Welcome to the Digital Home of the Future.

2000 Annual Report

Insight Communications

DEAR FELLOW SHAREHOLDERS:

MICHAEL S. WILLNER
KIM D. KELLY
SIDNEY R. KNAFEL

2000 WAS A YEAR OF REMARKABLE ACCOMPLISHMENT AS WE SUCCESSFULLY TRANSITIONED OUR COMPANY FROM ONE THAT OFFERS ONLY TRADITIONAL CABLE SERVICES TO ONE THAT FULLY EXPLOITS OUR BROADBAND PLATFORM. INDEED, WE LEAD THE INDUSTRY IN PROVIDING NEW AND EXCITING SERVICES, INCLUDING INTERACTIVE DIGITAL TELEVISION, VIDEO-ON-DEMAND, HIGH-SPEED DATA, AND RESIDENTIAL VOICE TELEPHONY—ALL THROUGH A SINGLE BROADBAND PIPE.

2000

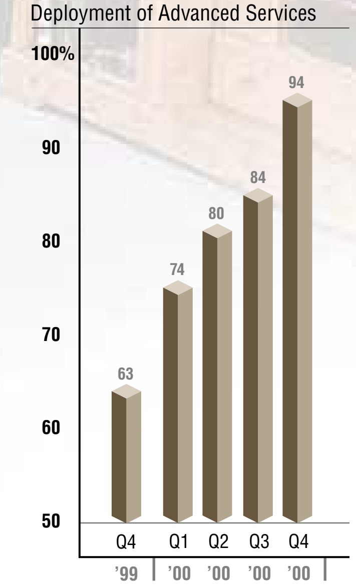
In making this transition, we accomplished the following key operational milestones:

- Far outpacing the rest of our industry, we completed the rebuild of nearly all of our 21,000 miles of plant, so that by year-end, approximately 94% of our customers were passed by an upgraded network. We also consolidated our headends considerably, thus achieving the technological clustering that enables the efficient deployment of advanced services. When our rebuilds are complete, our average headend will serve in excess of 100,000 customers.
- On the heels of our rebuilds, we aggressively expanded the number of homes able to receive our pioneering service, Insight Digital. At year-end, over 750,000 customers had access to the advanced digital service, with monthly net additions topping 9,000 during the fourth quarter—a six-fold increase over the fourth quarter of 1999, and continuing to grow impressively.
- We successfully negotiated our joint operating agreement with AT&T Broadband to deliver local phone service, and by December had launched the service in the initial sections of Louisville, Kentucky ahead of schedule. Not only did this create the opportunity to participate in a $109 billion local telephone market, but now also provides our customers with a choice in local phone service for the first time.
- Our continued emphasis on superior customer service is reflected in a recent Peter Hart survey, which reported that 73% of our customers rate their cable service either a 4 or 5 on a scale of 1 to 5. We are extremely proud of these results, leading the industry with a score of 25 percentage points over the national average.

In 2000, we also concluded a number of transactions that enhanced our financial positioning. Most importantly, we expanded our footprint, adding 350,000 customers in Illinois cities such as Springfield, Peoria, and Champaign-Urbana, to name a few. Our ongoing strategy of geographic clustering has resulted in 99% of our operations now being concentrated in the four contiguous states of Illinois, Indiana, Ohio, and Kentucky. Secondly, this transaction resulted in the expansion of our AT&T Broadband partnership, Insight Midwest, as we folded 100% of our systems into the joint venture, allowing us to realize immediate cost efficiencies. We also purchased the remaining common equity interest in our Columbus, Ohio system, enabling us to streamline our operations and simplify our financial reporting structure.

Although the entire industry continues to face competition, we are confident that exploiting the advanced capabilities of our broadband platform will not only result in increased current customer satisfaction, but also a migration of customers from our competitors. This confidence is derived from customer feedback, increased revenues, and a substantial growth in new services.

Rebuild Acceleration Allows for Further Deployment of Advanced Services



Percentage of Total Customers Passed by Upgraded Network

As we look ahead to the remainder of 2001 and beyond, we are enthusiastic about the integration of our new Illinois properties, the ongoing deployment of our advanced interactive services, and our favorable financial positioning contributing to our continued success. All facets of our business—including the regulatory, technological, financial, and operational—are extremely favorable and in line with our expectations. In an industry that is no longer just about traditional cable TV, we are beginning to realize our vision of bringing the digital home of the future to our customers today.

Sincerely,

Sidney R. Knafel
Chairman

Michael S. Willner
President and CEO

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

The Digital Home of the Future

INSIGHT Digital
Everything you imagined and more.

INSIGHT @Home

We believe that the bundled approach to our business is a truly revolutionary one, and evidence is quickly growing that our customers feel the same way. In delivering video, high-speed data, and telephony from a single operator, we bring important savings to state-of-the-art services, with the convenience of one call and one bill. Indeed, we are providing the bundle and its benefits, which is the future of our business, here and now.

Insight Digital

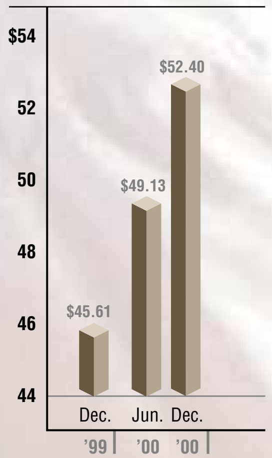
Although video is our core business and an essential component of our offerings, it is not the cable TV of days past. Our signature product, Insight Digital, has pioneered the interactive television arena, transforming the 50 year-old experience of watching television. In addition to digital entertainment, Insight Digital provides a rich interactive program guide, an Internet-style local information and news service, and video-on-demand with full VCR functionality. With these services, we are enhancing our customers' viewing experience by making entertainment more alive, information more accessible, and communications choices more expansive.

Our three original Insight Digital markets (Rockford, Illinois; Columbus, Ohio; and Evansville, Indiana) have been providing interactive digital offerings for over a year and, with a wide diversity of demographics, have shown similarly successful results:

- Over 20 to 30% penetration and growing
- On average, $22 of incremental revenue per digital customer
- High customer satisfaction
- Very low churn at 1.5%, which, quite different from other premium products, demonstrates the value-added dimension of the service

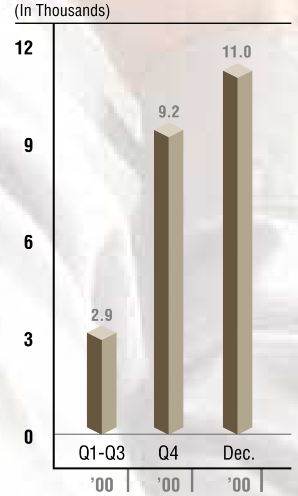
With these consistent experiences in hand, we rolled out Insight Digital in most of our systems and, as a result, had more than 100,000 interactive digital customers at year-end. We are extremely well poised for 2001 as we continue to drive productivity of this innovative service.

New Services Drive Revenue Per Customer



Average Revenue Per Customer Per Quarter (In Dollars)–Columbus, OH

Rapid Insight Digital Customer Growth
(In Thousands)



Average Monthly Insight Digital Additions

High-speed data

Through our relationships with Excite@Home and Road Runner, we continue to service the needs of our customers in an increasingly Internet-driven world. We have nearly completed the upgrade of our cable infrastructure and are now prepared to offer high-speed access even more aggressively in 2001. As penetration reaches 10% in some markets, we are planning to scale up our marketing efforts and realize the good growth potential for this service throughout this year.

