April 2001, and we may raise additional funds through strategic means including the possible sale or restructuring of our media operations, or financing transactions. We have not yet completed any transactions in this regard and there can be no assurance that we will be successful in achieving sufficient cash conservation measures, completing strategic transactions or otherwise raising sufficient additional funds to finance our operations on a timely basis. If we are unable to successfully complete the necessary measures, there would be a material adverse impact on our operations and liquidity.

In August 2001, we commenced an operational and strategic realignment of our entire business that has resulted in the elimination of approximately 200 positions. We also eliminated approximately 90 positions at our MatchLogic subsidiary in order to align expenses with projected revenues reflecting weakened demand in the media advertising market. We may undertake further restructuring efforts in the third quarter of 2001 that may result in the elimination of additional positions, but it is too early to determine the impact these actions would have on our results of operations.

**Quarterly Financial Information (unaudited)**

	Three Months Ended			
	March 31, 2000	June 30, 2000	September 30, 2000	December 31, 2000
	(In thousands, except per share and stock price data)			
Total revenue . . . . .	\$ 138,063	\$ 148,721	\$ 160,533	\$ 169,058
Operating costs:				
Cost of services and products . . . . .	57,239	69,363	80,365	83,583
Product development and engineering . . . . .	20,975	26,813	23,818	24,009
Sales and marketing . . . . .	56,926	74,254	79,244	79,593
General and administrative . . . . .	10,724	17,798	19,535	17,829
Cost and amortization of distribution agreements . . . . .	93,965	28,166	24,350	24,621
Amortization of goodwill, intangible assets and deferred compensation and other acquisition-related costs . . . . .	573,133	589,317	591,042	588,152
Write-down of goodwill, other intangible assets and other assets . . . . .	—	—	—	4,635,687
Total operating costs . . . . .	812,962	805,711	818,354	5,453,474
Loss from operations . . . . .	(674,899)	(656,990)	(657,821)	(5,284,416)
Interest and other income, net . . . . .	3,193	858	5,700	121
Write-down of other investments . . . . .	—	—	—	(129,482)
Equity share of losses of affiliates . . . . .	(4,815)	(12,131)	(16,589)	(12,525)
Net loss . . . . .	\$(676,521)	\$(668,263)	\$(668,710)	\$(5,426,302)
Basic and diluted net loss per share . . . . .	\$ (1.75)	\$ (1.69)	\$ (1.67)	\$ (13.43)
Price range per share:				
Low . . . . .	\$ 26.75	\$ 15.88	\$ 12.88	\$ 3.88
High . . . . .	\$ 44.88	\$ 33.19	\$ 20.94	\$ 14.25

	Three Months Ended			
	March 31, 1999	June 30, 1999	September 30, 1999	December 31, 1999
	(In thousands, except per share and stock price data)			
Total revenue . . . . .	\$ 25,098	\$ 70,542	\$ 112,562	\$ 128,753
Operating costs:				
Cost of services and products . . . . .	18,600	29,084	45,260	50,112
Product development and engineering . . . . .	6,467	11,281	16,834	20,223
Sales and marketing . . . . .	7,676	25,274	48,179	49,596
General and administrative . . . . .	4,103	6,423	9,028	10,722
Cost and amortization of distribution agreements . . . . .	15,020	18,703	43,932	214,312
Amortization of goodwill, intangible assets and deferred compensation and other acquisition-related costs . . . . .	6,733	199,451	447,569	503,256
Total operating costs . . . . .	58,599	290,216	610,802	848,221
Loss from operations . . . . .	(33,501)	(219,674)	(498,240)	(719,468)
Interest and other income, net . . . . .	2,811	2,472	2,556	2,414
Realized gain on investment held . . . . .	12,566	—	—	—
Equity share of losses of affiliates . . . . .	—	(742)	(2,876)	(5,956)
Net loss . . . . .	\$ (18,124)	\$(217,944)	\$(498,560)	\$ (723,010)
Basic and diluted net loss per share . . . . .	\$ (0.08)	\$ (0.76)	\$ (1.37)	\$ (1.93)
Price range per share:				
Low . . . . .	\$ 37.25	\$ 39.00	\$ 33.13	\$ 36.69
High . . . . .	\$ 81.75	\$ 99.00	\$ 59.63	\$ 59.75

