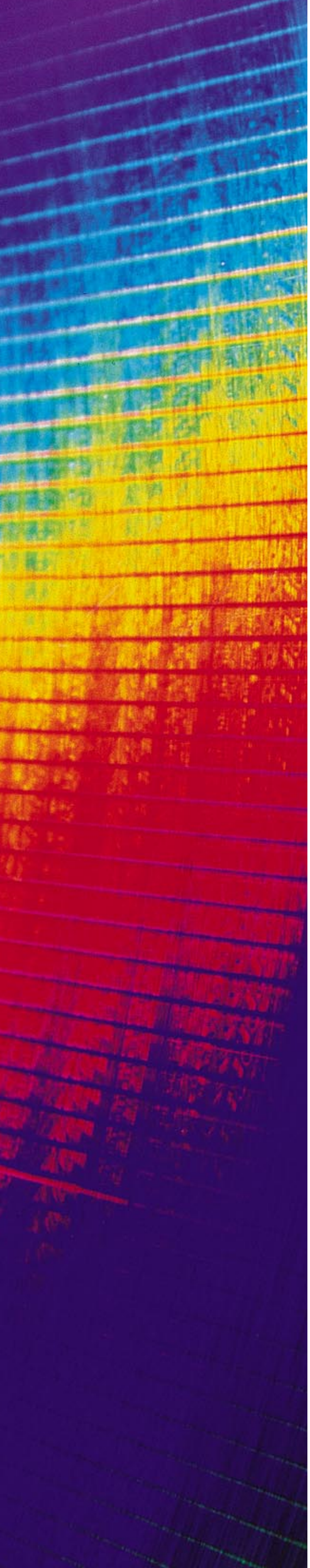
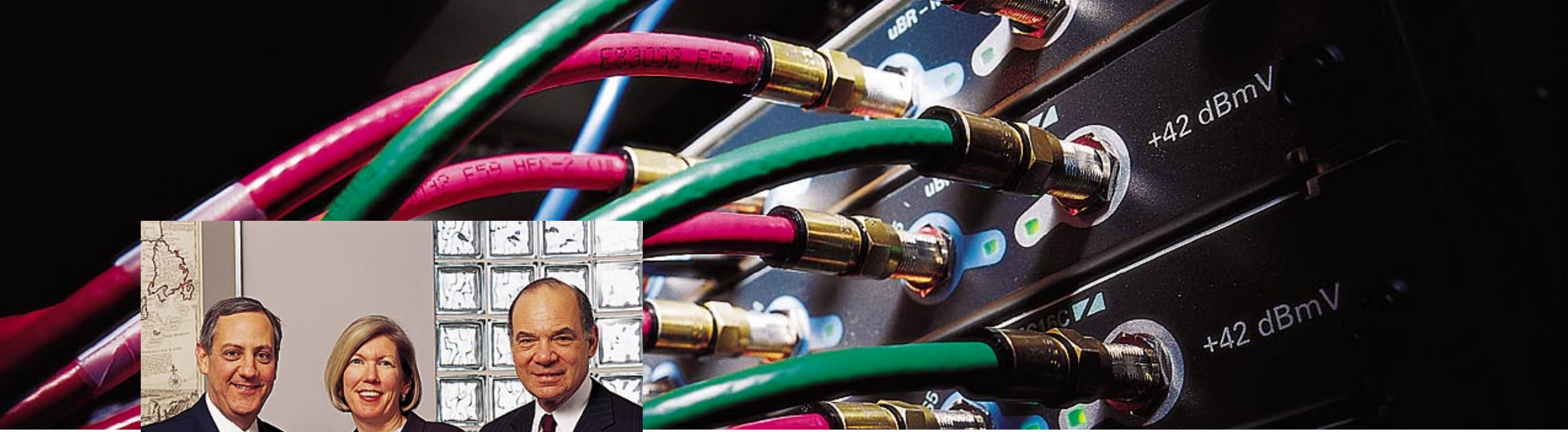


# INSIGHT
## COMMUNICATIONS

1999 Annual Report

INSIGHT COMMUNICATIONS




Michael S. Willner
*President and Chief Executive Officer*

Kim D. Kelly
*Executive Vice President, Chief Operating & Financial Officer*

Sidney R. Knafel
*Chairman*

## DEAR FELLOW SHAREHOLDERS,

This has been a pivotal year for us, a year of many firsts. As we reflect on the recent past, we are particularly pleased to write our first annual letter to the shareholders as a public company. Let us review the highlights of 1999:

- We completed the first public offering of a cable company since 1985. Extraordinarily well received, we succeeded in issuing 26 million new shares in the company, raising $650 million for strategic purposes;
- We launched the industry's first interactive digital service with true video-on-demand utilizing a standard set-top box;
- We completed the acquisition of our Kentucky systems, nearly doubling our subscriber base and giving us economies of scale that will allow us to efficiently build from our current base;
- We made our first strategic investment in new content and technology, already realizing a significant financial return.

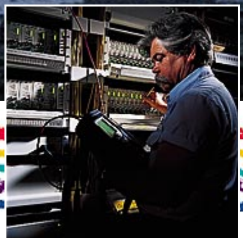
***"Insight Breaks Out of the Middle Ground"***

**– Cable World, September 27, 1999**

In 1997, we recognized that our business was changing and that cable's proven technology, coupled with our broadband platform, would provide opportunities for important revenue growth. To that end, we developed a footprint of uniquely high-end technical platforms within concentrated clusters, giving us the marketing and capital efficiencies to realize important growth from these new revenue streams. These services include:

**Interactive digital cable:** Our unique signature digital product has produced high customer satisfaction and has already delivered nearly 20% penetration in as little as six months, as well as approximately $24 in incremental monthly revenue per digital customer.

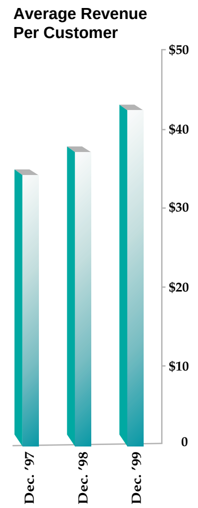
**High-speed Internet access:** We deployed high-speed Internet access in partnership with both Excite@Home and Road Runner. This value-added product significantly enhances the online PC experience for our customers and is an important offering in our bundled communications strategy.



“Insight IPO Breaks Ice for MSOs”

– Multichannel News, July 26, 1999

**Telephony:** We expect to further utilize our broadband capabilities to compete for local telephone business, beginning in the fourth quarter of this year. Currently the last non-competitive telecommunications service, local telephone is a $100 billion market, providing another opportunity for revenue growth.




During 1999, we spent over $87 million on rebuilding our systems’ plant and activating two-way capacity in order to deliver a full suite of entertainment, information, and telephony services. At year-end 1999, approximately 55% of our plant was rebuilt, making us one of the most technologically advanced MSOs in the industry. Our leadership status in network design, coupled with our excellent record in customer service, positions us well to be the telecommunications provider of choice for our customers.

We are financially strong with ample capacity to support the delivery of new products, expand our business, and be opportunistic in making strategic investments. We raised $650 million in our Initial Public Offering and maintain credit facilities of $1.4 billion.

We remain enthusiastic about the important growth prospects of our industry. Owning uniquely situated assets and being positioned as a leader and innovator within our industry, we are especially able to exploit such growth now and in the future.

Sincerely,

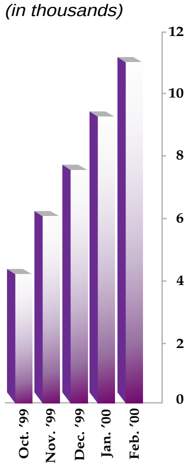
Sidney R. Knafel
*Chairman*

Michael S. Willner
*President and CEO*

Kim D. Kelly
*Executive VP, Chief Operating & Financial Officer*

March 30, 2000


Insight Digital
Customer
Monthly Trend
*(in thousands)*




INSIGHT Digital
Everything you imagined and more.

***"Innovator Award, New Media"***

**– Cablevision, October, 1999**

## DIGITAL CABLE, INSIGHT STYLE

During 1999, we launched our signature product, Insight Digital, pioneering new ways for our customers to use their televisions. Using our state-of-the-art broadband platform, we redefined previous digital products by offering packages of additional programming as well as a multitude of interactive products, all integrated into a standard, current generation digital converter box.

Starting with Insight Digital Gateway, we offer two revolutionary products—LocalSource (a product of Source Media's Interactive Channel) and DIVA's video-on-demand. Through LocalSource, we have brought locally customized entertainment and information guides into our customers' homes, allowing them to use their televisions in an entirely new capacity. With 40% of the American population owning an Internet-enabled computer, versus 98% owning a television, we are bringing an interactive experience to virtually everyone. LocalSource brings web-based and exclusive content to the television, allowing customers to use a simple remote control to find a wide array of local information—including restaurant menus, weather forecasts, movie listings, and school homework assignments.

Our video-on-demand service also has revolutionized television viewing. Allowing customers to choose from nearly 500 movie titles, customers can view them with full VCR functionality at any given time. In addition, Insight Digital includes an interactive programming guide, which allows customers to utilize such tools as customizable genre selection and parental control.

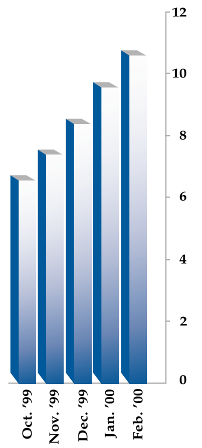
Insight Digital is offered with a customer-friendly pricing scheme providing for a low-entry price point, numerous options, and pricing incentives. For as little as $6.95, our customers can purchase the Insight Digital Gateway, including LocalSource, video-on-demand, the interactive guide, and multiple channels of CD-quality digital music. However, the packaging of our products has resulted in as high as 80% of our digital customers choosing to take the complete service for $16.85.


*"I think that the one thing we're definitely not going to miss are the runs to the video store."*

**– Insight Digital Customer, Evansville, IN**

INSIGHT@Home

**Insight@Home Customer Monthly Trend**
*(in thousands)*




ROAD RUNNER HIGH SPEED ONLINE™

As a result, our digital offering is driving important revenue growth, delivering an incremental revenue per digital customer of approximately $24. More importantly, it is also a catalyst for renewed basic customer growth. The product is winning back satellite customers, as demonstrated in Rockford, IL, where our customer base has grown 2.5% since launching Insight Digital.

We believe that Insight's digital product will become an industry standard and we plan to launch it throughout our markets by year-end 2000. As we drive digital penetration, we are effectively achieving substantial rate increases without the political and customer objections typically associated with basic rate increases.

## SURFING AT THE SPEED OF LIGHT

Another substantial result of our system rebuilds is the ability to offer customers robust capacities to deliver the newest in technology. Increasingly, consumers are using the Internet for more information and commerce, but the satisfaction of their on-line experience historically has been limited by speed. During 1999, we launched Insight@Home, a much-needed alternative to current Internet connection options, providing rich original content and speeds up to 100 times faster than traditional phone modems. What's more, our customers do not need a second phone line, and they never have to "turn on" the service—in fact, they stay on all the time.

The true testimonial to the success of the product is the virtual lack of churn. Today we service 12,000 customers and are generating over $30 per month in incremental revenue. Demand is strong and we are increasing our customer base by 10% each month. As we approach the completion of our system upgrades, plans are solidly in place to provide high-speed access to virtually all of our communities by the end of 2000.


## BUNDLING IT UP

*"Insight Communications, AT&T in Pact to Offer Local Phone Service"*

**– Wall Street Journal, March 16, 2000**

A key part of our strategy to provide a full suite of video, data, and telecommunications services is a local telephone offering. On March 15, 2000, we signed a letter of intent with AT&T Broadband, detailing the terms by which we would offer such service in our markets under the AT&T name. We think it's a great strategy, leveraging our strong local market presence with the power of the AT&T brand. We believe that the returns on this business are extremely attractive while we also increase overall customer satisfaction and reduce churn.

By offering a facilities-based voice telephony service we also are fulfilling the promise of the 1996 Telecommunications Act, which contemplated that all aspects of telecommunications would be competitive. Local phone service is the last area to be opened up to competition and, as such, we know customers are seeking choice in this arena. We believe that our suite of products, excellent record of customer service, innovation, and value-oriented pricing schemes will make us the provider of choice.

## PEOPLE AT THE CORE

*"In this day and age, it is so nice to find that there are still companies with employees who do care about customer service."*

**—Insight Communications Customer, Columbus, OH**

No matter what innovative products we continue to develop, it is always the people who make our business what it is. Our employees comprise the core of our operations and demonstrate every day that Insight's most important priority is an ongoing commitment to the highest levels of customer service. Customer service representatives, installers and technicians are our customers' friends and neighbors. They strive to deliver Insight's unparalleled service and technical support that only fellow residents can provide so effectively. As members of the community, they play an irreplaceable role in our success.

We make substantial investments in our employees by investing heavily in training. It is through their service and commitment to our customers that we have been able to maintain a competitive edge in an ever-changing technological environment.