Telephony

We are very pleased to have reached an important milestone by launching voice telephony over our broadband network in Louisville, Kentucky. Not only does this signify the fulfillment of the 1996 Telecommunications Act by fostering competition in the local phone arena, but it also marks our entry into a $109 billion business. Our operating agreement with AT&T Broadband allows us to obtain revenue in a cost-efficient manner, as both of us leverage our infrastructures and areas of expertise. For Insight, the indispensable strength lies in our solidly proven local operations, and AT&T Broadband brings a national presence in its branding, switching technologies, and regulatory strengths. The synergies of this arrangement create the enhanced potential of higher returns for us, as well as tremendous value for our customers. In addition to offering savings of up to 30% off of the incumbent telephone carriers' pricing, we also are providing the value-added component of bundling discounts and a single bill for video, data, and telephony. We believe that this utilization of our broadband infrastructure will be a winning combination for Insight, AT&T Broadband and, most importantly, our customers. We plan to deploy telephony and the full bundle of telecommunications services throughout our footprint over the next two to three years.

AT&T | DIGITAL PHONE

"I AM WRITING TO YOU TODAY TO EXPRESS MY APPRECIATION TO YOUR COMPANY IN ITS WISE STAFFING DECISIONS…IT IS NOT OFTEN THAT ONE FINDS THIS LEVEL OF CUSTOMER SUPPORT…I HAVE RECOMMENDED YOUR SERVICE TO MANY PEOPLE IN THE PAST… IN THE FUTURE, I WILL NOT ONLY RECOMMEND YOUR BROADBAND SERVICE, BUT I WILL ALSO TELL THEM OF MY EXPERIENCE WITH YOUR STAFF."

—BLOOMINGTON, INDIANA CUSTOMER

CUSTOMERS FIRST

Excellence in customer service is a cornerstone of our company's philosophy. As Insight continues to expand and pioneer new services, our employees are charged with delivering on this promise, and are dedicated to ensuring that every aspect of our customers' experience with us is positive. From hearing a smile over the telephone to ensuring quality in broadband connections, Insight employees consistently perform at high levels in assisting our customers.

Their success is evident in our customers' increased satisfaction. In fact, a recent Peter Hart study showed that Insight far surpassed industry averages and, yet again, climbed higher than the previous year's results for the company. We are extremely proud of our employees' accomplishments and the fact that their success ranks at the top of our industry in a continually evolving business.

"I JUST WANTED TO LET INSIGHT KNOW HOW PLEASED I WAS WITH ITS CUSTOMER SERVICE. I'VE LIVED IN LEXINGTON FOR 11 YEARS AND I CAN SEE A BIG DIFFERENCE IN OVERALL SERVICE SINCE INSIGHT HAS BECOME THE CABLE PROVIDER. THE TELEPHONE ASSISTANCE I RECEIVED IN ORDERING DIGITAL SERVICES WAS COURTEOUS AND PATIENT THROUGH MY MANY QUESTIONS. THE CABLE INSTALLER WAS PROMPT, EFFICIENT, HELPFUL, AND COURTEOUS. THANKS AGAIN."

—LEXINGTON, KENTUCKY CUSTOMER

SELECTED FINANCIAL AND OTHER DATA

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

In the following table, we provide you with our selected consolidated historical financial and other data. We have prepared the consolidated selected financial information using our consolidated financial statements for the five years ended December 31, 2000. When you read this selected consolidated historical financial and other data, it is important that you read along with it the historical financial statements and related notes in our consolidated financial statements included herein, as well as "Management's Discussion and Analysis of Financial Condition and Results of Operations," also included herein.

	YEAR ENDED DECEMBER 31,				
	2000	1999	1998	1997	1996
STATEMENT OF OPERATIONS DATA:					
Revenues	**$ 476,186**	$ 242,693	$ 112,902	$ 67,698	$ 61,839
Operating costs and expenses:					
Programming and other operating costs	**167,163**	71,956	30,376	18,397	16,774
Selling, general and administrative expenses	**94,922**	55,198	24,471	15,020	14,062
Non-cash compensation and related charges	**—**	19,285	—	—	—
Depreciation and amortization	**236,242**	131,308	43,849	18,125	15,694
Total operating costs and expenses	**498,327**	277,747	98,696	51,542	46,530
Operating income (loss)	**(22,141)**	(35,054)	14,206	16,156	15,309
Other income (expense):					
Gain (loss) on cable systems exchange	**(956)**	15,799	111,746	78,931	—
Gain on contribution of cable systems to joint venture	**—**	—	44,312	—	—
Interest expense, net	**(109,753)**	(50,398)	(28,106)	(15,962)	(17,644)
Other	**(294)**	(345)	(444)	—	—
Total other income (expense)	**(111,003)**	(34,944)	127,508	62,969	(17,644)
Income (loss) before minority interest and equity in losses of investees	**(133,144)**	(69,998)	141,714	79,125	(2,335)
Minority interest	**67,773**	31,339	3,410	—	—
Equity in losses of investees	**(3,830)**	(13,963)	(3,251)	—	—
Gain on sale of equity investments	**80,943**	—	—	—	—
Impairment of investments	**(88,554)**	—	—	—	—
Income (loss) before income taxes and extraordinary item	**(76,812)**	(52,622)	141,873	79,125	(2,335)
Provision (benefit) for income taxes	**(33,825)**	31,586	—	—	—
Income (loss) before extraordinary item	**(42,987)**	(84,208)	141,873	79,125	(2,335)
Extraordinary loss from early extinguishment of debt	**—**	—	(3,267)	(5,243)	(480)
Net income (loss)	**(42,987)**	(84,208)	138,606	73,882	(2,815)
Accrual of preferred interests	**(18,725)**	—	—	—	—
Accretion of redeemable Class B common units	**—**	(7,118)	(5,729)	—	—
Accretion to redemption value of preferred limited units	**—**	—	—	(15,275)	(5,421)
Net income (loss) applicable to common shareholders	**$ (61,712)**	$ (91,326)	$ 132,877	$ 58,607	$ (8,236)
Basic income (loss) per share before extraordinary item	**$ (1.03)**	$ (2.58)	$ 6.71	$ 2.02	$ (0.24)
Diluted income (loss) per share before extraordinary item	**$ (1.03)**	$ (2.58)	$ 4.55	$ 1.87	$ (0.24)
Basic income (loss) per share	**$ (1.03)**	$ (2.58)	$ 6.55	$ 1.86	$ (0.26)
Diluted income (loss) per share	**$ (1.03)**	$ (2.58)	$ 4.61	$ 1.78	$ (0.26)
OTHER FINANCIAL DATA:					
EBITDA(1)	**$ 269,183**	$ 129,084	$ 213,828	$ 113,212	$ 31,003
Adjusted EBITDA(2)	**214,101**	115,539	58,055	34,281	31,003
Adjusted EBITDA margin(3)	**45.0%**	47.6%	51.4%	50.6%	50.1%
Capital expenditures	**262,241**	135,929	44,794	27,981	16,414
Net cash provided by operating activities	**91,632**	96,448	44,760	10,436	15,976
Net cash used in investing activities	**(279,810)**	(516,487)	(142,190)	(27,981)	(16,589)
Net cash provided by financing activities	**108,400**	513,648	116,250	17,891	870
BALANCE SHEET DATA:					
Cash and cash equivalents	**$ 33,733**	$ 113,511	$ 19,902	$ 1,082	$ 738
Property, plant and equipment, net	**820,888**	643,138	155,412	63,842	36,079
Total assets	**2,244,586**	1,989,470	660,916	158,103	68,574
Total debt	**1,372,523**	1,233,000	573,663	207,488	178,327
Partners' (deficit) stockholders' equity	**540,680**	588,060	(7,928)	(127,982)	(177,837)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA) (CONTINUED)