## PART IV

### Item 14. *Exhibits, Financial Statement Schedules, and Reports on Form 8-K*

(a) The following documents are filed as part of this annual report:

1. *Financial Statements.* See Index to Financial Statements at Item 8 on page 2 of this annual report.
2. *Financial Statement Schedules.*

#### Schedule II—Valuation and Qualifying Accounts

	As of December 31,		
	2000	1999	1998
Allowance for doubtful accounts:			
Balance at beginning of period . . . . .	\$ 3,454	\$ 252	\$ —
Acquired allowance . . . . .	—	1,705	19
Bad debt expense . . . . .	12,220	3,203	190
Write-offs, net of recoveries . . . . .	(5,674)	(1,706)	43
Balance at end of period . . . . .	<u>\$10,000</u>	<u>\$ 3,454</u>	<u>\$252</u>

Omitted schedules are not applicable or the required information is shown in the consolidated financial statements and notes thereto.

3. *Exhibits.* The exhibits listed in the accompanying exhibit index are filed as part of this annual report.

(b) *Reports on Form 8-K.*

We did not file any current reports on Form 8-K during the quarterly period ended December 31, 2000.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amended annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 20, 2001

### AT HOME CORPORATION

By: /s/ MARK A. McEACHEN  
Mark A. McEachen  
*Executive Vice President and  
Chief Financial Officer*

Pursuant to the requirements of the Securities Exchange Act of 1934, this amendment to the Annual Report on Form 10-K has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>Name</u>	<u>Title</u>	<u>Date</u>
<b>Principal Executive Officer:</b>		
<u>/s/ PATTI HART</u> Patti Hart	Chairman of the Board and Chief Executive Officer	August 20, 2001
<b>Principal Financial Officer and Principal Accounting Officer:</b>		
<u>/s/ MARK A. McEACHEN</u> Mark A. McEachen	Executive Vice President and Chief Financial Officer	August 20, 2001
<b>Additional Directors:</b>		
<u>WILLIAM R. HEARST III*</u> William R. Hearst III	Vice Chairman of the Board	August 20, 2001
<u>C. MICHAEL ARMSTRONG*</u> C. Michael Armstrong	Director	August 20, 2001
<u>Matthew J. Hart</u>	Director	
<u>FRANK IANNA*</u> Frank Ianna	Director	August 20, 2001

<u>Name</u>	<u>Title</u>	<u>Date</u>
_____ David C. Nagel	Director	
_____ Charles Noski	Director	
_____ JOHN C. PETRILLO* John C. Petrillo	Director	August 20, 2001
_____ Edward S. Rogers	Director	
_____ DANIEL E. SOMERS* Daniel E. Somers	Director	August 20, 2001
*By: <u>/s/ MARK A. McEACHEN</u> Mark A. McEachen <i>Attorney-in-Fact</i>		

## EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
3.01	The Registrant's Fifth Amended and Restated Certificate of Incorporation, filed with the Delaware Secretary of State on May 28, 1999.	S-8	333-79883	4.01	06/03/99	
3.02	Certificate of Amendment to the Registrant's Fifth Amended and Restated Certificate of Incorporation, filed with the Delaware Secretary of State on August 28, 2000.	S-8	333-44780	4.02	08/30/00	
3.03	Certificate of Designation of the Registrant's Series A Non-Voting Convertible Preferred Stock, filed with the Delaware Secretary of State on December 13, 1999.	10-K		3.03	03/30/00	
3.04	Certificate of Designation of the Registrant's Series B Non-Voting Convertible Preferred Stock, filed with the Delaware Secretary of State on February 9, 2000.	S-3	333-31530	4.04	03/02/00	
3.05	Certificate of Designation of the Registrant's Series C Non-Voting Convertible Preferred Stock, filed with the Delaware Secretary of State on February 9, 2000.	S-3	333-31530	4.05	03/02/00	
3.06	The Registrant's Third Amended and Restated Bylaws, adopted as of August 28, 2000.	S-3	333-43156	4.03	09/25/00	
4.01	Form of certificate representing shares of the Registrant's Series A common stock.	S-1	333-27323	4.01	07/08/97	
4.02	Indenture, dated December 28, 1998, between the Registrant and State Street Bank and Trust Company of California, N.A., as trustee (contains form of note).	10-K		10.38	03/31/99	
4.03	Registration Rights Agreement, dated December 28, 1998, between the Registrant and Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Stanley & Co. Incorporated and Goldman Sachs & Co.	10-K		10.39	03/31/99	
4.04	Indenture, dated December 1, 1999, between the Registrant and State Street Bank and Trust Company of California, N.A., as trustee (contains form of note).	S-3	333-32228	4.03	03/10/00	
4.05	Registration Rights Agreement, dated December 1, 1999, between the Registrant and Morgan Stanley & Co. Incorporated, Goldman Sachs & Co., Deutsche Bank Securities Inc., Donaldson Lufkin & Jenrette Securities Corporation, Hambrecht & Quist LLC and BancBoston Robertson Stephens Inc.	S-3	333-32228	4.04	03/10/00	



Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
4.06	Third Amended and Restated Registration Rights Agreement, dated April 11, 1997, between the Registrant and the parties indicated therein.	S-1	333-27323	4.01	05/16/97	
4.07	Amended and Restated Stockholders' Agreement, dated August 1, 1996, among the Registrant and the parties indicated therein, as amended on May 15, 1997.	S-1	333-27323	4.04	06/20/97	
10.01	Form of Indemnification Agreement entered into by the Registrant with each of its directors and executive officers.*	S-1	333-27323	10.09	05/16/97	
10.02	The Registrant's 1996 Incentive Stock Option Plan, as amended on May 16, 1996.	S-1	333-27323	10.10	05/16/97	
10.03	The Registrant's 1996 Incentive Stock Option Plan No. 2, adopted on July 16, 1996.	S-1	333-27323	10.11	05/16/97	
10.04	The Registrant's 1997 Equity Incentive Plan, as amended on April 18, 2000.	S-8	333-47878	4.02	10/13/00	
10.05	The Registrant's 1997 Employee Stock Purchase Plan, as amended on April 18, 2000.	S-8	333-47878	4.03	10/13/00	
10.06	The Registrant's 2000 Equity Incentive Plan, adopted on January 13, 2000, and related forms of agreements.	S-8	333-31532	4.06– 4.09	03/02/00	
10.07	Employment Agreement, dated May 28, 1999, between the Registrant and George Bell.*	10-K		10.26	03/30/00	
10.08	Letter Agreement, dated September 18, 2000, between the Registrant and George Bell.*	10-Q		10.03	11/14/00	
10.09	Employment Letter Agreement, dated July 19, 1996, between the Registrant and Thomas A. Jermoluk.*	S-1	333-27323	10.19	05/16/97	
10.10	Amendment of Employment Agreement, dated November 23, 1999, between the Registrant and Thomas A. Jermoluk.*	10-K		10.26	03/30/00	
10.11	Offer Letter, dated June 29, 2000, between the Registrant and Mark McEachen.*	10-Q		10.02	11/14/00	
10.12	Loan and Security Agreement, dated August 17, 2000, between the Registrant, Mark McEachen and Joanne McEachen.*	10-Q		10.04	11/14/00	
10.13	Employment Agreement, dated January 4, 2000, between the Registrant and Byron Smith.*	10-Q		10.2	05/15/00	
10.14	Loan and Security Agreement, dated July 28, 2000, between the Registrant, Byron Smith and Beth Smith.*	10-Q		10.05	11/14/00	
10.15	Employment Agreement, dated December 9, 1999, between the Registrant and Mark O'Leary.*	10-Q		10.1	05/15/00	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.16	Form of Retention and Severance Agreement, dated September 7, 2000, between the Registrant and each of George Bell, Mark McEachen, Mark Stevens, Byron Smith, and Mark O'Leary.*	10-Q		10.01	11/14/00	
10.17	Letter Agreement, dated May 15, 1997, among Registrant and the parties indicated therein, including as exhibits the Master Distribution Agreement Term Sheet and the Term Sheet for Form of LCO Agreement.	S-1	333-27323	10.20	06/20/97	
10.18	Letter Agreement and Term Sheet, dated as of October 2, 1997 and amended as of October 10, 1997, among the Registrant, Cablevision Systems Corporation, CSC Parent Corporation, Comcast Corporation, Cox Enterprises, Inc., Kleiner Perkins Caufield & Byers and Tele-Communications, Inc.	8-K		10.01	10/22/97	
10.19	Letter Agreement, dated April 7, 1999, among the Registrant, AT&T Corp., Tele-Communications, Inc., Cox Communications, Inc. and Cox@Home, Inc.	AT&T 13D		13	04/13/99	
10.20	Letter Agreement and Term Sheets, dated May 28, 2000, among the Registrant, AT&T Corp., Comcast Corporation and Cox Communications, Inc.	8-K		99.01	04/03/00	
10.21	Amendment to Letter Agreement, dated June 22, 2000, among the Registrant, AT&T Corp., Comcast Corporation and Cox Communications, Inc.	8-K		99.01	06/29/00	
10.22	Term Sheet, dated March 18, 1997, between the Registrant and each of Shaw Cablesystems Ltd. and Rogers Cablesystems Limited.	S-1	333-27323	10.06	05/16/97	
10.23	IRU Capacity Agreement, dated December 19, 1998, between the Registrant and AT&T Corp.	10-K		10.33	04/27/99	
10.24	Form of Amendment to IRU Capacity Agreement, dated April 30, 1999, between the Registrant and AT&T Corp.	10-Q		10.01	08/14/00	
10.25	Form of Amendment Number Two to IRU Capacity Agreement, dated September 30, 1999, between the Registrant and AT&T Corp.	10-Q		10.01	11/15/99	
10.26	Form of Amendment Number Three to IRU Capacity Agreement, dated March 29, 2000, between the Registrant and AT&T Corp.	10-Q		10.02	08/14/00	
10.27	Form of Amendment Number Four to IRU Capacity Agreement, dated May 17, 2000, between the Registrant and AT&T Corp.	10-Q		10.03	08/14/00	