## Selected Financial and Other Data

*(dollars in thousands, except per share data)*

The table below provides selected consolidated historical financial information and other operating data of Insight. The consolidated selected financial information has been prepared using the consolidated financial statements of Insight for the five years ended December 31, 1999. It is important that this information be read along with the historical financial statements and related notes in the consolidated financial statements included herein, as well as the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," also included herein.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | **1999** |
| **Statement of Operations Data:** | | | | | |
| Revenue | $ 57,108 | $ 61,839 | $ 67,698 | $ 112,902 | **$ 242,693** |
| Costs and expenses: | | | | | |
| Programming and other operating costs | 15,364 | 16,774 | 18,397 | 30,376 | **71,956** |
| Selling, general and administrative expenses | 13,629 | 14,062 | 15,020 | 24,471 | **55,198** |
| Non-cash compensation and related charges | — | — | — | — | **19,285** |
| Depreciation and amortization | 13,937 | 15,694 | 18,125 | 43,849 | **131,308** |
| | 42,930 | 46,530 | 51,542 | 98,696 | **277,747** |
| Operating income (loss) | 14,178 | 15,309 | 16,156 | 14,206 | **(35,054)** |
| Other income (expense): | | | | | |
| Gain on cable systems exchange | — | — | 78,931 | 111,746 | **15,799** |
| Gain on contribution of cable systems to joint venture | — | — | — | 44,312 | **—** |
| Interest expense, net | (17,965) | (17,644) | (15,962) | (28,106) | **(50,398)** |
| Other expense | (815) | — | — | (444) | **(345)** |
| | (18,780) | (17,644) | 62,969 | 127,508 | **(34,944)** |
| Income (loss) before minority interest and equity in losses of investees | (4,602) | (2,335) | 79,125 | 141,714 | **(69,998)** |
| Minority interest | — | — | — | 3,410 | **31,339** |
| Equity in losses of investees | — | — | — | (3,251) | **(13,963)** |
| Income (loss) before income taxes and extraordinary item | (4,602) | (2,335) | 79,125 | 141,873 | **(52,622)** |
| Provision for income taxes | — | — | — | — | **31,586** |
| Income (loss) before extraordinary item | (4,602) | (2,335) | 79,125 | 141,873 | **(84,208)** |
| Extraordinary loss from early extinguishment of debt | — | (480) | (5,243) | (3,267) | **—** |
| Net income (loss) | (4,602) | (2,815) | 73,882 | 138,606 | **(84,208)** |
| Accretion of redeemable Class B common units | — | — | — | (5,729) | **(7,118)** |
| Accretion to redemption value of preferred limited units | (2,604) | (5,421) | (15,275) | — | **—** |
| Net income (loss) applicable to common stockholders | $ (7,206) | $ (8,236) | $ 58,607 | $ 132,877 | **$ (91,326)** |
| Basic income (loss) per share before extraordinary item | $ (0.23) | $ (0.24) | $ 2.02 | $ 6.71 | **$ (2.58)** |
| Diluted income (loss) per share before extraordinary item | $ (0.23) | $ (0.24) | $ 1.87 | $ 4.55 | **$ (2.58)** |
| Basic income (loss) per share | $ (0.23) | $ (0.26) | $ 1.86 | $ 6.55 | **$ (2.58)** |
| Diluted income (loss) per share | $ (0.23) | $ (0.26) | $ 1.78 | $ 4.61 | **$ (2.58)** |
| **Other Financial Data:** | | | | | |
| EBITDA[1] | $ 27,300 | $ 31,003 | $113,212 | $ 213,828 | **$ 129,084** |
| Adjusted EBITDA[2] | 28,115 | 31,003 | 34,281 | 58,055 | **115,539** |
| Capital expenditures | 15,154 | 16,414 | 27,981 | 44,794 | **135,929** |
| Net cash provided by operating activities | 13,337 | 15,976 | 10,436 | 44,760 | **96,448** |
| Net cash used in investing activities | (15,120) | (16,589) | (27,981) | (142,190) | **(516,487)** |
| Net cash provided by financing activities | 1,600 | 870 | 17,891 | 116,250 | **513,648** |

## Selected Financial and Other Data

*(dollars in thousands)*

*(continued)*

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | **1999** |
| **Balance Sheet Data:** | | | | | |
| Cash and cash equivalents | $ 479 | $ 738 | $ 1,082 | $ 19,902 | **$ 113,511** |
| Property, plant and equipment, net | 30,190 | 36,079 | 63,842 | 155,412 | **643,138** |
| Total assets | 64,510 | 68,574 | 158,103 | 660,916 | **1,989,470** |
| Total debt | 172,975 | 178,327 | 207,488 | 573,663 | **1,233,000** |
| Partners' (deficit)/stockholders' equity | (169,601) | (177,837) | (127,982) | (7,928) | **588,060** |

| | As of December 31, 1999 | | | |
|---|---|---|---|---|
| | National Systems | Columbus System | Indiana Systems | Kentucky Systems |
| **Technical, Operating and Other Data:** | | | | |
| ***Technical Data:*** | | | | |
| Network Miles | 1,739 | 2,720 | 7,629 | 8,513 |
| Number of headends | 5 | 1 | 41 | 17 |
| Number of headends expected as of December 31, 2000 (3) | 5 | 1 | 9 | 4 |
| Number of headends serving over 96% of our customers expected as of December 31, 2000 (3) | 2 | 1 | 3 | 3 |
| ***Operating Data:*** | | | | |
| Homes passed | 151,162 | 178,310 | 512,822 | 680,122 |
| Basic customers | 86,573 | 84,236 | 332,570 | 432,164 |
| Basic penetration (4) | 57.3% | 47.2% | 64.9% | 63.5% |
| Premium units | 98,545 | 98,202 | 226,819 | 332,690 |
| Premium penetration (5) | 113.8% | 116.6% | 68.2% | 77.0% |
| Digital customers | 6,444 | 1,076 | 18,676 | 20,743 |
| Digital penetration (6) | 8.6% | 9.1% | 10.7% | 7.0% |
| High-speed data customers | — | — | 2,336 | 6,001 |
| High-speed data penetration (7) | — | — | 1.9% | 1.4% |
| ***Other Data:*** | | | | |
| Insight's ownership (8) | 100% | 75% | 50% | 50% |
| Location of systems | CA, GA, IL | OH | IN | KY |
| Date of acquisition/consulting | Various | August 1998 | Various | October 1999 |

(1) Represents earnings (loss) before interest, taxes, depreciation and amortization and extraordinary items. Our management believes that EBITDA is commonly used in the cable television industry to analyze and compare cable television companies on the basis of operating performance, leverage and liquidity. However, EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or cash flows as a measure of liquidity, as determined in accordance with generally accepted accounting principles. EBITDA, as computed by management, is not necessarily comparable to similarly titled amounts of other companies. See the financial statements, including the Statements of Cash Flows, which appear elsewhere in this report.

(2) Represents EBITDA excluding any non-cash items such as gain or loss on sales or exchanges of assets, non-cash compensation and related charges, minority interest, equity in losses of investees and other non-recurring income and expense items.

(3) Represents an estimate based on Insight's current rebuild program.

(4) Represents basic customers as a percentage of homes passed.

(5) Represents premium units as a percentage of basic customers.

(6) Represents digital customers as a percentage of total customers with access to digital service.

(7) Represents high-speed data customers as a percentage of total homes passed with access to high-speed data service.

(8) Insight's 75% ownership in the Columbus system consists of a non-voting common interest.

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### Introduction

Because of corporate transactions completed over the past three years, including the contribution agreement with AT&T Broadband LLC ("AT&T Broadband") with respect to the Indiana systems and the acquisition of the Kentucky systems, we do not believe the discussion and analysis of our historical financial condition and results of operations below are indicative of our future performance.

On October 31, 1998, we exchanged our Utah systems for AT&T Broadband's Evansville, Indiana system. Simultaneously, we completed a contribution agreement with AT&T Broadband forming Insight Indiana and contributed all of our Indiana systems, including the Evansville system, to Insight Indiana. At the same time, AT&T Broadband contributed most of its Indiana systems to Insight Indiana.

On July 26, 1999, we completed our initial public offering of Class A common stock. The offering proceeds net of underwriting discounts and other offering expenses totaled approximately $607.0 million and were applied primarily toward the repayment of senior indebtedness and to finance our October 1, 1999 acquisition of Kentucky cable television systems, as described below. Prior to the offering, we operated as a limited partnership. We were reconstituted as a corporation upon the completion of the offering, at which time all of the limited partnership's units were exchanged for shares of our common stock.

On October 1, 1999, we acquired a combined 50% interest in InterMedia Capital Partners VI, L.P. (the "IPVI Partnership") from related parties of Blackstone Cable Acquisition Company, LLC, related parties of InterMedia Capital Management VI, LLC and a subsidiary and related party of AT&T Broadband, for approximately $341.5 million (inclusive of expenses), and Insight Midwest assumed debt of approximately $742.1 million.

### General

Substantially all of our historical revenues were earned from customer fees for cable television programming services including premium and pay-per-view services and ancillary services, such as rental of converters and remote control devices and installations and from selling advertising. In addition, we earn revenues from commissions for products sold through home shopping networks and, since August 21, 1998, from management fees for managing Insight Communications of Central Ohio, LLC.

### Results of Operations

The following table is derived for the periods presented from our consolidated financial statements that are included in this report and sets forth certain statement of operations data for our consolidated operations.

| *(dollars in thousands)* | Year ended December 31, 1997 | 1998 | **1999** |
|---|---|---|---|
| Revenue | $ 67,698 | $ 112,902 | **$ 242,693** |
| Costs and expenses: | | | |
| Programming and other operating costs | 18,397 | 30,376 | **71,956** |
| Selling, general and administrative | 15,020 | 24,471 | **55,198** |
| Non-cash compensation & related charges | — | — | **19,285** |
| Depreciation and amortization | 18,125 | 43,849 | **131,308** |
| | 51,542 | 98,696 | **277,747** |
| Operating income (loss) | 16,156 | 14,206 | **(35,054)** |
| EBITDA | 113,212 | 213,828 | **129,084** |
| Adjusted EBITDA | 34,281 | 58,055 | **115,539** |
| Interest expense | 15,962 | 28,106 | **50,398** |
| Net income (loss) | 73,882 | 138,606 | **(84,208)** |
| Net cash provided by operating activities | 10,436 | 44,760 | **96,448** |
| Net cash used in investing activities | (27,981) | (142,190) | **(516,487)** |
| Net cash provided by financing activities | 17,891 | 116,250 | **513,648** |

*Year Ended December 31, 1999 Compared to Year Ended December 31, 1998*

Revenues increased 115.0% to $242.7 million for the year ended December 31, 1999 as compared to the prior year. The incremental revenue generated from the Indiana systems contributed by AT&T Broadband on October 31, 1998 approximated $62.3 million and accounted for 48.0% of the total increase in revenue. The October 1, 1999 acquisition of Insight Kentucky accounted for approximately $57.0 million or 43.9% of the revenue increase. Excluding the transactions described above, revenues increased by 7.3% due to an increase of approximately 5,600 customers on average, and an increase of approximately $2.80 in the average monthly revenue per customer.

Revenues per customer per month averaged $38.44 for the year ended December 31, 1999, compared to $32.80 for the prior year primarily reflecting a 12.4% increase in average monthly basic revenue per customer of $3.01. Average monthly basic revenue per customer was $27.28 for the year ended December 31, 1999 versus $24.27 for the prior year reflecting the activation of nodes in rebuilt areas of certain Indiana systems and the Rockford, Illinois system. Advertising revenue per customer per month increased 74.8% to $2.79 during 1999 compared to $1.60 in 1998 as the Company brought advertising in-house, capitalizing on its clustered systems. Reflecting strong digital growth, average digital revenue per basic customer increased 482.6% to $.84, or $5.3 million.

Programming and other operating costs increased 136.9% to $72.0 million for the year ended December 31, 1999 as compared to the prior year. The Kentucky acquisition accounted for approximately 45.8% of the increase and the additional Indiana systems contributed by AT&T Broadband on October 31, 1998 accounted for approximately 37.3% of the increase. Excluding the aforementioned transactions, programming costs increased by approximately 27.7% to $20.9 million, primarily as a result of increased programming costs and additional programming carried by our systems.

Selling, general and administrative expenses increased 125.6% to $55.2 million for the year ended December 31, 1999 as compared to the prior year. The Kentucky acquisition accounted for approximately 33.1% of the increase and the additional systems contributed by AT&T Broadband on October 31, 1998 accounted for approximately 38.5% of the increase. Excluding these transactions, these SG&A costs increased by approximately 38.4% to $33.2 million, primarily reflecting increased marketing activity associated with new product introductions and increased corporate expenses.

A one-time charge for non-cash compensation and related expenses of $19.3 million was recorded during 1999 in connection with the distribution of shares of our common stock to management.

Depreciation and amortization expense increased 199.5% to $131.3 million for the year ended December 31, 1999 as compared to the prior year. This increase was primarily due to the acquisitions and additional capital expenditures associated with the rebuilds of our systems.

For the year ended December 31, 1999, operating income decreased to a loss of $35.1 million, a decrease of 346.7% from the prior year as a result of the items discussed above.

Interest expense increased 79.3% to $50.4 million for the year ended December 31, 1999 compared to the prior year. The increase was primarily due to higher average outstanding indebtedness related to acquisitions. Average debt outstanding during 1999 was $714.4 million at an average interest rate of 8.0%.