	As of December 31, 2000, Except Where Noted					
			Pro Forma			
	Indiana Systems	Kentucky Systems	Illinois Systems[4]	Ohio System	Managed Systems[5]	Total Systems
Technical Data:						
Network miles	7,752	8,998	7,876	2,686	3,368	30,680
Number of headends	28	11	39	1	18	97
Number of headends expected upon completion of upgrades during 2001[6][7]	6	5	8	1	0	20
Number of headends serving 95% of our customers expected upon completion of upgrades during 2001[6][7]	3	4	5	1	0	13
Operating Data:						
Homes passed[8]	515,800	748,000	685,100	184,400	176,900	2,310,200
Basic customers[9]	320,000	442,000	431,100	85,400	121,200	1,399,700
Basic penetration[10]	62.0%	59.1%	62.9%	46.3%	68.5%	60.6%
Digital ready homes[11]	246,800	404,700	364,700	47,800	0	1,064,000
Digital customers[12]	27,900	47,000	63,800	13,400	0	152,100
Digital penetration[13]	11.3%	11.6%	17.5%	28.0%	0	14.3%
Premium units[14]	208,000	290,700	345,200	84,700	43,300	971,900
Premium penetration[15]	65.0%	65.8%	80.1%	99.2%	35.7%	69.4%
Cable modem customers[16]	7,800	15,700	23,400	4,900	0	51,800

(1) Represents earnings (loss) before interest, taxes, depreciation and amortization. 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 our financial statements, including the statements of cash flows, which appear elsewhere in this report.

(2) Represents EBITDA prior to non-cash items and other non-recurring income and expense items. The following table sets forth a reconciliation of EBITDA to Adjusted EBITDA:

	Year Ended December 31,				
	2000	1999	1998	1997	1996
EBITDA	**$269,183**	$129,084	$ 213,828	$113,212	$31,003
Equity in losses of investees	**3,830**	13,963	3,251	—	—
Gain on sale of equity investments	**(80,943)**	—	—	—	—
Minority interest	**(67,773)**	(31,339)	(3,410)	—	—
Other (income) expense	**294**	345	444	—	—
Gain on contribution of cable systems to joint venture	**—**	—	(44,312)	—	—
(Gain) loss on cable system exchanges	**956**	(15,799)	(111,746)	(78,931)	—
Non-cash compensation and related charges	**—**	(19,285)	—	—	—
Impairment of investments	**88,554**	—	—	—	—
Adjusted EBITDA	**$214,101**	$115,539	$ 58,055	$ 34,281	$31,003

(3) Represents Adjusted EBITDA as a percentage of total revenues.

(4) Includes our Griffin, Georgia system.

(5) Projections for capital expenditures related to managed system rebuilds are subject to approval by AT&T Broadband.

(6) Headends in managed systems will be consolidated into the Indiana and Kentucky networks.

(7) The upgrades of the newly acquired Illinois systems are scheduled to be completed by the end of 2002.

(8) Homes passed are the number of single residence homes, apartments and condominium units passed by the cable distribution network in a cable system's service area.

(9) Basic customers are customers of a cable television system who receive a package of over-the-air broadcast stations, local access channels and certain satellite-delivered cable television services, other than premium services, and who are usually charged a flat monthly rate for a number of channels.

(10) Basic penetration means basic customers as a percentage of total number of homes passed.

(11) Digital ready homes means the total number of homes passed to which digital service is available.

(12) Customers with a digital converter box.

(13) Digital penetration means digital service units as a percentage of digital ready homes.

(14) Premium units mean the number of subscriptions to premium services, which are paid for on an individual unit basis.

(15) Premium penetration means premium service units as a percentage of the total number of basic customers. A customer may purchase more than one premium service, each of which is counted as a separate premium service unit. This ratio may be greater than 100% if the average customer subscribes to more than one premium service unit.

(16) Customers receiving high-speed Internet service.

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

Introduction

Because of the corporate transactions completed over the past three years, including the contribution agreements with affiliates of AT&T Broadband with respect to the Indiana, Kentucky and Illinois 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 Communications Midwest (formerly Insight Communications of Indiana, LLC) and contributed certain of our Indiana systems, the Noblesville, Lafayette and Jeffersonville systems, as well as the Evansville system to Insight Communications Midwest. At the same time, AT&T Broadband contributed most of its Indiana systems to Insight Communications Midwest.

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 was 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 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. (now known as Insight Communications of Kentucky) 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.

On October 1, 1999, we completed an agreement with affiliates of AT&T Broadband, pursuant to which we and affiliates of AT&T Broadband each contributed our respective 50% interests in Insight Kentucky and in Insight Communications Midwest in exchange for a 50% interest in Insight Midwest.

On July 17, 2000, we entered into a ten-year agreement with AT&T Broadband that will allow AT&T Broadband to provide telephony services under the AT&T Digital brand using our network infrastructure and AT&T Broadband's switching and transport facilities.

On August 8, 2000, we completed the purchase of the remaining 25% common equity interest in Insight Ohio, which we previously did not own. At the same time, the Insight Ohio operating agreement was amended to provide us with 70% of its total voting power. As such, the results of Insight Ohio have been consolidated in our results for the year ended December 31, 2000. Prior to 2000, we accounted for our 75% non-voting common equity interest in Insight Ohio under the equity method.

On January 5, 2001, we completed a series of transactions with certain AT&T Cable Subsidiaries (the "Transactions"). As a result of the Transactions, additional cable television systems serving approximately 530,000 customers were contributed to Insight Midwest. Specifically, Insight Midwest acquired all of Insight LP's systems not already owned by Insight Midwest as well as systems which Insight LP purchased from the AT&T Cable Subsidiaries (comprising in total approximately 280,000 customers). The AT&T Cable Subsidiaries contributed to Insight Midwest systems located in Illinois serving approximately 250,000 customers. Both Insight LP and the AT&T Cable Subsidiaries contributed their respective systems to Insight Midwest subject to an amount of indebtedness so that Insight Midwest remains equally owned by Insight LP and AT&T Broadband. Insight LP continues to serve as the general partner of Insight Midwest and manages and operates the Insight Midwest systems.

Results of Operations

Substantially all of our historical revenues of each of our systems 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 earned revenues from commissions for products sold through home shopping networks.

We have generated increases in revenues and Adjusted EBITDA for each of the past three fiscal years, primarily through a combination of acquisitions, internal customer growth, increases in monthly revenue per customer and growth in advertising and increasingly new revenue from selling new services including high-speed data access and interactive digital video.

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.

	YEAR ENDED DECEMBER 31,		
(in thousands)	**2000**	1999	1998
Revenues	**$ 476,186**	$ 242,693	$ 112,902
Costs and expenses:			
Programming and other operating costs	**167,163**	71,956	30,376
Selling, general and administrative	**94,922**	55,198	24,471
Non-cash compensation and related charges	**—**	19,285	—
Depreciation and amortization	**236,242**	131,308	43,849
Operating income (loss)	**(22,141)**	(35,054)	14,206
EBITDA	**269,183**	129,084	213,828
Adjusted EBITDA	**214,101**	115,539	58,055
Interest expense, net	**(109,753)**	(50,398)	(28,106)
Net income (loss)	**(42,987)**	(84,208)	138,606
Net cash provided by operating activities	**91,632**	96,448	44,760
Net cash used in investing activities	**(279,810)**	(516,487)	(142,190)
Net cash provided by financing activities	**108,400**	513,648	116,250

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Revenues increased 96.2% to $476.2 million for the year ended December 31, 2000 compared to $242.7 million for the year ended December 31, 1999 due primarily to the Kentucky acquisition and the consolidation of Insight Ohio. The incremental revenue generated by the Kentucky systems approximated $173.4 million, or 74.3% of the consolidated revenue increase and Insight Ohio accounted for $49.7 million, or 21.3% of the consolidated revenue increase.