Exhibit Number	Exhibit Description	Incorporated by Reference				Filed Herewith
		Form	File No.	Exhibit	Filing Date	
10.28	Loan and Security Agreement, dated September 30, 1997, between the Registrant and Silicon Valley Bank.	10-Q		10.23	11/14/97	
10.29	Loan Modification Agreement, dated October 19, 1998, between the Registrant and Silicon Valley Bank.	10-K		10.34	02/19/99	
10.30	Lease, dated October 17, 1996, between the Registrant and Martin/Campus Associated, L.P.	S-1	333-27323	10.08	05/16/97	
10.31	Build to Suit Option Agreement, dated October 25, 1996, between Registrant and Martin/Campus Associates, L.P., and First Amendment to Build to Suit Option Agreement.	10-Q		10.15	05/15/98	
10.32	Build to Suit Lease, dated September 29, 1997, between the Registrant and Martin/Campus Associates, L.P. (425 Broadway, Redwood City, California).	10-Q		10.21	05/15/98	
10.33	Build to Suit Lease, dated September 29, 1997, between the Registrant and Martin/ Campus Associates, L.P., (440 Broadway, Redwood City, California).	10-K		10.35	02/19/99	
10.34	Build to Suit Lease, dated July 14, 1998, between Registrant and Martin/Campus Associates, L.P. (420 Broadway, Redwood City, California).	10-K		10.36	02/19/99	
10.35	Build to Suit Lease between the Registrant and Martin/Campus Associates, L.P. (430 Broadway, Redwood City, California).	10-K		10.37	02/19/99	
10.36	Triple Net Building Lease, dated February 25, 2000, between Registrant and Pacific Shores Center LLC (Building 7).	10-Q		10.04	08/14/00	
10.37	Triple Net Building Lease, dated February 25, 2000, between Registrant and Pacific Shores Center LLC (Building 8).	10-Q		10.05	08/14/00	
21.01	List of subsidiaries of the Registrant.	10-K		21.01	04/02/01	
23.01	Consent of Ernst & Young LLP, Independent Auditors.					X
24.01	Power of Attorney.	10-K		24.01	04/02/01	

\* Management contracts or compensatory plans required to be filed as an exhibit to this annual report.