EBITDA decreased 39.6% to $129.1 million for the year ended December 31, 1999 as compared to the prior year primarily due to gains realized upon the formation of Insight Indiana in 1998 of $156.1 million compared to $15.8 million in gains realized on system exchanges during 1999. Excluding these non-operating gains, operating income before depreciation and amortization and non-cash compensation and related charges increased $57.9 million attributable to acquisitions and the results discussed above. EBITDA represents earnings (loss) before interest, taxes, depreciation and amortization and extraordinary item. Our management believes that EBITDA is commonly used in the cable television industry to analyze and compare cable television companies on the basis of operating performance, leverage and liquidity. However, EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or net income as an indicator of operating performance or cash flows as a measure of liquidity, as determined in accordance with generally accepted accounting principles. EBITDA, as computed by management, is not necessarily comparable to similarly titled amounts of other companies. See the Statement of Cash Flows for Insight Communications Company, Inc. for an analysis of net cash provided by operating activities, used in investing activities and provided by financing activities.

For the year ended December 31, 1999, adjusted EBITDA totaled $115.5 million, an increase of 99% over the prior year. Adjusted EBITDA represents EBITDA excluding any non-cash items such as gain or loss on sales or exchanges of assets, non-cash compensation and related charges, minority interest, equity in losses of investees and other non-recurring income and expense items.

A provision for income taxes of $31.6 million was recorded during 1999 which consisted of a $39.5 million one-time charge due to the exchange of limited partnership units in Insight Communications Company, L.P for our common stock. In addition, the Company recorded an $8.2 million deferred tax benefit relating to losses from operations subsequent to the conversion and a current provision of approximately $300,000 for state and local taxes.

Net income decreased 160.7% to a loss of $84.2 million for the year ended December 31, 1999 primarily reflecting an $87.5 million increase in depreciation and amortization and a $140.2 million decrease in gains realized on systems exchanged and on systems contributed which resulted from the formation of Insight Indiana during 1998.

*Year Ended December 31, 1998 Compared to Year Ended December 31, 1997*

Revenues increased 66.8% to $112.9 million for the year ended December 31, 1998 as compared to the prior year. The results were impacted by two significant transactions including: (a) on January 22, 1998 we purchased the Rockford, Illinois system which contributed $23.1 million of revenue during the year accounting for 51.1% of the total increase in consolidated revenue, and (b) on October 31, 1998, we completed an exchange and contribution agreement with AT&T Broadband. Our 1998 results include revenue from our Utah systems, which were exchanged as part of the joint venture with AT&T Broadband, for the first ten months and for Insight Indiana for the last two months. The incremental revenue generated from AT&T Broadband's contributed systems approximated $11.2 million accounting for 24.8% of the consolidated revenue increase. In addition, revenues increased as a result of internal customer growth, rate increases and growth in advertising revenues. Excluding the systems contributed by AT&T Broadband, revenues increased by approximately $6.2 million due to an increase of 8,760 customers on average, and by approximately $2.5 million attributable to customer rate increases.

Revenues per customer per month averaged $32.80 for the year compared to $32.22 for the prior year primarily reflecting an increase in advertising revenue per customer per month which averaged $1.60 during 1998 compared to $0.43 in 1997. This helped offset the lack of growth in basic revenue per customer which remained unchanged at $24.24 because of the Rockford system which has lower revenue per customer per month reflecting its limited channel offering. Following the completion of our planned rebuild, rate increases will be implemented consistent with the expanded channel offering which should result in an increase in the average revenue per customer closer to the national average of $27.43.

Programming and other operating costs increased 65.1% to $30.4 million for the year ended December 31, 1998 as compared to the prior year. Excluding the Rockford system and the Indiana systems contributed by AT&T Broadband, these costs increased by 17.9% to $21.7 million, primarily as a result of increased programming costs and additional programming carried by our systems.

Selling, general and administrative expenses increased 62.9% to $24.5 million for the year ended December 31, 1998 as compared to the prior year primarily reflecting increased marketing activity associated with new product introductions and increased corporate expenses.

Depreciation and amortization expense increased 141.9% to $43.8 million for the year ended December 31, 1998 as compared to the prior year. This increase was primarily due to the acquisitions and additional capital expenditures associated with the rebuilds of our systems.

Operating income for the year ended December 31, 1998 was $14.2 million, a 12.1% decrease over the prior year, as a result of the items discussed above.

EBITDA increased 88.9% to $213.8 million for the year ended December 31, 1998 as compared to the prior year reflecting gains on cable systems exchanges and a contribution of cable systems to a joint venture which together accounted for $77.1 million or 76.6% of this increase, plus acquisitions and the results of the items described above. EBITDA represents earnings (loss) before interest, taxes, depreciation and amortization and extraordinary item. Our management believes that EBITDA is commonly used in the cable television industry to analyze and compare cable television companies on the basis of operating performance, leverage and liquidity. However, EBITDA is not intended to be a performance measure that should be regarded as an alternative to, or more meaningful than, either operating income or as an indicator of operating performance or cash flows as a measure of liquidity, as determined in accordance with generally accepted accounting principles. EBITDA, as computed by management, is not necessarily comparable to similarly titled amounts of other companies. See the Statement of Cash Flows for Insight Communications Company, L.P. for an analysis of net cash provided by operating activities, used in investing activities and provided from financing activities.

Interest expense increased 76.1% to $28.1 million for the year ended December 31, 1998 compared to the prior year. The increase was primarily due to higher average outstanding indebtedness related to acquisitions. Average debt outstanding during 1998 was $344.0 million at an average interest rate of 8.2%.

Net income increased 87.6% to $138.6 million for the year ended December 31, 1998 primarily reflecting gains related to system swaps aggregating $156 million. Excluding these one-time gains we generated a net loss totaling $17.4 million.

**Liquidity and Capital Resources**

Our business requires cash for operations, debt service, capital expenditures and acquisitions. The cable television business has substantial on-going capital requirements for the construction, expansion and maintenance of networks. Expenditures have primarily been used to rebuild and upgrade our existing cable network, and in the future will be used for plant extensions, new services, converters and system rebuilds. Historically, we have been able to meet our cash requirements with cash flow from operations, borrowings under our credit facilities, private equity and public sources.

On July 26, 1999, we completed our initial public offering of shares of common stock, generating gross proceeds of $648.0 million. We incurred approximately $41.0 million of underwriting discounts and other expenses in connection with the offering resulting in net proceeds of $607.0 million. The net proceeds were applied primarily toward the repayment of senior indebtedness and to finance our October 1, 1999 acquisition of the Kentucky cable television systems.

For the year ended December 31, 1999, we spent $135.9 million in capital expenditures largely to support our network rebuild, digital converter purchases and to a lesser extent, network extensions. For the year ended December 31, 1999, cash from operations totaled $96.4 million, which, together with borrowings under our credit facilities, funded the above noted capital expenditures.

It is anticipated that during 2000, we will spend approximately $211.4 million in capital expenditures, exclusive of any capital expenditures required for the deployment of telephony. We will be able to fund these capital expenditures through cash generated from operations and borrowings under our credit facilities. Included in the planned 2000 capital expenditures is $85.1 million for the upgrade of most of our Indiana and Kentucky cable television systems, which will involve the wide deployment of fiber optics and other capital projects associated with implementing our clustering strategy. The amount of such capital expenditures for years subsequent to 2000 will depend on numerous factors including the level of success in deploying our new services which will impact the amount of capital we will need for digital converters and other network service infrastructure to support demand for new products and services.

On November 17, 1999, we invested $13.0 million in our 50/50 joint venture with Source Media, Inc. On the same date, we also acquired 842,105 shares of Source Media common stock for $12.0 million and five-year warrants to purchase up to an additional 4,596,786 shares at an exercise price of $20.00 per share. Source Media's common stock had a closing sale price per share of $14.9375 as of March 24, 2000. On March 3, 2000, the joint venture sold certain of its assets to Liberate Technologies for which each of we and Source Media received 886,000 shares of Liberate common stock, which had a closing sale price per share of $82.00 as of March 24, 2000.

At December 31, 1999, we had aggregate consolidated indebtedness of $1.2 billion, including $1.0 billion outstanding under senior bank credit facilities. The senior bank facilities consisted of:

- $140.0 million reducing revolver credit facility maturing in December 2005, which supports our national systems, of which $1.0 million was outstanding;
- $550.0 million reducing revolving credit/term loan facility maturing in December 2006, which supports our Indiana systems, of which $470.0 million was outstanding and
- $675.0 million reducing revolving credit/term loan facility maturing in October 2006, which supports our Kentucky systems, of which $562.0 million was outstanding.

Each of the senior credit facilities is stand-alone, having a separate lending group. The credit facilities for the Indiana and Kentucky systems are non-recourse to us, and none of the three facilities has cross-default provisions relating to each other. Each credit facility has different revolving credit and term periods and contains separately negotiated, specifically tailored covenants. The weighted average interest rates for amounts outstanding under the Indiana and Kentucky senior credit facilities at December 31, 1999 were 8.13% and 8.52%. The facilities contain covenants restricting, among other things, our ability to make capital expenditures, acquire or dispose of assets, incur additional debt, pay dividends or other distributions, create liens on assets, make investments and engage in transactions with related parties. The facilities also require compliance with certain financial ratios, require us to enter into interest rate protection agreements and contain customary events of default.

On October 1, 1999, in connection with the formation of Insight Midwest and our acquisition of a 50% interest in the Kentucky systems, Insight Midwest completed an offering of $200.0 million principal amount of its 9¾% senior notes due 2009. The net proceeds of the offering were used to repay certain outstanding debt of the Kentucky systems. Interest on the notes is payable on April 1 and October 1 of each year, commencing April 1, 2000. The indenture relating to the senior notes imposes certain limitations on the ability of Insight Midwest to, among other things, incur debt, make distributions, make investments and sell assets.

During March 2000, we determined that Insight Ohio's cash flow from operations and amounts available under its credit facility may not be sufficient to finance the operating, capital and debt service requirements of the system. As such, we have provided a commitment letter to Insight Ohio to fund any operating shortfall through the year 2000.

**Quantitative and Qualitative Disclosure About Market Risk**

As of December 31, 1999, we had hedged approximately $766.0 million, or 62.1%, of our borrowings under our all of our credit facilities. Accordingly, a hypothetical 100 basis point increase in interest rates along the entire interest rate yield curve would increase our annual interest expense by approximately $3.5 million.

In June 1998, the FASB issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" which as amended by SFAS No. 137 is effective for fiscal years beginning after June 15, 2000. The statement requires us to recognize all derivatives on the balance sheet at fair value. Although we have not completed our assessment of the impact of FASB No. 133 on our results of operations and financial position, we do not anticipate that the adoption of this statement will be material.

**Inflation and Changing Prices**

Our systems' costs and expenses are subject to inflation and price fluctuations. Although changes in costs can be passed through to customers, such changes may be constrained by competition. We do not expect inflation to have a material effect on our results of operations.

**Year 2000 Compliance**

To date, costs incurred that were directly related to addressing the Year 2000 problem have not been material. We have reviewed our cable systems to inventory our equipment and have sent letters to our programming suppliers and other vendors. We have not used a consultant but have worked closely with AT&T Broadband, adopting its Year 2000 program and to a large extent utilizing its independent certifications. In addition, we have tested our billing system by entering years such as 2001 and have determined it to be working properly.

## Consolidated Balance Sheets

*(dollars in thousands)*

| | December 31, 1998 | December 31, 1999 |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 19,902 | **$ 113,511** |
| Marketable securities | — | **21,650** |
| Trade accounts receivable, net of allowance for doubtful accounts of $409 in 1998 and $764 in 1999 | 7,988 | **12,104** |
| Due from affiliated companies | 1,039 | **308** |
| Prepaid expenses and other current assets | 2,677 | **18,383** |
| Total current assets | 31,606 | **165,956** |
| Fixed assets, net | 155,412 | **643,138** |
| Intangible assets, net | 462,355 | **1,140,117** |
| Deferred financing costs, net of amortization of $143 in 1998 and $1,055 in 1999 | 4,794 | **20,368** |
| Investment in unconsolidated affiliates | 6,749 | **5,991** |
| Officer and employee loans receivable | — | **13,900** |
| | $660,916 | **$1,989,470** |
| **Liabilities and partners' deficiency/stockholders' equity** | | |
| Accounts payable | $ 24,290 | **$ 67,996** |
| Accrued expenses and other liabilities | 2,671 | **9,431** |
| Accrued property taxes | 1,397 | **12,620** |
| Deferred revenue | 1,079 | **7,287** |
| Due to affiliates | 88 | — |
| Interest payable | 7,661 | **19,415** |
| Total current liabilities | 37,186 | **116,749** |
| Deferred income taxes | — | **33,529** |
| Debt | 573,663 | **1,233,000** |
| | 610,849 | **1,383,278** |
| Minority interest | 6,676 | **18,132** |
| Redeemable Class B common units, 47,215,859 outstanding in 1998, net of issuance costs of $4,410 | 51,319 | — |
| Partners' deficiency: | | |
| General partner | (528) | — |
| Limited partners, 41,974,421 units issued and outstanding in 1998 | (7,400) | — |
| Stockholders' equity: | | |
| Preferred stock, $.01 par value, 100,000,000 shares authorized, 0 shares issued and outstanding as of December 31, 1999 | — | — |
| Common stock, $0.01 par value: | | |
| Class A—300,000,000 shares authorized, 49,157,180 shares issued and outstanding as of December 31, 1999 | — | **492** |
| Class B—100,000,000 shares authorized, 10,226,050 shares issued and outstanding as of December 31, 1999 | — | **102** |
| Additional paid in capital | — | **656,486** |
| Accumulated deficit | — | **(72,188)** |
| Accumulated other comprehensive income | — | **3,168** |
| | (7,928) | **588,060** |
| | $660,916 | **$1,989,470** |