Revenues per customer per month averaged $42.92 for the year ended December 31, 2000 compared to $38.44 for the year ended December 31, 1999 primarily reflecting an increase in average monthly basic revenue per customer of $2.45. Average monthly basic revenue per customer averaged $29.72 during the year ended December 31, 2000 compared to $27.28 during the comparable period of 1999 reflecting rate increases associated with the completion of rebuilds. In addition, monthly revenue for new services including high-speed data and interactive digital video caused revenue per customer to increase 82% to $2.36.

Programming and other operating costs increased 132.3% to $167.2 million for the year ended December 31, 2000 compared to $72.0 million for the year ended December 31, 1999. The incremental expense generated by the Kentucky systems approximated $62.3 million accounting for 65.4% of the consolidated expense increase and the consolidation of Insight Ohio accounted for approximately $19.0 million or 20.0% of the consolidated expense increase. Excluding these systems, these costs increased by approximately $13.9 million accounting for approximately 14.6% of the total increase, primarily as a result of increased programming rates and additional programming carried by the systems.

Selling, general and administrative expenses increased 72.0% to $94.9 million for the year ended December 31, 2000 compared to $55.2 million for the year ended December 31, 1999. The incremental expense generated by the Kentucky systems approximated $25.5 million accounting for 64.1% of the consolidated expense increase and the consolidation of Insight Ohio accounted for approximately $10.6 million or 26.6% of the consolidated expense increase. Excluding these systems, these costs increased by approximately $3.6 million accounting for approximately 9.3% of the total increase, primarily reflecting increased marketing activity and corporate expenses associated with new product introductions.

Depreciation and amortization expense increased 79.9% to $236.2 million for the year ended December 31, 2000 compared to $131.3 million for the year ended December 31, 1999. This increase was primarily due to the acquisitions and addition of the cable systems discussed above and additional capital expenditures associated with the rebuilds of our systems, partially offset by a decrease in depreciation expense attributable to a change in estimate as of January 1, 2000 which resulted in new assets being depreciated over longer lives.

For the year ended December 31, 2000, an operating loss of $22.1 million was incurred as compared to an operating loss of $35.1 million for the year ended December 31, 1999, primarily for the reasons set forth above. The operating loss for 1999 includes a one-time non-cash compensation expense of $19.3 million which was recorded in the third quarter of 1999.

EBITDA increased 108.5% to $269.2 million for the year ended December 31, 2000 as compared to $129.1 million for the year ended December 31, 1999 for the following reasons:

- The first full year of results generated by the Kentucky acquisition and the consolidation of Insight Ohio in 2000;
- A gain of $80.9 million on the sale of joint venture assets to Liberate Technologies, as compared to a gain on systems exchanges of $15.8 million for the year ended December 31, 2000 and December 31, 1999, respectively;
- Minority interest income increased to $67.8 million for the year 2000 compared to $31.3 million for the year 1999 primarily due to the Kentucky acquisition;
- Offsetting these gains was an impairment of investments totaling $88.6 million which decreased EBITDA for the year ended December 31, 2000.

Interest expense, net increased 117.8% to $109.8 million for the year ended December 31, 2000 compared to $50.4 million for the year ended December 31, 1999. The increase was primarily due to higher average outstanding indebtedness related to the Kentucky acquisition and the consolidation of Insight Ohio. Average debt outstanding during the year ended December 31, 2000 was $1.3 billion at an average interest rate of 8.8%.

A benefit for income taxes totaling $33.8 million was recorded for the year ended December 31, 2000. For the year ended December 31, 1999, the tax provision was $31.6 million, which consisted primarily of a one-time, non-recurring charge recorded for deferred taxes upon the exchange of the limited partnership interests in Insight LP for our common stock at the time of our initial public offering.

For the year ended December 31, 2000, the net loss was $43.0 million for the reasons set forth above.

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 $58.1 million and accounted for 44.8% 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 approximately 13.0% 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 we 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 1, 1998 accounted for approximately 37.3% of the increase. Excluding the aforementioned transactions, programming costs increased by approximately 23.1% to $37.4 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 32.7% of the increase and the additional systems contributed by AT&T Broadband on October 31, 1998 accounted for approximately 38.0% of the increase. Excluding these transactions, these SG&A costs increased by approximately 36.9% to $33.5 million, primarily reflecting increased marketing activity associated with new product introductions and increased corporate expenses.

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. The operating loss for 1999 includes a one-time non-cash compensation expense of $19.3 million which was recorded in the third quarter of 1999.

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 Communications Midwest 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 $57.5 million attributable to acquisitions and the results discussed above. See the "Consolidated Statement of Cash Flows" 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 a 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 LP for our common stock. In addition, we 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 Communications Midwest during 1998.

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 its broadband networks. Expenditures have primarily been used to upgrade our existing cable network, and in the future will be used for network extensions, new services, converters and network upgrades. Historically, we have been able to meet our cash requirements with cash flow from operations, borrowings under our credit facilities, and private and public debt and equity.

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 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 and the year ended December 31, 2000, we spent $135.9 million and $262.2 million, respectively, for capital expenditures largely to support our network upgrades, digital converter purchases and to a lesser extent network extensions. For the year ended December 31, 1999 and the year ended December 31, 2000, cash from operations totaled $96.4 million and $91.6 million, respectively, which together with borrowings under our credit facilities, funded the above noted capital expenditures.

For the year ending December 31, 2001, it is anticipated that we will spend approximately $300 million on capital expenditures, including capital expenditures required for success-based deployment of new services and telephony and the upgrade of the Illinois cable television systems, which will involve the wide deployment of fiber optics and other capital projects associated with implementing our clustering strategy.

We have concluded a number of financing transactions, which fully support our operating plan. These transactions are detailed as follows:

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. On November 6, 2000, Insight Midwest completed an offering of $500.0 million principal amount of its 10½% Senior Notes due 2010. The net proceeds of the offering of $486.0 million were used to repay a portion of the Indiana and Kentucky credit facilities. Interest on the Insight Midwest 9¾% Senior Notes is payable on April 1 and October 1 of each year and interest on the Insight Midwest 10½% Senior Notes is payable on May 1 and November 1 of each year. The indentures relating to these Senior Notes impose certain limitations on the ability of Insight Midwest to, among other things, incur debt, make distributions, make investments and sell assets.

On January 5, 2001, we consummated the Transactions with the AT&T Cable Subsidiaries. As a result of the Transactions, additional cable television systems serving approximately 530,000 customers were contributed to Insight Midwest. In conjunction with the Transactions, a subsidiary of Insight Midwest, Insight Midwest Holdings, LLC, which subsidiary serves as a holding company for all of Insight Midwest's systems other than the Columbus, Ohio system, consummated on January 5, 2001 a $1.75 billion credit facility from which it borrowed $663 million to repay the Indiana and Kentucky credit facilities and $685 million to finance the Transactions, providing for unused availability of approximately $402 million to support the aforementioned capital expenditures.

The Midwest Holdings credit facility permits the distribution of cash from Midwest Holdings' subsidiaries to enable Insight Midwest to pay interest on its 9¾% Senior Notes and 10½% Senior Notes, so long as there exists no default under the credit facility. The Midwest Holdings credit facility contains covenants restricting, among other things, the ability of Midwest Holdings and its subsidiaries to acquire or dispose of assets, make investments and engage in transactions with related parties. The facility also requires compliance with certain financial ratios and contains customary events of default.