*See accompanying notes.*

## Consolidated Statements of Operations

*(dollars in thousands, except per share data)*

| | Year ended December 31, 1997 | 1998 | **1999** |
|---|---|---|---|
| Revenue | $ 67,698 | $112,902 | **$242,693** |
| Costs and expenses: | | | |
| Programming and other operating costs | 18,397 | 30,376 | **71,956** |
| Selling, general and administrative | 15,020 | 24,471 | **55,198** |
| Non-cash compensation and related charges | — | — | **19,285** |
| Depreciation and amortization | 18,125 | 43,849 | **131,308** |
| | 51,542 | 98,696 | **277,747** |
| Operating income (loss) | 16,156 | 14,206 | **(35,054)** |
| Other income (expense): | | | |
| Gain on cable systems exchange | 78,931 | 111,746 | **15,799** |
| Gain on contribution of cable systems to joint venture | — | 44,312 | **—** |
| Interest expense, net | (15,962) | (28,106) | **(50,398)** |
| Other expense | — | (444) | **(345)** |
| | 62,969 | 127,508 | **(34,944)** |
| Income (loss) before minority interest and equity in losses of investees | 79,125 | 141,714 | **(69,998)** |
| Minority interest | — | 3,410 | **31,339** |
| Equity in losses of investees | — | (3,251) | **(13,963)** |
| Income (loss) before income taxes and extraordinary item | 79,125 | 141,873 | **(52,622)** |
| Provision for income taxes | — | — | **31,586** |
| Income (loss) before extraordinary item | 79,125 | 141,873 | **(84,208)** |
| Extraordinary loss from early extinguishment of debt | (5,243) | (3,267) | **—** |
| Net income (loss) | 73,882 | 138,606 | **(84,208)** |
| Accretion of redeemable Class B common units | — | (5,729) | **(7,118)** |
| Accretion to redemption value of preferred limited units | (15,275) | — | **—** |
| Net income (loss) applicable to common stockholders | $ 58,607 | $132,877 | **$ (91,326)** |
| Basic income (loss) per share before extraordinary item | $ 2.02 | $ 6.71 | **$ (2.58)** |
| Diluted income (loss) per share before extraordinary item | $ 1.87 | $ 4.55 | **$ (2.58)** |
| Basic income (loss) per share | $ 1.86 | $ 6.55 | **$ (2.58)** |
| Diluted income (loss) per share | $ 1.78 | $ 4.61 | **$ (2.58)** |

*See accompanying notes.*

## Consolidated Statements of Changes in Partners' Deficiency/Stockholders' Equity

*(dollars in thousands)*

| | General Partner | Limited Partners | Common Stock | Additional Paid in Capital | Accumulated Deficit | Accumulated Other Compre-hensive Income | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 1997** | $(2,314) | $(175,523) | | | | | $(177,837) |
| Net income | 739 | 73,143 | | | | | 73,882 |
| Purchase of limited partner's interest | | (10,250) | | | | | (10,250) |
| Purchase of warrants | | 366 | | | | | 366 |
| Accretion of preferred limited units | (153) | (15,122) | | | | | (15,275) |
| Depreciation of warrants | | 1,132 | | | | | 1,132 |
| **Balance at December 31, 1997** | (1,728) | (126,254) | | | | | (127,982) |
| Net income | 1,386 | 137,220 | | | | | 138,606 |
| Accretion of redeemable Class B units | (57) | (5,672) | | | | | (5,729) |
| Purchase of limited partner's units | (165) | (16,321) | | | | | (16,486) |
| Warrants exercised | 24 | 2,363 | | | | | 2,387 |
| Warrants expired | 9 | 900 | | | | | 909 |
| Purchase of warrants | 4 | 363 | | | | | 367 |
| **Balance at December 31, 1998** | (527) | (7,401) | | | | | (7,928) |
| Net loss | (120) | (11,900) | | | $(72,188) | | (84,208) |
| Unrealized gain on marketable securities | | | | | | $3,168 | 3,168 |
| Total comprehensive loss | | | | | | | (81,040) |
| Accretion of redeemable Class B units | (71) | (7,047) | | | | | (7,118) |
| Recapitalization | 718 | 26,348 | $219 | $ (27,285) | | | — |
| Issuance of common stock in exchange for redeemable units | | | 110 | 58,327 | | | 58,437 |
| Compensation associated with issuance of common stock to employees | | | | 18,715 | | | 18,715 |
| Issuance of common stock in initial public offering | | | 265 | 606,729 | | | 606,994 |
| **Balance at December 31, 1999** | $ — | $ — | $594 | $656,486 | $(72,188) | $3,168 | $ 588,060 |

*See accompanying notes.*

## Consolidated Statements of Cash Flows

*(dollars in thousands)*

| | Year ended December 31, 1997 | 1998 | **1999** |
|---|---|---|---|
| **Operating activities** | | | |
| Net income (loss) | $ 73,882 | $ 138,606 | **$ (84,208)** |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | |
| Depreciation and amortization | 18,125 | 43,849 | **131,308** |
| Non-cash compensation | — | — | **18,715** |
| Equity in losses of investees | — | 3,251 | **13,963** |
| Gain on cable systems exchange | (78,931) | (111,746) | **(15,799)** |
| Gain on contribution of cable systems to joint venture | — | (44,312) | **—** |
| Extraordinary loss from early extinguishment of debt | 2,002 | 3,267 | **—** |
| Minority interest | — | (3,410) | **(31,339)** |
| Provision for losses on trade accounts receivable | 695 | 1,288 | **3,038** |
| Deferred income taxes | — | — | **31,328** |
| Other non-cash items | 259 | — | **(149)** |
| Changes in operating assets and liabilities, net of the effect of acquisitions and dispositions: | | | |
| Trade accounts receivable | (1,058) | (7,545) | **7,225** |
| Due from and to affiliates | 12 | (894) | **731** |
| Prepaid expenses and other assets | (1,663) | 1,707 | **(19,918)** |
| Accounts payable | 2,046 | 17,774 | **33,204** |
| Accrued expenses and other liabilities | (1,782) | (3,347) | **(3,405)** |
| Interest payable | (3,151) | 6,272 | **11,754** |
| Net cash provided by operating activities | 10,436 | 44,760 | **96,448** |
| **Investing activities** | | | |
| Purchase of fixed assets | (27,981) | (44,794) | **(135,929)** |
| Purchase of cable television systems, net of cash acquired | — | (84,101) | **(342,012)** |
| Investment in equity investees | — | (10,000) | **(13,205)** |
| Increase in intangible assets | — | (3,295) | **(9,209)** |
| Investment in marketable securities | — | — | **(16,132)** |
| Net cash used in investing activities | (27,981) | (142,190) | **(516,487)** |
| **Financing activities** | | | |
| Net proceeds from initial public offering | — | — | **606,994** |
| Net proceeds from issuance of senior notes | — | — | **192,288** |
| Proceeds from borrowings under bank credit facility | 140,252 | 753,900 | **22,000** |
| Repayment of amounts due to Tele-Communications, Inc. | — | (214,532) | **—** |
| Principal payments on bank credit facility | (108,044) | (387,725) | **(305,322)** |
| Purchase of warrants | (320) | 116 | **—** |
| Issuance of Class B Common units | — | 50,000 | **—** |
| Class B Common unit issuance costs | — | (4,410) | **—** |
| Purchase of redeemable preferred limited units | — | (60,000) | **—** |
| Purchase of limited partners' interest | (10,250) | (16,486) | **—** |
| Debt issuance costs | (3,747) | (4,613) | **(2,312)** |
| Net cash provided by financing activities | 17,891 | 116,250 | **513,648** |
| Net increase in cash and cash equivalents | 346 | 18,820 | **93,609** |
| Cash and cash equivalents, beginning of year | 736 | 1,082 | **19,902** |
| Cash and cash equivalents, end of year | $ 1,082 | $ 19,902 | **$ 113,511** |
| **Supplemental disclosures of cash flow information:** | | | |
| Cash paid during the year for interest | $ 19,103 | $ 21,834 | **$ 45,299** |

*See accompanying notes.*

## A. Organization and Basis of Presentation

On July 26, 1999, Insight Communications Company, Inc. (the "Company") completed an initial public offering ("IPO") of Class A common stock in which the Company sold approximately 26,450,000 shares of its common stock. Offering proceeds net of underwriting discounts and other offering expenses totaled approximately $607.0 million and were applied primarily toward the repayment of senior indebtedness and to finance the October 1, 1999 acquisition of Kentucky cable television systems (Note D). Prior to the IPO, the Company operated as a limited partnership. The Company was reconstituted as a corporation upon the completion of the IPO, at which time all of the limited partnership's units were exchanged for shares of common stock (Note J).

The Company owns and operates cable television systems in Kentucky, Indiana, Illinois, Ohio, California and Georgia, as described below. The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Insight Communications Company, L.P. ("Insight L.P.") and Insight Interactive LLC. Insight L.P. owns and operates cable television systems in Illinois, Indiana, California and Georgia. In addition, Insight L.P. owns a 50% interest in Insight Midwest, L.P. ("Insight Midwest"), which through its wholly-owned subsidiaries, Insight Communications of Indiana, LLC ("Insight Indiana") and Insight Communications of Kentucky, L.P. ("Insight Kentucky") owns and operates cable television systems in Indiana and Kentucky (Note D). Insight L.P. is the manager of Insight Midwest and effectively controls all operating and financial decisions. Therefore, the accompanying consolidated financial statements include the accounts of Insight Midwest.

Through its wholly-owned subsidiary, Insight Holdings of Ohio, LLC, Insight L.P. owns a 75% non-voting equity interest in Insight Communications of Ohio, LLC ("Insight Ohio"), which operates cable television systems in the Columbus, Ohio area (Note E). Insight L.P. accounts for its investment in Insight Ohio under the equity method of accounting.

The Company's other wholly-owned subsidiary, Insight Interactive LLC ("Insight Interactive") owns a 50% equity interest in SourceSuite LLC (Note F), which is also accounted for under the equity method of accounting.

## B. Significant Accounting Policies

*Basis of Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. As described above, the results of Insight Midwest, which is 50% owned but effectively controlled by Insight L.P., are included in the consolidated financial statements. The minority interest liability represents AT&T Broadband's 50% ownership interest in Insight Midwest. All significant intercompany balances and transactions have been eliminated in consolidation.

*Revenue Recognition*

Revenue includes service fees, connection fees and launch fees. Service fees are recorded in the month the cable television and pay television services are provided to subscribers. Connection fees are charged for the hook-up of new customers and are recognized as current revenues to the extent of direct selling costs incurred. Where material, any fees in excess of such costs are deferred and amortized into income over the period that subscribers are expected to remain connected to the system.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

*Cash Equivalents*

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

*Marketable Securities*

Marketable securities consist of debt and equity securities (Note F). All marketable securities are classified as available-for-sale under Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). In accordance with SFAS No. 115, available-for-sale securities are carried at fair value, with unrealized gains and losses, net of income taxes, reported as a separate component of stockholders' equity. Fair value is based on quoted market prices. The amortized cost of debt securities is adjusted for the accretion of discounts. Such accretion as well as interest are included in interest income.

*Fixed Assets*

Fixed assets include amounts capitalized for labor and overhead expended in connection with the installation of cable television systems and are stated at cost. Depreciation for cable plant, furniture, fixtures, office equipment and buildings is computed using the straight-line method over estimated useful lives ranging from 3 to 30 years. Leasehold improvements are being amortized using the straight-line method over the remaining terms of the leases or the estimated lives of the improvements, whichever period is shorter. The carrying value of fixed assets is reviewed if facts and circumstances suggest that they may be impaired. If this review indicates that the carrying value of the fixed assets will not be recovered from the undiscounted future cash flows of the Company, an impairment loss would be recognized for the amount that the asset's carrying value exceeds its fair value. Management believes that no material impairment of fixed assets existed at December 31, 1999.

*Intangible Assets*

Intangible assets consist of franchise costs and goodwill. Costs incurred in negotiating and renewing franchise agreements are capitalized and amortized over the life of the franchise. Franchise rights acquired through the purchase of cable television systems are amortized using the straight-line method over a period of up to 15 years. Goodwill is amortized using the straight-line method over a period of 40 years. The carrying value of intangible assets is reviewed if facts and circumstances suggest that they may be impaired. If this review indicates that the carrying value of the intangible assets will not be recovered from the undiscounted future cash flows of the Company, an impairment loss would be recognized for the amount that the asset's carrying value exceeds its fair value. Management believes that no material impairment of intangible assets existed at December 31, 1999.

*Deferred Financing Costs*

Deferred financing costs relate to costs, primarily legal fees and bank facility fees, incurred to negotiate and secure bank loans (Note I). These costs are being amortized on a straight-line basis over the life of the applicable loan.

*Earnings Per Share*

Earnings per share is calculated in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." As a result of the IPO, earnings per share is presented in the accompanying statements of operations as if a conversion of securities from partnership units to common shares occurred at the beginning of all periods presented. Basic earnings per share is computed using average shares outstanding during the period which includes the effect of the new shares issued in connection with the IPO. For 1999, diluted earnings per share equals basic earnings per share as the Company had generated net losses and the effect of an assumed conversion of certain partnership units and certain warrants to common shares as well as the assumed exercise of stock options would be anti-dilutive.

*Income Taxes*

Income taxes are provided for using the liability method. Under this approach, differences between the financial statements and tax bases of assets and liabilities are determined annually, and deferred income tax assets and liabilities are recorded for those differences that have future tax consequences. Valuation allowances are established, if necessary, to reduce deferred tax assets to an amount that will more likely than not be realized in future periods. Income tax expense is comprised of the current tax payable or refundable for the period plus or minus the net change in deferred tax assets and liabilities.

During the year ended December 31, 1999, and in connection with the IPO, a one time non-recurring charge of $39.5 million was recorded for deferred taxes upon the exchange of the limited partnership interests in Insight L.P. for the Company's common stock. See Note O.

*Advertising Costs*

The cost of advertising is expensed as incurred. For the years ended December 31, 1997, 1998 and 1999 advertising expense approximated $369,000, $702,000 and $1.6 million, respectively.

*Allocation of Profits and Losses*

Prior to the exchange of common stock for the outstanding partnership interests of Insight L.P., profits and losses were allocated between the partners for financial reporting purposes based on cash distribution and liquidating distribution preferences per the partnership agreement. For the years ended December 31, 1997 and 1998 and for the period from January 1, 1999 to July 26, 1999, losses were allocated 1% to the General Partner for its interest and 99% to the limited partners.

*Recent Accounting Pronouncements*

During 1999, the Company adopted Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" (SOP 98-1). SOP 98-1 requires that companies capitalize qualifying costs incurred during the application development stage of a software project. All other costs incurred in connection with an internal use software project are to be expensed as incurred. The adoption of SOP 98-1 did not have a material impact on the Company's financial statements.

In June 1998, the FASB issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). SFAS No. 133, as amended by SFAS No. 137, is effective for all fiscal years beginning after June 15, 2000. SFAS No. 133 will require the Company to recognize all derivatives on the balance sheet at fair value. Although management has not completed its assessment of the impact of this standard on its results of operations and financial position, management does not anticipate that adoption of this standard will be material.

*Reclassifications*

Certain prior year amounts have been reclassified to conform to the current year's presentation.

### C. Acquisitions and Gain on Cable System Exchanges

Effective December 16, 1997, Insight L.P. exchanged its Phoenix, Arizona system ("Phoenix") servicing 36,250 subscribers for Cox Communications, Inc.'s Lafayette, Indiana system ("Lafayette") servicing 38,100 subscribers. In addition to the Lafayette system received, Insight L.P. received $12.6 million in cash. This transaction has been accounted for by Insight L.P. as a sale of Phoenix and a purchase of Lafayette. Accordingly, Lafayette has been included in the accompanying consolidated balance sheets at fair value and Insight L.P. recognized a gain of approximately $79 million on the sale of the Phoenix system. The Lafayette purchase price was allocated to the cable television assets acquired in relation to their fair values as increases in property and equipment of $22.4 million and franchise costs of $56.6 million. Effective November 1, 1998, Insight L.P. contributed the Lafayette system into Insight Indiana (see Note D).

On January 22, 1998, Insight L.P. acquired a cable television system located in Rockford, Illinois ("Rockford") for $97 million. This acquisition has been accounted for as a purchase. Insight L.P. paid for the acquisition with borrowings under its credit facility and with the $12.6 million of cash received in the aforementioned Phoenix/Lafayette swap. The purchase price was allocated to the cable television assets acquired in relation to their fair values as increases in property and equipment of $11.5 million and franchise costs of $85.5 million. Purchase price adjustments for working capital acquired were not significant. In connection with the Rockford acquisition, no non-current assets or non-current liabilities were acquired. Franchise costs, arising from the acquisition, are being amortized over a period of 15 years. The results of operations of Rockford have been included in the accompanying statements of operations since its acquisition date.

Effective October 31, 1998, Insight L.P. exchanged its Sandy, Brigham City and Vernal, Utah systems (the "Utah Systems") servicing approximately 56,200 subscribers with TCI of Indiana Holdings, LLC ("TCI") for their Jasper and Evansville, Indiana systems servicing approximately 63,000 subscribers. This transaction has been accounted for by Insight L.P. as a sale of the Utah Systems and purchase of the Jasper and Evansville systems. Accordingly, the Evansville and Jasper systems have been included in the accompanying consolidated balance sheets at $125 million (fair value of the Utah systems) and Insight L.P. recognized a gain on the sale of the Utah systems of approximately

$112 million which amount represents the difference between the carrying value of the Utah Systems and their fair value. The Evansville and Jasper systems' purchase price was allocated to the cable television assets acquired as increases in property and equipment of $24 million and franchise costs of $101 million. Purchase price adjustments recorded for differences in working capital between the Utah systems and the Evansville and Jasper systems were not material. In connection with the Evansville and Jasper systems exchange, no non-current assets or non-current liabilities were acquired. Franchise costs arising from the acquisition of the Evansville and Jasper systems are being amortized over a period of 15 years. In a simultaneous transaction, the Jasper and Evansville systems were contributed by Insight L.P. into Insight Indiana (Note D).

On March 22, 1999 Insight L.P. exchanged its Franklin, Virginia cable system ("Franklin") servicing approximately 9,100 subscribers for Falcon Cable's Scottsburg ("Scottsburg") Indiana system servicing approximately 4,100 subscribers. In connection with the exchange, Insight L.P. received $8 million in cash. Furthermore, on February 1, 1999, Insight L.P. exchanged its Oldham Kentucky cable system ("Oldham") servicing approximately 8,500 subscribers for Intermedia Partners of Kentucky L.P.'s Henderson, Kentucky cable system ("Henderson") servicing approximately 10,600 subscribers. These transactions have been accounted for by Insight L.P. as sales of the Franklin and Oldham systems and purchases of the Scottsburg and Henderson systems. Accordingly, based upon the preliminary purchase price allocation, the Scottsburg and Henderson systems have been included in the accompanying condensed consolidated balance sheets at their fair values (approximately $31.3 million) and Insight L.P. recognized a gain on the sale of the Franklin and Oldham systems of approximately $16.0 million, which amount represents the difference between the carrying value of the Franklin and Oldham systems and their fair value. The Scottsburg and Henderson Systems purchase price was allocated to the cable television assets acquired in relation to their fair values as increases in property and equipment of $5.7 million and franchise costs of $25.6 million. Franchise costs arising from the acquisition of the Scottsburg and Henderson systems are being amortized over a period of 15 years.

On March 31, 1999 Insight L.P. acquired Americable International of Florida Inc.'s Portland, Indiana and Fort Recovery, Ohio cable systems ("Portland") servicing approximately 6,100 subscribers for $10.9 million. The preliminary purchase price was allocated to the cable television assets acquired in relation to their fair values as increases in property and equipment of $2.3 million and franchise costs of $8.6 million. Insight L.P. has accounted for the acquisition of the Portland systems as a purchase. Insight L.P. paid for the acquisition with borrowings under its credit facilities and with the $8 million of cash received in the Franklin/Scottsburg system exchange described above.

**D. Insight Midwest**

Insight Midwest was formed in September 1999 to serve as the holding company and a financing vehicle for the Company's cable television system joint venture with AT&T Broadband LLC (formerly Tele-Communications, Inc.) ("AT&T Broadband"). Insight Midwest is owned 50% by Insight L.P and 50% by AT&T Broadband, through its indirect subsidiary TCI of Indiana Holdings, LLC. ("TCI"). On October 1, 1999 the Company's Indiana and Kentucky systems and operations were contributed to Insight Midwest, as described further below. Through its operating subsidiaries Insight Indiana and Insight Kentucky, Insight Midwest owns and operates cable television systems in Indiana and Kentucky, which passed approximately 1.2 million homes and served approximately 749,000 customers as of December 31, 1999.

*Insight Indiana*

On October 31, 1998 Insight L.P. and TCI contributed certain of their cable television systems located in Indiana and Northern Kentucky (the "Indiana systems") to Insight Indiana in exchange for 50% equity interests therein. The cable television systems contributed to Insight Indiana by Insight L.P. included the Jasper and Evansville systems that were acquired by Insight L.P. from TCI on October 31, 1998 (Note C) and the Noblesville, Jeffersonville and Lafayette systems already owned by Insight L.P. (the "Insight Contributed Systems"). Effective October 31, 1998, Insight L.P. entered into a management agreement with Insight Indiana pursuant to which Insight L.P. agreed to manage the Indiana systems for an annual fee of 3% of the gross revenues of the Indiana systems. On October 1, 1999, as part of a joint venture restructuring, Insight Indiana became a wholly-owned subsidiary of Insight Midwest and amended its management agreement with Insight L.P., confirming the 3% management fee. Such management fee was approximately $685,000 and $4.4 million for the two months ended December 31, 1998 and the year ended December 31, 1999, respectively, and is eliminated in consolidation. In addition to managing the day-to-day operations of the Indiana systems, Insight L.P. is the general partner and therefore effectively controls Insight Midwest and is responsible for all of the operating and financial decisions pertaining to the Indiana systems. Pursuant to the terms of their respective operating agreements, Insight Midwest and Insight Indiana will continue for a twelve year term through October 1, 2011, unless extended by Insight L.P. and TCI.

In accordance with the foregoing, the historical carrying values of the Indiana systems contributed by TCI were increased by an amount equivalent to 50% of the difference between the fair value of the systems and their respective carrying values ($89.1 million) as of October 31, 1998. In addition, the historical values of the Insight Contributed Systems were increased by $44.3 million, an amount equivalent to 50% of the difference between the fair value of such systems and their respective carrying values as of October 31, 1998. The aggregate step-up to fair value (including the step-up recorded in connection with the acquisition of the Jasper and Evansville systems—Note C) was allocated to the cable television assets contributed by TCI in relation to their fair values as increases in property and equipment of $58.0 million and franchise costs of $181.6 million. Neither Insight L.P. nor TCI is contractually required to contribute additional capital to Insight Midwest and, because Insight Midwest is a limited partnership, neither Insight L.P. nor TCI is liable for the obligations of Insight Indiana or the Indiana systems.

*Insight Kentucky*

On October 1, 1999, Insight L.P. acquired a combined 50% interest in InterMedia Capital Partners VI, L.P. (the "IPVI Partnership") from related parties of Blackstone Cable Acquisition Company, LLC, related parties of InterMedia Capital Management VI, LLC and a subsidiary and related party of AT&T Broadband, for approximately $341.5 million, (inclusive of expenses), and Insight Midwest assumed debt of approximately $742.1 million (the total debt of the IPVI Partnership). The IPVI Partnership, through several intermediary partnerships, owned and operated cable television systems in four major markets in Kentucky: Louisville, Lexington, Bowling Green and Covington (the "Kentucky systems"). On October 1, 1999, concurrently with this acquisition, the Kentucky systems were contributed to Insight Midwest. As a result of the IPVI Partnership's historical ownership structure, the Kentucky systems are owned and operated by Insight Kentucky Partners II, L.P. ("Insight Kentucky"), a third-tier subsidiary partnership of Insight Midwest. Also on October 1, 1999, Insight L.P. entered into a management agreement with Insight Kentucky, pursuant to which Insight L.P. manages the Kentucky systems in consideration for a 3% management fee. Such management fee was approximately $1.6 million for the three months ended December 31, 1999 and is eliminated in consolidation. Similar to Insight Indiana, in addition to managing the day-to-day operations of the Kentucky systems, Insight L.P. is the general partner and effectively controls Insight Midwest, including all of the operating and financial decisions pertaining to the Kentucky systems. Insight Kentucky and each of the other Kentucky partnerships also have twelve-year terms through October 1, 2011, unless extended by Insight and TCI.

The assets of Insight Kentucky have been valued based on the purchase price and have been preliminarily allocated between fixed and intangible assets based on management's evaluation of each individual operating system including such factors as the age of the cable plant, the progress of rebuilds and franchise relations. This resulted in a step-up in the carrying values of fixed assets of approximately $160.3 million and intangible assets of approximately $272.1 million. Fixed assets are being depreciated over their estimated useful lives and intangible assets are being amortized over 15 years (Note B).

The unaudited pro forma results of operations of the Company for the years ended December 31, 1998 and 1999, assuming the contribution of the Indiana systems, the acquisition of the Kentucky systems, and each of the acquisitions and exchanges described in Note C occurred as of January 1, 1998 is as follows (in thousands, except per share data):

| | 1998 | **1999** |
|---|---|---|
| Revenue | $375,682 | **$ 401,890** |
| Loss before extraordinary item | (78,101) | **(122,457)** |
| Net loss | (81,368) | **(122,457)** |
| Basic and diluted loss per share | (4.29) | **(3.66)** |

## E. Insight Ohio

On August 21, 1998, Insight L.P. and Coaxial Communications of Central Ohio, Inc. ("Coaxial") entered into a contribution agreement (the "Coaxial Contribution Agreement") pursuant to which Coaxial contributed to Insight Ohio (a newly formed limited liability company) substantially all of the assets and liabilities of its cable television systems located in Columbus, Ohio and Insight L.P. contributed to Insight Ohio $10 million in cash. As a result of the Coaxial Contribution Agreement, Coaxial owns 25% of the non-voting common equity and Insight L.P., through its subsidiary Insight Holdings of Ohio, LLC, owns 75% of the non-voting common equity of Insight Ohio. In addition, Coaxial also received two separate series of voting preferred equity (Series A Preferred Interest—$140 million and Series B Preferred Interest—$30 million) of Insight Ohio (collectively the "Voting Preferred Interests").