On February 6, 2001, we completed an offering of $400.0 million principal amount at maturity of 12¼% senior discount notes due 2011. These notes were issued at a discount to their principal amount at maturity resulting in gross proceeds to us of approximately $220.1 million. We utilized approximately $20.2 million of the proceeds to repay the outstanding amount of our inter-company loan from Insight Midwest, which we incurred in connection with the financing of the Transactions. We intend to use the remaining proceeds for general corporate purposes, including joint ventures and/or strategic acquisitions. No cash interest on the discount notes will accrue prior to February 15, 2006. Thereafter, cash interest on the discount notes will accrue and be payable on February 15 and August 15 of each year, commencing August 15, 2006. The initial accreted value of the discount notes of approximately $220.1 million will increase until February 15, 2006 such that the accreted value will equal the principal amount of $400.0 million on February 15, 2006.

Insight Midwest acquired all of the common equity interests of Insight Ohio as part of the Transactions. Insight Ohio is an unrestricted subsidiary under the indentures governing our and Insight Midwest's notes, and is prohibited by the terms of its indebtedness from making distributions to Insight Midwest. Insight Ohio has a $25.0 million reducing revolving credit facility, maturing in September 2004, which supports the Ohio system. As of December 31, 2000, $25.0 million was outstanding under this credit facility.

Insight Holdings of Ohio LLC, a wholly-owned subsidiary of Insight Midwest, owns 100% of the common equity of Insight Ohio and Coaxial Communications of Central Ohio, Inc. owns 100% of the preferred equity of Insight Ohio. Such common and preferred equity was issued in August 1998 as part of a financing plan which resulted in (i) Coaxial Communications contributing the Ohio system to Insight Ohio, (ii) Coaxial Communications and Phoenix Associates, an affiliate of Coaxial Communications, issuing $140.0 million principal amount of 10% Senior Notes due 2006, (iii) Coaxial LLC and Coaxial Financing Corp., an affiliate of Coaxial LLC, issuing $55.9 million principal amount at maturity of 12⅞% senior discount notes due 2008 and (iv) the Coaxial 10% Senior Notes and the Coaxial 12⅞% senior discount notes being conditionally guaranteed by Insight Ohio.

Interest on the Coaxial 10% Senior Notes is payable on February 15 and August 15 of each year. The indenture governing the Coaxial 10% Senior Notes imposes certain limitations on the ability of Coaxial Communications, Phoenix and Insight Ohio to, among other things, incur debt, make distributions, make investments and sell assets. Interest on the Coaxial 12⅞% senior discount notes does not accrue and is not payable prior to August 15, 2003. Thereafter, cash interest on the Coaxial 12⅞% senior discount notes will be payable on February 15 and August 15 of each year, commencing on February 15, 2004. The indenture governing the Coaxial 12⅞% senior discount notes imposes certain limitations on the ability of Coaxial LLC, Coaxial Financing, Coaxial Communications and Insight Ohio to, among other things, incur debt, make distributions, make investments and sell assets.

We have a substantial amount of debt. Our high level of combined debt could have important consequences for you. Our investments in our operating subsidiaries, including Insight Midwest, constitute substantially all of our operating assets. Consequently, our subsidiaries conduct all of our consolidated operations and own substantially all of our operating assets. Our principal source of the cash we need to pay our obligations and to repay the principal amount of our obligations is the cash that our subsidiaries generate from their operations and their borrowings. Our subsidiaries are not obligated to make funds available to us and are restricted by the terms of their indebtedness from doing so. Our ability to access the cash flow of our subsidiaries may be contingent upon our ability to refinance the debt of our subsidiaries. We believe that the Midwest Holdings credit facility and our cash flow from operations are sufficient to support our current operating plan.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

Our revolving credit and term loan agreements bear interest at floating rates. Accordingly, we are exposed to potential losses related to changes in interest rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes; however, in order to manage our exposure to interest rate risk, we enter into derivative financial instruments, typically interest rate swaps and collars. The counterparties to our swap and collar agreements are major financial institutions. As of December 31, 2000, our interest rate swap and collar agreements expire in varying amounts through 2002.

The fair market value of our long-term debt approximates its carrying value as it bears interest at floating rates of interest and current fair market value of the Senior Notes approximates par value. As of December 31, 2000, the estimated fair value of our interest rate swap and collar agreements was approximately $(1.9) million, which amount represents the amount required to enter into offsetting contracts with similar remaining maturities based on quoted market prices.

As of December 31, 2000, we had entered into interest rate swaps that approximated $701.0 million, or 107.0%, of our borrowings under all of our credit facilities. Accordingly, a hypothetical 100 basis point increase in interest rates along the entire interest rate yield curve would decrease our annual interest expense by approximately $460,000. These statistics are not necessarily indicative of our current interest rate exposure, as these facilities were replaced by the Midwest Holdings credit facility on January 5, 2001 in connection with the Transactions which resulted in an increase in our outstanding borrowings.

(DOLLARS IN THOUSANDS)

	December 31, 2000	December 31, 1999
ASSETS		
Cash and cash equivalents	**$ 33,733**	$ 113,511
Investments	**27,846**	21,650
Trade accounts receivable, net of allowance for doubtful accounts of $1,326 and $764 as of December 31, 2000 and 1999	**18,169**	12,104
Launch funds receivable	**16,123**	4,434
Prepaid expenses and other assets	**12,178**	13,094
Total current assets	**108,049**	164,793
Fixed assets, net	**820,888**	643,138
Intangible assets, net	**1,270,632**	1,140,374
Deferred financing costs, net of accumulated amortization of $3,537 and $1,262 as of December 31, 2000 and 1999	**28,165**	20,111
Investment in unconsolidated affiliates	**2,172**	5,991
Officer and employee loans receivable	**14,680**	13,900
Launch funds receivable	**—**	1,163
Total assets	**$2,244,586**	$1,989,470
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	**$ 46,158**	$ 46,714
Accrued expenses and other liabilities	**12,191**	9,431
Accrued property taxes	**11,698**	12,620
Accrued programming costs	**23,527**	21,282
Deferred revenue	**4,069**	1,748
Interest payable	**20,705**	19,415
Preferred interest distribution payable	**5,250**	—
Total current liabilities	**123,598**	111,210
Deferred revenue	**14,605**	5,539
Deferred income taxes	**60,824**	33,529
Preferred interests	**180,281**	—
Debt	**1,372,523**	1,233,000
Minority interest	**(47,925)**	18,132
Stockholders' equity:		
Preferred stock; $.01 par value; 100,000,000 shares authorized; no shares issued and outstanding as of December 31, 2000 and 1999	**—**	—
Common stock; $.01 par value:		
Class A—300,000,000 shares authorized; 49,957,180 and 49,157,180 shares issued and outstanding as of December 31, 2000 and 1999	**500**	492
Class B—100,000,000 shares authorized, 10,226,050 shares issued and outstanding as of December 31, 2000 and 1999	**102**	102
Additional paid in capital	**655,253**	656,486
Accumulated deficit	**(115,175)**	(72,188)
Accumulated other comprehensive income	**—**	3,168
Total stockholders' equity	**540,680**	588,060
Total liabilities and stockholders' equity	**$2,244,586**	$1,989,470

See accompanying notes.