The Voting Preferred Interests provide for cash distributions to Coaxial and certain of its affiliates as follows; Series A—10% and Series B—12⅞%. Insight Ohio cannot redeem the Voting Preferred Interests without the permission of Coaxial; however, Insight Ohio will be required to redeem the Series A Preferred Interest in August 2006 and the Series B Preferred Interest on August 21, 2008. Coaxial has pledged the Series A Preferred Interest and Series B Preferred Interest as security for $140 million of 10% senior notes due in 2006 issued by Coaxial and an affiliate ("Senior Notes") and $55.9 million of aggregate principal amount at maturity of 12⅞% senior discount notes due in 2008 issued by Coaxial's majority shareholder ("Senior Discount Notes"), respectively. The Senior Notes and Senior Discount Notes are conditionally guaranteed by Insight Ohio.

Insight Ohio was formed solely for the purpose of completing the aforementioned transaction. Insight L.P., as manager of Insight Ohio, earns a management fee from Insight Ohio equal to 3% of Insight Ohio's revenues. For the period from August 21, 1998 through December 31, 1998, Insight L.P. earned approximately $.5 million in management fees from Insight Ohio and for the year ended December 31, 1999, such management fees were approximately $1.4 million.

Although Insight L.P. manages and controls the day to day operations of Insight Ohio, the stockholders of Coaxial have significant participating rights. Accordingly, Insight L.P. is accounting for its investment in Insight Ohio under the equity method of accounting. Insight L.P. is amortizing the difference between its initial $10.0 million investment and its 75% interest in Insight Ohio's deficiency in assets over a period of 12½ years. Such period takes into account the amortization periods related to the fair value of Insight Ohio's tangible and intangible assets. Accordingly, the accompanying statement of operations for the years ended December 31, 1998 and 1999 include Insight L.P.'s share of Insight Ohio's operating income (loss) of approximately $.1 million and $(4.6) million, respectively and the amortization of the aforementioned deficiency in assets of approximately $3.4 million and $8.6 million, respectively. The Company has provided a commitment letter to Insight Ohio to fund any operating shortfall Insight Ohio may experience during the next year and accordingly, the Company continued to apply the equity method of accounting for its investment. The Company's investment balance at December 31, 1999 was approximately $(6.5) million.

**F. SourceSuite LLC**

Effective November 17, 1999, Insight Interactive entered into a Contribution Agreement with Source Media, Inc. ("Source Media"), providing for the creation of a joint venture, SourceSuite LLC. Under the terms of the Contribution Agreement, Source Media contributed its Virtual Modem 2.5 software, the Interactive Channel products and services, including SourceGuide and LocalSource television content. Source Media will manage the operations of the joint venture. The Company contributed $13 million in equity financing. Source Media and the Company each own 50% of the joint venture.

The Company is accounting for its investment in SourceSuite LLC under the equity method of accounting. Accordingly, the accompanying statement of operations for the year ended December 31, 1999 includes a loss of approximately $704,000 which represents the Company's 50% share of SourceSuite LLC's net loss for the year.

In connection with the Contribution Agreement, the Company and Source Media entered into a Common Stock and Warrants Purchase Agreement dated as of July 29, 1999, whereby the Company agreed to purchase 842,105 shares of Source Media common stock at $14.25 per share, representing approximately 6% of Source Media's outstanding stock, for a purchase price of $12 million in cash. The Company purchased the shares of common stock on November 17, 1999. As of December 31, 1999, the Company recorded an unrealized gain of approximately $3.6 million, which is reflected as a separate component of stockholders' equity. The unrealized gain was calculated as the difference between the cost of the stock and its fair value at December 31, 1999. Fair value was determined using the quoted market price of the stock.

Source Media also issued to the Company five-year warrants to acquire up to an additional 4,596,786 shares of its common stock at an exercise price of $20.00 per share. The Company had not exercised any of the warrants as of December 31, 1999.

In addition, in October 1999, the Company purchased $10.2 million face amount of Source Media's 12% bonds for approximately $4.1 million. The bonds have a maturity date of November 1, 2004. The bond discount of $6.1 million is being amortized to interest income over the life of the bonds. As of December 31, 1999, the Company recorded an unrealized gain of approximately $1.8 million, which is reflected as a separate component of stockholders' equity. The unrealized gain was calculated as the difference between the amortized cost of the bonds and their fair value at December 31, 1999. Fair value was determined using the quoted market price of the bonds.

## G. Fixed Assets

Fixed assets consist of:

| | December 31, | |
|---|---|---|
| | 1998 | **1999** |
| | *(in thousands)* | |
| Land, buildings and improvements | $ 4,903 | **$ 13,956** |
| Cable television equipment | 181,635 | **717,707** |
| Furniture, fixtures and office equipment | 8,941 | **16,332** |
| | 195,479 | **747,995** |
| Less accumulated depreciation and amortization | (40,067) | **(104,857)** |
| | $155,412 | **$ 643,138** |

## H. Intangible Assets

Intangible assets consist of:

| | December 31, | |
|---|---|---|
| | 1998 | **1999** |
| | *(in thousands)* | |
| Franchise rights | $493,302 | **$1,233,091** |
| Goodwill | 6,943 | **1,190** |
| | 500,245 | **1,234,281** |
| Less accumulated amortization | (37,890) | **(94,164)** |
| | $462,355 | **$1,140,117** |

## I. Debt

Debt consists of:

| | December 31, | |
|---|---|---|
| | 1998 | **1999** |
| | *(in thousands)* | |
| Revolving Credit Facility | $111,100 | **$ 1,000** |
| Insight Indiana Credit Facility | 460,000 | **470,000** |
| Insight Kentucky Credit Facility | — | **562,000** |
| Insight Midwest Senior Notes | — | **200,000** |
| Note payable to Media One | 2,563 | **—** |
| | $573,663 | **$1,233,000** |

*Revolving Credit Facility*

On January 22, 1998, the Company entered into a third amended and restated credit facility, which increased the maximum amount of borrowings under the amended and restated credit facility from $220.0 million to $340.0 million. As a result of the contribution of certain of the Company's cable television systems to Insight Indiana and the execution by Insight Indiana of its own credit facility, the Company entered into a fourth amended and restated credit agreement which expires in December 2005 and reduced the maximum amount of borrowings to $140.0 million. Borrowings under the fourth amended and restated credit facility bear interest at either the Alternative Base

Rate (ABR) or reserve-adjusted London Interbank Offered Rate (LIBOR), plus the Applicable Margin as defined. The Applicable Margin varies based upon levels of total leverage ranging from 0.0% to 0.625% under the ABR option and 1.0% to 1.875% under the LIBOR option. At December 31, 1998 and 1999, approximately $111.0 million and $1.0 million, respectively, was outstanding under this facility.

The fourth amended and restated credit facility is subject to numerous restrictive covenants, including but not limited to, restrictions on incurrence of indebtedness, mergers, acquisitions, asset sales, distributions and capital expenditures. In addition, there are a series of financial tests including those measuring the Company's coverage ratios and leverage. For the years ended December 31, 1997, 1998 and 1999 average interest rates were 8.4%, 8.2% and 8.0%, respectively. Such amended credit facility is secured by substantially all the present and future assets of the Company other than those of Insight Midwest.

In March 1993, the Company issued $108.0 million aggregate principal amount of 11¼% Notes due in full on March 1, 2000. Effective March 1, 1997, the Company repurchased such notes for $111.2 million, which resulted in an extraordinary loss of $5.2 million.

*Insight Indiana Credit Facility*

At December 31, 1999, Insight Indiana had a credit facility that provides for term loans of $300.0 million and for revolving credit loans of up to $250.0 million (the "Insight Indiana Credit Facility"). The Insight Indiana Credit Facility matures in December 2006, and contains quarterly reductions in the amount of outstanding loans and commitments commencing in March 2001. Obligations under this credit facility are secured by all of the membership interests of Insight Indiana and any amounts payable to its members. Loans under the Insight Indiana Credit Facility bear interest at an ABR or LIBOR plus an additional margin tied to certain debt ratios of Insight Indiana. The credit facility requires Insight Indiana to meet certain debt financial covenants. At December 31, 1999, $470.0 million was outstanding under the Insight Indiana Credit Facility. For the two months ended December 31, 1998 and the year ended December 31, 1999 interest rates approximated 7.60% and 7.43%, respectively.

*Insight Kentucky Credit Facility*

The Kentucky credit facility (the "Insight Kentucky Credit Facility") provides for two term loans of $100.0 million and $250.0 million and for revolving credit loans of up to $325.0 million. Loans under the Insight Kentucky Credit Facility may be used to refinance debt, finance acquisitions, capital expenditures and for working capital and general corporate purposes as permitted by the agreement. The term loans mature in September and December 2007 and the revolving credit loans mature in October 2006, with quarterly reductions in the amount of outstanding revolving credit loans and commitments commencing in June 2001. Obligations under the Insight Kentucky Credit Facility are guaranteed by Insight Kentucky and Insight Kentucky Partners II, L.P. (a subsidiary of Insight Kentucky Partners I, L.P.), and are secured by all of the partnership interests of Insight Kentucky Partners I, L.P (a subsidiary of Insight Kentucky) and its subsidiaries and any intercompany notes made in favor of Insight Kentucky Partners I, L.P. and its subsidiaries. Revolving loans under the Insight Kentucky Credit Facility bear interest, at Insight Midwest's option at an alternate base or eurodollar rate, plus an additional margin tied to Insight Kentucky's ratio of total debt to annualized cash flow. The term loans under the Insight Kentucky Credit Facility also bear interest, at Insight Midwest's option, at an alternate base or Eurodollar rate, plus an additional margin. For the three months December 31, 1999, average interest rates approximated 8.47%.

The Insight Kentucky Credit Facility contains a number of covenants that, among other things, restrict the ability of Insight Kentucky to make capital expenditures, acquire or dispose of assets, enter into mergers, incur additional indebtedness, pay dividends or other distributions, create liens on assets, make investments and engage in transactions with related parties. The Insight Kentucky Credit Facility permits the distribution to Insight Midwest of amounts equal to the interest then due and owing on the notes, assuming that the maturity of the notes has not been accelerated and, before and after giving effect to such payment, no default exists under the facility.

In addition, the Insight Kentucky Credit Facility requires compliance with certain financial ratios, requiring Insight Kentucky to enter into interest rate protection agreements covering at least 50%, subject to increase to 60% under certain circumstances, of its total indebtedness and also contains customary events of default. As of December 31, 1999, there was approximately $562.0 million outstanding under the $675.0 million Insight Kentucky Credit Facility.

*Insight Midwest Senior Notes*

On October 1, 1999 contemporaneously with the closing of Insight Kentucky, Insight Midwest completed a $200 million high yield offering of 9¾% senior notes due 2009 (the "Insight Midwest Senior Notes"). The proceeds of the offering were used to repay certain debt of the IPVI Partnership. Interest on the Insight Midwest Senior Notes accrues at the rate of 9¾% per annum and is payable semi-annually on April 1 and October 1, commencing on April 1, 2000.

The Insight Midwest Senior Notes are redeemable on or after October 1, 2004. In addition, up to 35% of the Insight Midwest Senior Notes may be redeemed prior to October 1, 2002 with the net proceeds from certain sales of Insight Midwest's equity. Each holder of the Insight Midwest Senior Notes may require Insight Midwest to redeem all or part of that holder's notes upon a change of control. The Insight Midwest Senior Notes are general unsecured obligations, and are subordinate to all liabilities of Insight Midwest's subsidiaries, the amount of which was approximately $1.1 billion as of December 31, 1999.

The Insight Midwest Senior Notes contain certain covenants that limit, among other things, the ability of Insight Midwest and its subsidiaries to incur additional debt; pay dividends on Insight Midwest's capital stock or repurchase Insight Midwest's capital stock; make investments; use assets as security in other transactions and sell certain assets or merge with or into other companies.

*Note payable*

On November 24, 1997, the Company purchased the 34% limited partnership interest held by Media One for $10.3 million. The Company paid $2.6 million in cash and issued a two-year senior subordinated note payable for $7.7 million. The note bore interest at a rate of 9% payable annually. The December 31, 1998 balance of $2.6 million was paid in November 1999.

At December 31, 1999 required annual principal payments under the aforementioned credit facilities are as follows (in thousands):

| | |
|---|---|
| 2000 | $ 1,000 |
| 2001 | 98,000 |
| 2002 | 107,750 |
| 2003 | 129,250 |
| 2004 | 152,500 |
| Thereafter | 744,500 |
| | $1,233,000 |

As required by its credit facilities, the Company enters into interest-rate swap agreements to modify the interest characteristics of its outstanding debt from a floating rate to a fixed rate basis. These agreements involve the payment of fixed rate amounts in exchange for floating rate interest receipts over the life of the agreement without an exchange of the underlying principal amount. The differential to be paid or received is accrued as interest rates change and is recognized as an adjustment to interest expense related to the debt. The related amount payable to or receivable from counterparties is included in other liabilities or assets. At December 31, 1999 the Company had entered into various interest rate swap and collar agreements effectively fixing interest rates between 4.5% and 7.0%, plus the applicable margin on $766.0 million notional value of debt. These agreements expire between December 2001 and July 2003. The fair values of the swap agreements are not recognized in the financial statements and approximated $7.2 million at December 31, 1999.

## J. Capital Stock

The authorized capitalization of the Company consists of 300,000,000 shares of Class A common stock, par value $.01 per share, 100,000,000 shares of Class B common stock, par value $.01 per share and 100,000,000 shares of preferred stock, par value $.01 per share. The rights of the holders of Class A and Class B common stock are substantially identical in all respects, except for voting rights. Holders of Class A common stock are entitled to one vote per share and holders of Class B common stock are entitled to ten votes per share. Prior to the Company's IPO, the Company operated as a limited partnership and had outstanding limited partnership units. In addition, as of

December 31, 1998, the Company had outstanding redeemable Class B units (Note K). In connection with the IPO, the limited partnership units and redeemable Class B units were exchanged for shares of the Company's Class A and Class B common stock as summarized below.

| | LP Units | Redeemable Class B Units | Common Stock Class A | Common Stock Class B |
|---|---|---|---|---|
| Balance at December 31, 1998 | 41,974,421 | 47,215,859 | — | — |
| Recapitalization and issuance of common stock to employees | (41,974,421) | — | 11,683,044 | 10,226,050 |
| Issuance of common stock in exchange for redeemable Class B units | — | (47,215,859) | 11,024,136 | — |
| Issuance of common stock in IPO | — | — | 26,450,000 | — |
| Balance at December 31, 1999 | — | — | 49,157,180 | 10,226,050 |

**K. Redeemable Class B Common Units, Warrants and Redeemable Preferred Limited Units**

On January 29, 1998, Insight L.P. issued 47,215,859 non-interest bearing Class B Common Units ("Class B Units") to Vestar Capital Partners III ("Vestar") in exchange for $50 million in cash, resulting in Vestar holding a 45% ownership interest on a fully diluted basis in the partnership. In connection with the issuance of the Class B Units, Insight L.P. paid placement fees and expenses of $1.7 million to Vestar and $2.7 million to an investment banking institution which amounts have been netted against the aforementioned proceeds. The Class B Unit agreement includes a put/call arrangement whereby the Class A partners or the Class B partners may call or put, respectively, the Class B units during a 60 day period commencing in July 2004 at their fair market value. Distributions between the Class A Units and Class B Units follow ownership percentage interests until the Class B Units earn a 25% annual internal rate of return at which time distributions are amended to approximately 30% to the Class B Unit holders and 70% to the Class A Unit holders. In addition, management can earn up to 6% of the Class B holdings upon achieving certain performance measures. During 1999, in connection with the Company's IPO, the Class B Units were exchanged for shares of Class A common stock (Note J).

In connection with a prior debt issuance, Insight L.P. issued detachable warrants, which were valued at $5.6 million at the date of issuance. Each warrant entitled the holder thereof to purchase 4.22 Common Units in the partnership at an exercise price of $1.61 per warrant. For accounting purposes, the value of the warrants was determined by management assuming that a sale had occurred as of each year-end and without regard to the illiquid nature of the warrants. During 1998, Insight L.P. acquired 512,200 warrants for approximately $.8 million. During 1998, 599,310 warrants were converted into 2,529,088 partnership units and 383,303 units expired. During 1999, in connection with the Company's IPO, the partnership units were exchanged for shares of common stock.

In 1993, Insight L.P. issued redeemable preferred limited units to a group of investors for a gross purchase price of $27 million. During January 1998, all of the remaining units were redeemed for $60 million pursuant to a negotiated agreement. Prior to such redemption, the units had a liquidation preference equal to the capital contribution plus a cumulative return on such capital at an annual rate of 12½%. In addition, the units shared in the increase in the equity value of the partnership.

**L. @Home Warrants**

Under a distribution agreement with At Home Corporation, a high-speed internet access service provider, ("@Home"), the Company provides high-speed Internet access to subscribers over its network in certain of its cable television systems. In connection with the acquisition of the Kentucky systems, Insight Kentucky obtained agreements whereby @Home issued warrants to Insight Kentucky to purchase shares of @Home Series A Common Stock ("@Home Stock") at an exercise price of $5.25 per share as adjusted for a two-for-one stock split which occurred on June 17, 1999. Under the provisions of the agreements, Insight Kentucky estimates that it may purchase up to 459,200 shares of @Home Stock. The warrants become vested and exercisable, subject to certain forfeiture and other conditions, based on operational targets which include offering the @Home service by Insight Kentucky in its service areas and obtaining specified numbers of @Home subscribers over the remaining six-year term of the @Home distribution agreement. The Company has not recognized any income related to the warrants for the year ended December 31, 1999.

### M. Comprehensive Income

SFAS No. 130, "Reporting Comprehensive Income" ("SFAS No. 130"), sets forth rules for the reporting and display of comprehensive income (net income plus all other changes in net assets from non-owner sources) and its components in the financial statements. At December 31, 1999, components of other comprehensive income consisted of the net unrealized gain on marketable securities of approximately $3.2 million, net of income tax of approximately $2.2 million. Prior to 1999, there were no items of other comprehensive income.

### N. Earnings Per Share

Earnings per share is calculated in accordance with the FASB Statement No. 128 "Earnings Per Share." The following table sets forth the computation of basic and diluted earnings (loss) per share. The exchange of limited partnership units for common stock are included at an exchange ratio of .399 shares per partnership unit and .238 shares for each redeemable Class B unit from their issuance date on January 29, 1998. The general partners' interest is reflected as outstanding in all periods. The warrants are included when dilutive. The accretion to redemption value of preferred limited units is treated as a reduction of earnings available to Common holders. Basic earnings per share is computed using average shares outstanding during the period. Diluted earnings per share is basic earnings per share adjusted for the dilutive effects of the warrants.

| | Year ended December 31, | | |
|---|---|---|---|
| | 1997 | 1998 | **1999** |
| Numerator: | | | |
| Net income (loss) from before extraordinary item | $ 79,125 | $141,873 | **$(84,208)** |
| Accretion of redeemable Class B units | — | (5,729) | **(7,118)** |
| Accretion of redeemable preferred limited units | (15,275) | — | — |
| Numerator for basic earnings (loss) per share | 63,850 | 136,144 | **(91,326)** |
| Effect of dilutive securities | — | 5,729 | **—** |
| Numerator for diluted earnings (loss) per share | 63,850 | 141,873 | **(91,326)** |
| Denominator for basic income (loss) per share: | | | |
| Weighted average Class A units and general partner's interest | 31,635 | 20,287 | **35,417** |
| Effect of dilutive securities | | | |
| Redeemable Class B units | — | 10,285 | **—** |
| Warrants | 2,519 | 621 | **—** |
| Potential dilutive securities | 2,519 | 10,906 | **—** |
| Denominator for dilutive income (loss) per share | 34,154 | 31,193 | **35,417** |
| Basic income (loss) per share before extraordinary item | $ 2.02 | $ 6.71 | **$ (2.58)** |
| Diluted income (loss) per share before extraordinary item | $ 1.87 | $ 4.55 | **$ (2.58)** |
| Basic income (loss) per share | $ 1.86 | $ 6.55 | **$ (2.58)** |
| Diluted income (loss) per share | $ 1.78 | $ 4.61 | **$ (2.58)** |

### O. Income Taxes

The Company was originally organized as a Delaware limited partnership which elected to be treated as a "flow-through" entity for federal income tax purposes. Since the Company was not subject to federal and state income taxes for the period through July 26, 1999, no income tax provision was recorded. Instead, each of the individual partners included the taxable income or loss of the Company in their respective income tax returns.

Effective July 26, 1999, the Company converted to a corporation and is now subject to federal, state and local income taxes. In connection with the IPO, the Company recorded a one time non-recurring charge of approximately $39.5 million for deferred taxes upon the exchange of the limited partnership interests in Insight L.P. for the Company's stock. Such charge relates to the deferred tax liability associated with the difference between the financial statements and tax basis of the assets and liabilities of the Company. For the period ended December 31, 1999, the Company recorded a net deferred tax benefit of approximately $8.2 million relating to losses from operations subsequent to the conversion. In addition, the Company recorded a current tax provision for approximately $300,000 for state and local taxes.

Deferred income taxes represent the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities consist of the following at December 31, 1999 (in thousands):

| | |
|---|---|
| Deferred tax assets: | |
| Net operating loss carryforward | $ 2,871 |
| Accounts receivable | 145 |
| Investment in unconsolidated affiliates | 12,899 |
| Accrued expenses and other liabilities | 127 |
| Gross deferred tax asset | $ 16,042 |
| Deferred tax liabilities: | |
| Unrealized gain on marketable securities | 2,201 |
| Depreciation & amortization | 47,370 |
| Gross deferred tax liability | 49,571 |
| Net deferred tax liability | $(33,529) |

The reconciliation of income tax expense computed at the U.S. federal statutory rate to income tax expense for the years ended December 31, 1997, 1998 and 1999 are as follows:

| | December 31, | | |
|---|---|---|---|
| | 1997 | 1998 | **1999** |
| Expense (benefit) at a federal statutory rate (34%) | $ 25,100 | $ 47,100 | **$(17,756)** |
| State and local taxes, net | — | — | **(1,141)** |
| Expenses not deductible for U.S. tax purposes | 7 | 11 | **196** |
| Adjustment to record charge upon conversion from a partnership to a corporation | — | — | **39,526** |
| Losses (income) for which no expense/benefit has been provided | (25,107) | (47,111) | **10,761** |
| | $ — | $ — | **$ 31,586** |

At December 31, 1999, the Company had a net operating loss carryforward of approximately $7.0 million for U.S. federal income tax purposes. The Company's net operating loss began accumulating effective July 26, 1999, the date of the IPO. The net operating loss will expire in the year 2019.

## P. Stock Option Plan and Other Stock Based Compensation

*Stock Option Plan*

The Company adopted a stock option plan (the "Plan") on June 24, 1999, which provides for the grant of incentive stock options ("ISOs"), nonqualified stock options and stock appreciation rights ("SARs"). The Company has reserved 5,000,000 shares of common stock for grant under the Plan. ISOs may be granted only to officers and key employees of the Company and nonqualified stock options and SARs may be granted to the Company's officers, employees, directors, agents and consultants. The Plan provides for the granting of ISOs at an exercise price that is not less than the fair market value of the stock on the date of grant and the granting of nonqualified options and SARs with any exercise price.

Stock options vest over five years and expire ten years from the date granted. The following summarizes stock option activity for 1999:

| | Options Outstanding | Weighted Average Exercise Price |
|---|---|---|
| Outstanding as of January 1, 1999 | — | — |
| Options granted | 2,892,500 | $24.56 |
| Options exercised | — | — |
| Options canceled/forfeited | (15,000) | $24.50 |
| Outstanding as of December 31, 1999 | 2,877,500 | $24.56 |

The weighted average fair value of options granted in 1999 was $13.39 per share. The range of exercise prices for options outstanding at December 31, 1999 was $22.38 to $30.13 with a weighted average contractual life of 9.7 years. None of the options were exercisable as of December 31, 1999.

Pursuant to Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123), the Company has elected to account for employee stock-based compensation under APB Opinion No. 25, "Accounting for Stock Issued to Employees," using an intrinsic value approach to measure compensation expense. Accordingly, no compensation expense has been recognized for options granted under the Plan since all options were granted to employees at exercise prices equal to fair market value on the date of grant. Had compensation cost for the Plan been determined based on the fair value at the grant date consistent with SFAS No. 123, the Company's net loss and net loss per share for the year ended December 31, 1999 would have been approximately $86.2 million and $2.63, respectively. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following assumptions were applied in determining the fair value: weighted average risk-free interest rate—6.5%; expected dividend yield—0%; expected option life—7 years and expected stock price volatility—42%.

*Other Stock Based Compensation*

In connection with the IPO, the Company issued a total of 1,412,181 shares of common stock to its employees. The Company recorded non-cash compensation expense of approximately $19.3 million in connection with the issuance of these shares. In October 1999, the Company granted loans to these employees, the proceeds of which were used to satisfy the individual income tax withholding obligation with respect to the receipt of these shares. In the aggregate, these loans total approximately $13.9 million. The loans are non-recourse and are represented by notes which are secured by Company common stock pledges equal to the number of shares each individual received as compensation, bear interest at the rate of 6% per annum and are payable upon the fifth anniversary of the note, or 180 days following the termination of employment, provided that the proceeds of any sales of the pledged shares must be applied towards early repayment of these loans.

**Q. Financial Instruments**

*Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash investments and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. These financial institutions are located throughout the country and the Company's policy is designed to limit exposure to any one institution. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers comprising the Company's customer base.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

*Cash and cash equivalents:* The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

*Debt:* The carrying amounts of the Company's borrowings under its credit arrangements approximate fair value as they bear interest at floating rates. The carrying amounts of the Insight Midwest's senior notes approximate fair value as it bears interest at a fixed rate.

*Interest rate swap agreements:* The fair value of swap agreements are not recognized in the financial statements and approximated $7.2 million at December 31, 1999, based on market trading value.

**R. Related Party Transactions**

Through November 1999, the Company had an agreement with Media One which enabled the Company to obtain certain services (principally pay and basic cable programming services) and equipment at rates lower than those which would be available from independent parties. In each of the years ended December 31, 1997, 1998 and 1999, programming and other operating costs include approximately $200,000 of expenses for programming services paid directly to Media One.