Consolidated Statements of Operations

(in thousands, except per share amounts)

	Year Ended December 31,		
	2000	1999	1998
Revenue	**$ 476,186**	$242,693	$112,902
Operating costs and expenses:			
Programming and other operating costs	**167,163**	71,956	30,376
Selling, general and administrative	**94,922**	55,198	24,471
Non-cash compensation and related charges	**—**	19,285	—
Depreciation and amortization	**236,242**	131,308	43,849
Total operating costs and expenses	**498,327**	277,747	98,696
Operating income (loss)	**(22,141)**	(35,054)	14,206
Other income (expense):			
Gain (loss) on cable systems exchange	**(956)**	15,799	111,746
Gain on contribution of cable systems to joint venture	**—**	—	44,312
Interest expense	**(115,524)**	(57,053)	(31,817)
Interest income	**5,771**	6,655	3,711
Other	**(294)**	(345)	(444)
Total other income (expense)	**(111,003)**	(34,944)	127,508
Income (loss) before minority interest and equity in losses of investees	**(133,144)**	(69,998)	141,714
Minority interest	**67,773**	31,339	3,410
Equity in losses of investees	**(3,830)**	(13,963)	(3,251)
Gain on sale of equity investment	**80,943**	—	—
Impairment of investments	**(88,554)**	—	—
Income (loss) before income taxes and extraordinary item	**(76,812)**	(52,622)	141,873
Provision (benefit) for income taxes	**(33,825)**	31,586	—
Income (loss) before extraordinary item	**(42,987)**	(84,208)	141,873
Extraordinary loss from early extinguishment of debt	**—**	—	(3,267)
Net income (loss)	**(42,987)**	(84,208)	138,606
Accrual of preferred interests	**(18,725)**	—	—
Accretion of redeemable Class B common units	**—**	(7,118)	(5,729)
Net income (loss) applicable to common stockholders	**$ (61,712)**	$ (91,326)	$132,877
Basic income (loss) per share before extraordinary item	**$ (1.03)**	$ (2.58)	$ 6.71
Diluted income (loss) per share before extraordinary item	**$ (1.03)**	$ (2.58)	$ 4.55
Basic income (loss) per share	**$ (1.03)**	$ (2.58)	$ 6.55
Diluted income (loss) per share	**$ (1.03)**	$ (2.58)	$ 4.61

See accompanying notes.

(IN THOUSANDS)

	GENERAL PARTNER	LIMITED PARTNERS	COMMON STOCK	ADDITIONAL PAID IN CAPITAL	ACCUMULATED DEFICIT	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
Balance at January 1, 1998	$(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 investments						$ 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	$(27,285)			—
Issuance of common stock in exchange for redeemable units			110	58,327			58,437
Compensation associated with issuance of common stock to employees				18,715			18,715
Issuance of common stock in initial public offering			265	606,729			606,994
Balance at December 31, 1999	—	—	594	656,486	(72,188)	3,168	588,060
Net loss					(42,987)		(42,987)
Impairment of investments						(3,168)	(3,168)
Total comprehensive loss							(46,155)
Issuance of common stock in acquisition of equity interest			8	17,492			17,500
Accrual of preferred interest				(18,725)			(18,725)
Balance at December 31, 2000	**$ —**	**$ —**	**$602**	**$655,253**	**$(115,175)**	**$ —**	**$ 540,680**

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,		
	2000	1999	1998
OPERATING ACTIVITIES:			
Net income (loss)	**$ (42,987)**	$ (84,208)	$ 138,606
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	**236,242**	131,308	43,849
Non-cash compensation	**—**	18,715	—
Equity in losses of investees	**3,830**	13,963	3,251
Gain on cable systems exchange	**—**	(15,799)	(111,746)
Gain on contribution of cable systems to joint venture	**—**	—	(44,312)
Gain on sale of equity investment	**(80,943)**	—	—
Impairment of investments	**88,554**	—	—
Extraordinary loss from early extinguishment of debt	**—**	—	3,267
Minority interest	**(67,774)**	(31,339)	(3,410)
Provision for losses on trade accounts receivable	**8,655**	3,038	1,288
Amortization of bond discount	**(722)**	—	—
Deferred income taxes	**(33,825)**	31,328	—
Other non-cash items	**—**	(149)	—
Changes in operating assets and liabilities, net of the effect of acquisitions:			
Trade accounts receivable	**(14,012)**	7,225	(7,545)
Launch fund receivable	**(9,052)**	(5,597)	—
Prepaid expenses and other assets	**2,111**	(19,187)	1,707
Accounts payable	**(7,409)**	11,922	17,774
Accrued expenses and other liabilities	**8,964**	35,228	2,031
Net cash provided by operating activities	**91,632**	96,448	44,760
INVESTING ACTIVITIES:			
Purchase of fixed assets	**(262,241)**	(135,929)	(44,794)
Purchase of intangible assets	**(3,978)**	(9,209)	(3,295)
Purchase of cable television systems, net of cash acquired	**(1,718)**	(342,012)	(84,101)
Investment in equity investees	**—**	(13,205)	(10,000)
Purchase of investments	**(11,873)**	(16,132)	—
Net cash used in investing activities	**(279,810)**	(516,487)	(142,190)
FINANCING ACTIVITIES:			
Net proceeds from initial public offering	**—**	606,994	—
Net proceeds from issuance of Senior Notes	**492,500**	200,000	—
Proceeds from borrowings under credit facilities	**124,400**	22,000	753,900
Repayment of amounts due to Tele-Communications, Inc.	**—**	—	(214,532)
Repayment of credit facilities	**(488,500)**	(307,634)	(387,725)
Distributions of preferred interests	**(14,000)**	—	—
Purchase of warrants	**—**	—	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	**—**	—	(16,486)
Debt issuance costs	**(6,000)**	(7,712)	(4,613)
Net cash provided by financing activities	**108,400**	513,648	116,250
Net increase in cash and cash equivalents	**(79,778)**	93,609	18,820
Cash and cash equivalents, beginning of year	**113,511**	19,902	1,082
Cash and cash equivalents, end of year	**$ 33,733**	$ 113,511	$ 19,902
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for interest	**$ 117,100**	$ 45,299	$ 21,834
Cash paid for income taxes	**657**	104	10
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING ACTIVITIES:			
Common stock issued in connection with acquisition	**$ 17,500**	$ —	$ —

See accompanying notes.

A. Organization and Basis of Presentation

On July 26, 1999, we completed our initial public offering ("IPO") of Class A common stock in which we sold approximately 26.5 million shares of our common stock. Offering proceeds net of underwriting discounts and other offering expenses totaled $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, we operated as a limited partnership. We were reconstituted as a corporation upon the completion of our IPO, at which time all of the limited partnership's units were exchanged for shares of common stock (Note K).

We own and operate cable television systems in Kentucky, Indiana, Illinois, Ohio, California and Georgia, as described below. The accompanying consolidated financial statements include our accounts and those of our wholly-owned subsidiaries, Insight Communications Company, L.P. ("Insight LP") and Insight Interactive LLC ("Insight Interactive").

Insight LP owns and operates cable television systems in Illinois, Indiana, California and Georgia. Through its wholly-owned subsidiary, Insight Holdings of Ohio, LLC, Insight LP owns Insight Communications of Central Ohio, LLC ("Insight Ohio"), which operates cable television systems in the Columbus, Ohio area (Note E). In addition, Insight LP owns a 50% interest in Insight Midwest, L.P. ("Insight Midwest"), which through its wholly-owned subsidiaries, Insight Communications Midwest, 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 LP is the general partner and manager of Insight Midwest and effectively controls all operating and financial decisions. Therefore, the accompanying consolidated financial statements include the accounts of Insight Midwest.

Our other wholly-owned subsidiary, Insight Interactive owns a 50% equity interest in SourceSuite LLC (Note G), which is accounted for under the equity method of accounting.

B. Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. As described above, the results of Insight Midwest, which is 50% owned but effectively controlled by Insight LP, are included in the consolidated financial statements. The minority interest represents AT&T Broadband LLC's (formerly Tele-Communications, Inc.) ("AT&T Broadband") 50% ownership interest in Insight Midwest. Intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Revenue includes service, connection 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. Launch fees are deferred and amortized over the period of the underlying contract.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires us 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

We consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Investments

Investments consist of debt and equity securities (Note G). All investments 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, is included in interest income.