In addition, in connection with the Contribution Agreement (Note D), the Company purchases substantially all of its pay television and other programming for the Indiana and Kentucky systems from affiliates of TCI. Charges for such programming were $1.4 million for the two months ended December 31, 1998 and $29.6 million for the year ended December 31, 1999. Management believes that the programming rates charged by TCI affiliates are lower than those which would be available for independent parties.

**S. 401(k) Plan**

The Company sponsors a savings and investment 401(k) Plan (the "Plan") for the benefit of its employees. All employees who have completed six months of employment and have attained age 21 are eligible to participate in the Plan. The Company makes matching contributions equal to 25% of the employee's contribution that is not in excess of 5% of the employee's wages. During 1997, 1998 and 1999 the Company matched contributions of approximately $51,000, $188,000 and $562,000, respectively.

**T. Commitments and Contingencies**

The Company leases and subleases equipment and office space under operating lease arrangements expiring through December 31, 2015. Future minimum rental payments required under operating leases are as follows (in thousands):

| | |
|---|---|
| 2000 | $3,227 |
| 2001 | 2,269 |
| 2002 | 1,956 |
| 2003 | 1,841 |
| 2004 | 1,726 |
| Thereafter | 9,463 |

Rental expense for the years ended December 31, 1997, 1998 and 1999 approximated $.7 million, $1.0 million and $2.1 million, respectively.

Certain of the Company's individual systems have been named in purported class actions in various jurisdictions concerning late fee charges and practices. Certain of the Company's cable television systems charge late fees to subscribers who do not pay their cable bills on time. Plaintiffs generally allege that the late fees charged by such cable television systems are not reasonably related to the costs incurred by the cable television systems as a result of the late payment. Plaintiffs seek to require cable television systems to provide compensation for alleged excessive late fee charges for past periods. These cases are at various stages of the litigation process. Based upon the facts available, management believes that, although no assurances can be given as to the outcome of these actions, the ultimate disposition of these matters should not have a material adverse effect upon the financial condition or results of operations of the Company.

The Company is subject to other various legal proceedings that arise in the ordinary course of business. While it is impossible to determine with certainty the ultimate outcome of these matters, it is management's opinion that the resolution of these matters will not have a material adverse affect on the consolidated financial condition of the Company.

**U. Subsequent Events**

*Managed Indiana Systems*

On March 27, 2000, the Company entered into a two-year agreement with InterMedia Partners Southeast, an affiliate of AT&T Broadband, to provide consulting services to cable television systems acquired by AT&T Broadband, by which systems as of December 31, 1999 served approximately 114,000 customers in the State of Indiana. The Company will earn an annual fee of 3% of gross revenues for providing such consulting services. For the year ended December 31, 1999, these Indiana systems had revenues of approximately $55.0 million. Nearly all of these systems are contiguous to the Company's other Indiana systems.

*Transactions with Source Media and Liberate Technologies*

On March 3, 2000, pursuant to a merger with a subsidiary of Liberate Technologies ("Liberate"), SourceSuite LLC (Note F) sold all of its VirtualModem assets in exchange for the issuance to each of Insight Interactive and Source Media of 886,000 shares of Liberate common stock. Liberate's common stock had a closing sale price per share of $82.00 as of March 24, 2000. Insight Interactive and Source Media have agreed not to sell 80% of their Liberate shares prior to July 31, 2000. SourceSuite LLC continues to own and operate its programming assets, LocalSource and SourceGuide, and has entered into preferred content and programming services agreements with Liberate. As a result of this transaction, the Company expects to record a gain ranging from approximately $60.0 million to approximately $72.0 million which will be recorded during the first quarter of 2000.

*Agreement in Principle with AT&T*

On March 15, 2000, the Company reached an agreement in principle with AT&T Corp. for the delivery of telephone service utilizing the Company's cable television systems under the "AT&T" brand name. The terms of the agreement in principle provide that the Company will market, service and bill for local telephone service. AT&T would be required to install and maintain the necessary switching equipment, and would be the local exchange carrier of record. AT&T would pay the Company a fee for the use of the local telephone lines, and will also compensate the Company for installation and maintenance services at customers' residences. In addition, AT&T would pay the Company commissions for sales the Company makes to its customers. The Company expects to sell the AT&T-branded local telephone service separately and as part of bundled offerings, which would also include the sale of AT&T long-distance telephone services. The agreement in principle is subject to the negotiation and execution of definitive agreements.

*Greenwood Letter of Intent*

On March 21, 2000, Insight Midwest entered into a letter of intent with Cable One, Inc., a subsidiary of The Washington Post Company, for the acquisition of a cable television system serving approximately 16,000 customers in Greenwood, Indiana as of December 31, 1999. Due to its geographic proximity, the Company intends to integrate the Greenwood system with its Central District in Indiana. The acquisition by Insight Midwest of the Greenwood system would occur upon completion of a proposed trade of systems between Cable One and AT&T Broadband. The transaction is subject to the negotiation and execution of definitive agreements.

*Expansion of Insight Midwest*

On March 23, 2000, the Company entered into a letter of intent with AT&T Broadband to contribute to Insight Midwest additional cable television systems serving approximately 537,000 customers, nearly doubling the customer base of Insight Midwest. Through a series of transactions, the Company will contribute to Insight Midwest its interests in systems serving approximately 187,000 customers and AT&T Broadband will contribute systems serving approximately 350,000 customers. Initially, the Company would exchange its Claremont, California system for a system in Freeport, Illinois, subject to completion by AT&T Broadband of its proposed acquisition of MediaOne. The Freeport system would be integrated into the Company's Rockford, Illinois system, creating a cluster of approximately 75,000 customers in the northern part of the state. The Company would also purchase from AT&T Broadband systems serving approximately 100,000 customers in North Central Illinois. Concurrently with this purchase, the Company would contribute to Insight Midwest all of its systems not already owned by Insight Midwest, including the newly purchased Illinois systems, the expanded Rockford, Illinois cluster, the Company's interest in its Columbus, Ohio system and its Griffin, Georgia system, as well as systems in Indiana not already owned by Insight Midwest. At the same time, AT&T Broadband would contribute to Insight Midwest systems located in Central and North Central Illinois serving approximately 250,000 customers. As a result, Insight Midwest would increase its customer base of approximately 748,800 as of December 31, 1999 to approximately 1.3 million, and the Company would increase its total number of customers served by approximately 350,000. AT&T Broadband would receive an amount of cash from the Company. Upon completion of the transactions, Insight Midwest would remain equally owned by the Company and AT&T Broadband, and the Company would continue to serve as the general partner and manage and operate the Insight Midwest systems. The transactions are subject to the negotiation and execution of definitive agreements.

## Report of Independent Auditors

The Stockholders and Board of Directors
Insight Communications Company, Inc.

We have audited the accompanying consolidated balance sheets of Insight Communications Company, Inc. as of December 31, 1998 and 1999, and the related consolidated statements of operations, changes in partners' deficiency/stockholders' equity and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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 Insight Communications Company, Inc. at December 31, 1998 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

New York, New York
March 29, 2000

## Quarterly Financial Data (Unaudited)

| 1999 | Three months ended March 31 | June 30 | September 30 | December 31 | Year ended December 31 |
|---|---|---|---|---|---|
| Revenue | $45,377 | $ 46,406 | $ 46,581 | $104,329 | $242,693 |
| Operating loss | (3,805) | (3,065) | (24,949) | (3,235) | (35,054) |
| Income (loss) before extraordinary item | 7,238 | (14,912) | (67,669) | (8,865) | (84,208) |
| Net income (loss) | 7,238 | (14,912) | (67,669) | (8,865) | (84,208) |
| Basic income (loss) per share before extraordinary item | $ 0.24 | $ (1.07) | $ (1.43) | $ (0.15) | $ (2.58) |
| Diluted income (loss) per share before extraordinary item | $ 0.26 | $ (1.07) | $ (1.43) | $ (0.15) | $ (2.58) |
| Basic income (loss) per share | $ 0.24 | $ (1.07) | $ (1.43) | $ (0.15) | $ (2.58) |
| Diluted income (loss) per share | $ 0.26 | $ (1.07) | $ (1.43) | $ (0.15) | $ (2.58) |

| 1998 | Three months ended March 31 | June 30 | September 30 | December 31 | Year ended December 31 |
|---|---|---|---|---|---|
| Revenue | $23,161 | $ 25,162 | $ 25,480 | $ 39,099 | $112,902 |
| Operating income (loss) | 5,863 | 10,370 | 6,348 | (8,375) | 14,206 |
| Income (loss) before extraordinary item | 73 | 4,071 | (299) | 138,028 | 141,873 |
| Net income (loss) | 73 | 4,071 | (299) | 134,761 | 138,606 |
| Basic income (loss) per share before extraordinary item | $ — | $ 0.11 | $ (0.11) | $ 8.05 | $ 6.71 |
| Diluted income (loss) per share before extraordinary item | $ — | $ 0.07 | $ (0.11) | $ 4.94 | $ 4.55 |
| Basic income (loss) per share | $ — | $ 0.11 | $ (0.11) | $ 7.85 | $ 6.55 |
| Diluted income (loss) per share | $ — | $ 0.07 | $ (0.11) | $ 4.82 | $ 4.61 |

## Market for Common Stock and Related Stockholder Matters

The Company's Class A common stock trades on The Nasdaq Stock Market® ("Nasdaq") under the symbol ICCI. The following table sets forth the range of the high and low sales prices of the Class A common stock for the periods indicated as reported by Nasdaq:

| Quarter Ended | High | Low |
|---|---|---|
| September 30, 1999* | $33.875 | $25.250 |
| December 31, 1999 | $31.250 | $19.625 |

**Period began on July 21, 1999, the date the Company's Class A common stock commenced trading.*

At February 29, 2000, there were approximately 159 and 25 stockholders of record of the Company's Class A and Class B common stock. The number of Class A stockholders does not include beneficial owners holding shares through nominee names.

### Dividend Policy

The Company has never paid any cash dividends and intends, for the foreseeable future, to retain any future earnings for the development of its business. The Company's credit facility restricts its ability to pay dividends. The Company's future dividend policy will be determined by the Board of Directors on the basis of various factors, including results of operations, financial condition, capital requirements and investment opportunities.

## BOARD OF DIRECTORS

Sidney R. Knafel
*Chairman*

Michael S. Willner
*President and Chief Executive Officer*

Kim D. Kelly
*Executive Vice President, Chief Operating & Financial Officer*

Thomas L. Kempner
*Chairman*
*Loeb Partners Corporation*

James S. Marcus
*Retired Partner*
*Goldman Sachs Group, L.P.*

Prakash A. Melwani
*Managing Director*
*Vestar Capital Partners*

Daniel S. O'Connell
*Chief Executive Officer*
*Vestar Capital Partners*

## SENIOR MANAGEMENT

Sidney R. Knafel
*Chairman*

Michael S. Willner
*President and Chief Executive Officer*

Kim D. Kelly
*Executive Vice President, Chief Operating & Financial Officer*

Elliot Brecher
*Senior Vice President & General Counsel*

E. Scott Cooley
*Senior Vice President, Operations, Indiana Region*

Charles Dietz
*Senior Vice President, Engineering*

Pamela Euler Halling
*Senior Vice President, Marketing & Programming*

Charles King
*Senior Vice President, Operations, Western Kentucky Region*

Daniel Mannino
*Senior Vice President & Controller*

Judy Poole
*Senior Vice President, Human Resources*

Colleen Quinn
*Senior Vice President, Corporate Relations*

Steven Sklar
*Senior Vice President, Finance & Business Development*

James A. Stewart, Jr.
*Senior Vice President, Operations, Eastern Kentucky & National Regions*

## COMPANY INFORMATION

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## TRANSFER AGENT

The Bank of New York
One Wall Street
New York, NY 10286

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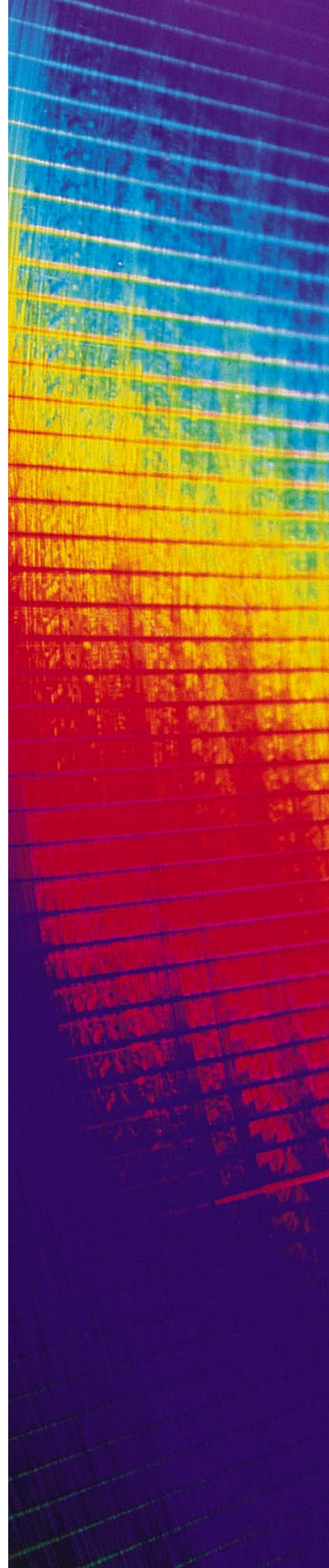

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