Fixed Assets

Fixed assets include costs capitalized for labor and overhead incurred in connection with the installation of cable television systems and are stated at cost (Note H). Depreciation for cable plant, furniture, fixtures, office equipment and buildings is calculated 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 our undiscounted future cash flows, an impairment loss would be recognized for the amount that the asset's carrying value exceeds its fair value. We believe that no material impairment of fixed assets existed at December 31, 2000 or 1999.

Effective January 1, 2000, we changed the estimated useful lives of fixed assets which related to our recent rebuild program. The changes in estimated useful lives were made to reflect our evaluation of the economic lives of the newly rebuilt plant. This change was made on a prospective basis and resulted in a reduction of our net loss for the year ended December 31, 2000 of $13.3 million or $0.22 per share.

Depreciation expense for the years ended December 31, 2000, 1999 and 1998 was $135.9 million, $64.8 million and $21.6 million.

Intangible Assets

Intangible assets consist of franchise costs and goodwill (Note I). Costs incurred in negotiating and renewing franchise agreements are capitalized and amortized over the life of the franchise. Franchise rights and goodwill acquired through the purchase of cable television systems are amortized using the straight-line method over a period of up to 15 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 our undiscounted future cash flows, an impairment loss would be recognized for the amount that the asset's carrying value exceeds its fair value. We believe that no material impairment of intangible assets existed at December 31, 2000 or 1999.

Deferred Financing Costs

Deferred financing costs relate to costs, primarily legal and bank facility fees, incurred to negotiate and secure bank loans and other sources of financing. These costs are amortized over the life of the applicable debt.

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 our 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 our IPO.

For the year ended December 31, 2000 and 1999, diluted earnings per share equals basic earnings per share as we 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

Deferred 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 in connection with our 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 LP for our common stock (Note K).

Marketing and Promotional

Marketing and promotional costs are expensed as incurred. Marketing and promotional expense for the years ended December 31, 2000, 1999 and 1998 was $13.8 million, $5.5 million and $702,000.

Allocation of Profits and Losses

Prior to the exchange of common stock for the outstanding partnership interests of Insight LP, 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 period from January 1, 1999 to July 26, 1999 and for the year ended December 31, 1998, losses were allocated 1% to the General Partner for its interest and 99% to the limited partners.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board 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 us beginning January 1, 2001. SFAS No. 133 establishes accounting and reporting standards for derivative instruments embedded in other contracts and for hedging activities. SFAS No. 133 will require us to recognize all derivatives on the balance sheet at fair value.

As of December 31, 2000, our derivative financial instruments include interest rate swap and collar agreements which we believe qualify as cash flow hedges, with a fair value of ($1.9) million. Changes in the fair value of derivative financial instruments are either recognized in income or in stockholders' equity as a component of comprehensive income depending on whether the derivative financial instruments qualify for hedge accounting.

Reclassifications

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

C. ACQUISITIONS AND GAIN ON CABLE SYSTEM EXCHANGES

On January 22, 1998, Insight LP acquired a cable television system located in Rockford, Illinois ("Rockford") for $97.0 million. 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. 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 LP 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 LP 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 $125.0 million (fair value of the Utah Systems) and Insight LP recognized a gain on the sale of the Utah Systems of $112.0 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 $24.0 million and franchise costs of $101.0 million. Franchise costs arising from the acquisition of the Evansville and Jasper systems are being amortized over a period of 15 years.

On March 22, 1999, Insight LP exchanged its Franklin, Virginia cable system ("Franklin") servicing approximately 9,200 subscribers for Falcon Cable's Scottsburg ("Scottsburg") Indiana system servicing approximately 4,100 subscribers. Furthermore, on February 1, 1999, Insight LP exchanged its Oldham Kentucky cable system ("Oldham") servicing approximately 8,500 subscribers for Intermedia Partners of Kentucky LP's Henderson, Kentucky cable system ("Henderson") servicing approximately 10,600 subscribers. These transactions have been accounted for by Insight LP as sales of the Franklin and Oldham systems and purchases of the Scottsburg and Henderson systems. Accordingly, the assets of the Scottsburg and Henderson systems have been included in the accompanying condensed consolidated balance sheets at their fair values ($31.3 million) and Insight LP recognized a gain on the sale of the Franklin and Oldham systems of $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 LP 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 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.

D. INSIGHT MIDWEST

Insight Midwest was formed in September 1999 to serve as the holding company and a financing vehicle for our cable television system joint venture with AT&T Broadband. Insight Midwest is owned 50% by Insight LP and 50% by AT&T Broadband, through its indirect subsidiary TCI. On October 1, 1999, certain Indiana and Kentucky systems and operations were contributed to Insight Midwest, as described below. Through two of 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 737,000 and 749,000 customers as of December 31, 2000 and 1999.

On January 5, 2001, Insight Midwest, completed a series of transactions with Insight LP and certain subsidiaries of AT&T Corp. (the “AT&T Subsidiaries”) for the acquisition of additional cable television systems valued at approximately $2.2 billion (the “AT&T Transactions”), inclusive of systems valued at approximately $775.8 million, contributed by Insight LP. As a result of the AT&T Transactions, Insight Midwest acquired all of Insight LP’s wholly-owned systems serving approximately 280,000 customers, including systems which Insight LP purchased from the AT&T Subsidiaries. At the same time, Insight Midwest acquired from the AT&T Subsidiaries systems serving approximately 250,000 customers. The purchase price will be allocated to the cable television assets acquired in relation to their fair values as increases in property and equipment and franchise costs. The AT&T Transactions were financed through a credit facility established on January 5, 2001, the Midwest Holdings Credit Facility (Note J).

Both Insight LP and the AT&T Subsidiaries contributed their respective systems to Insight Midwest subject to an amount of indebtedness so that Insight Midwest remains equally owned by Insight LP and AT&T Broadband. Insight LP continues to serve as the general partner of Insight Midwest and manages and operates the Insight Midwest systems. As a result of the AT&T Transactions, Insight Midwest currently owns and operates cable television systems in Indiana, Kentucky, Illinois, Ohio and Georgia which pass approximately 2.1 million homes and serve approximately 1.3 million customers.

On January 11, 2001, Insight Midwest acquired Cable One, Inc.’s Greenwood, Indiana cable system serving approximately 14,800 customers for $62.0 million. The purchase price will be allocated to the cable television assets acquired in relation to their fair values as increases in property and equipment and franchise costs.

Indiana Systems

On October 31, 1998, Insight LP and TCI contributed certain of their cable television systems located in Indiana and Northern Kentucky (the “Indiana Systems” or “Insight Indiana”) to form Insight Indiana in exchange for a 50% equity interest. The cable television systems contributed to Insight Indiana by Insight LP included the Jasper and Evansville systems that were acquired by Insight LP from TCI on October 31, 1998 (Note C) and the Noblesville, Jeffersonville and Lafayette systems already owned by Insight LP (the “Insight Contributed Systems”).

On October 1, 1999, as part of a joint venture restructuring, Insight Indiana became a wholly-owned subsidiary of Insight Midwest. In addition to managing the day-to-day operations of the Indiana Systems, Insight LP 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 LP and TCI.

In accordance with the joint venture restructuring, 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 such 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 LP nor TCI is contractually required to contribute additional capital to Insight Midwest and, because Insight Midwest is a limited partnership, neither Insight LP nor TCI is liable for the obligations of Insight Indiana or the Indiana Systems.

Kentucky Systems

On October 1, 1999, Insight LP acquired a combined 50% interest in InterMedia Capital Partners VI, LP (the “IPVI Partnership”) from related parties of Blackstone Cable Acquisition Company, LLC, InterMedia Capital Management VI, LLC and a subsidiary and related party of AT&T Broadband, for $341.5 million, (inclusive of expenses). Insight Midwest assumed debt of $742.1 million (the total debt of the IPVI Partnership) in connection with this transaction. 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” or “Insight Kentucky”). 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, LP, a subsidiary partnership of Insight Midwest.

Similar to Insight Indiana, in addition to managing the day-to-day operations of the Kentucky Systems, Insight LP controls all of the operating and financial decisions pertaining to the Kentucky Systems. The Kentucky Systems 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 the Kentucky Systems have been valued based on the purchase price and have been allocated between fixed and intangible assets based on our 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 $160.3 million and intangible assets of $272.1 million. Franchise costs arising from this transaction are being amortized over 15 years.

Managed Indiana Systems

On March 17, 2000, we 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. As of December 31, 2000, these systems served approximately 121,000 customers in the States of Indiana and Kentucky. We earn an annual fee of 3% of gross revenues for providing such consulting services. For the year ended December 31, 2000, we recognized $1.2 million of management fees in connection with this agreement.

E. INSIGHT OHIO

On August 21, 1998, Insight LP 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 LP contributed to Insight Ohio $10.0 million in cash. As a result of the Coaxial Contribution Agreement, Coaxial owned 25% of the non-voting common equity and Insight LP, through its subsidiary Insight Holdings of Ohio, LLC, owned 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 provides 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 Interests in August 2006 and the Series B Preferred Interest in August 2008. Coaxial has pledged the Series A Preferred Interest and Series B Preferred Interest as security for $140.0 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"). The Senior Notes and Senior Discount Notes are conditionally guaranteed by Insight Ohio.

On August 8, 2000, Insight Ohio purchased Coaxial's 25% non-voting common equity interest. The purchase price was 800,000 shares of our common stock and cash in the amount of $2.6 million. In connection with the purchase, Insight Ohio's operating agreement was amended to, among other things, remove certain participating rights of the principals of Coaxial and certain of its affiliates (the "Coaxial Entities"). Additionally, the agreement was amended to incorporate 70% of Insight Ohio's total voting power into the common equity interests of Insight Ohio and 30% of Insight Ohio's total voting power into the Preferred Interests of Insight Ohio.

As a result of this transaction, the financial results of Insight Ohio have been consolidated with our financial results effective January 1, 2000, with minority interest recorded for the 25% common interest owned by Coaxial through August 8, 2000. In connection with this transaction, Insight LP recorded a step-up in fair value of Insight Ohio's assets of $229.2 million, which represents the difference between the purchase price and its equity in Insight Ohio's net assets in excess of Insight Ohio's net assets. This amount has been allocated to franchise costs and goodwill and is being amortized over a period of 12 years.

Although the financial results of Insight Ohio for 2000 have been consolidated as a result of this transaction, for financing purposes, Insight Ohio is an unrestricted subsidiary of ours and is prohibited by the terms of its indebtedness from making distributions to us.

Insight Ohio's conditional guarantee of the Senior Notes and the Senior Discount Notes remains in place.

If at any time the Senior Notes or Senior Discount Notes are repaid or significantly modified, or in any case after August 15, 2008, the principals of the Coaxial Entities may require us to purchase their interests in the Coaxial Entities for a purchase price equal to the difference, if any, of $32.6 million less the then market value of the 800,000 shares of our common stock issued on August 8, 2000. The fair value of such contingent consideration was $7.1 million.

Prior to August 8, 2000, Insight LP, as manager of Insight Ohio, earned a management fee from Insight Ohio equal to 3% of Insight Ohio's revenues. For the year ended December 31, 1999 and for the period from August 21, 1998 through December 31, 1998, such management fees were $1.4 million and $500,000.

Although Insight LP manages and controls the day to day operations of Insight Ohio, up until August 8, 2000, the shareholders of Coaxial had significant participating rights, including voting power. Consequently, during 1999 and the period from August 21, 1998 through December 31, 1998, Insight LP accounted for its investment in Insight Ohio under the equity method. In addition, Insight LP amortized the difference between its initial $10.0 million investment and its 75% interest in Insight Ohio's deficiency in assets. Accordingly, the accompanying statements of operations for the years ended December 31, 1999 and 1998 include Insight LP's share of Insight Ohio's operating income (loss) and the aforementioned amortization of deficiency in assets of $(4.6) million and $100,000 and $8.6 million and $3.4 million.

F. Pro Forma Results of Operations

Our unaudited pro forma results of operations for the years ended December 31, 2000 and 1999, assuming the contribution of the Indiana Systems, the acquisition of the Kentucky Systems, the acquisition of Insight Ohio and each of the acquisitions and exchanges described in Note C occurred as of January 1, 1999 is as follows (in thousands, except per share amounts):

	2000	1999
Revenue	**$476,186**	$448,322
Net loss applicable to common shareholders	**61,712**	126,277
Basic and diluted loss per share	**1.03**	3.49

Our unaudited pro forma results of operations for the years ended December 31, 1999 and 1998, 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):

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

G. Investments

SourceSuite and Liberate

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 and the Interactive Channel products and services, including SourceGuide and LocalSource television content. We contributed $13.0 million in equity financing and are a 50% owner in the joint venture which is managed by Source Media.

On March 3, 2000, pursuant to a merger of the joint venture with a subsidiary of Liberate Technologies (“Liberate”), SourceSuite LLC 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.

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, we recorded a gain on sale of joint venture assets of $80.9 million for the year ended December 31, 2000. In addition, on December 31, 2000, we recorded an impairment write-down of $74.1 million to reflect an other than temporary decline in the value of our investment in Liberate. This impairment write-down was calculated as the difference between the fair value of the Liberate shares as of December 31, 2000 as compared to March 3, 2000, the date we received the shares.

We are accounting for our investment in SourceSuite LLC under the equity method of accounting. Accordingly, the accompanying statement of operations for the year ended December 31, 2000 includes a loss of $3.8 million which represents our 50% share of SourceSuite LLC’s net loss for the year ended December 31, 2000.

In connection with the Contribution Agreement, on November 17, 1999, we purchased 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 $12.0 million in cash.

On December 31, 2000, we recorded an impairment write-down of $11.2 million to reflect an other than temporary decline in the value of our investment in Source Media. This impairment write-down was calculated as the difference between the fair value of the Source Media shares on December 31, 2000 as compared to November 17, 1999, the date we purchased the shares. Fair value was determined using the quoted market price of the stock.

In addition, in October 1999, we 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, 2000, we recorded an impairment write-down of $3.3 million to reflect an other than temporary decline in the value of our investment in Source Media bonds. This impairment write-down was calculated as the difference between the amortized cost of the bonds and their fair value as of December 31, 2000. Fair value was determined using the quoted market price of the bonds.

Commerce.TV

On April 19, 2000, we purchased 2.5 million shares of Commerce.TV Corporation's ("Commerce.TV") Series B mandatorily redeemable, convertible preferred stock for $5.0 million, which we are accounting for under the cost method. This preferred stock has a liquidation preference equal to $5.0 million.

Commerce.TV is a privately-owned company that owns proprietary software and a database network that enables cable television subscribers to purchase products from third party merchants and track the status of their orders using a set-top box remote control.

On January 31, 2001, we entered into an agreement with Commerce.TV to provide our Lexington, Kentucky cable television subscribers with Commerce.TV's service. We are currently working with Commerce.TV to integrate their network with our technical platform.

H. FIXED ASSETS

Fixed assets consist of:

	December 31,	
(in thousands)	**2000**	1999
Land, buildings and improvements	**$ 23,436**	$ 13,986
Cable television equipment	**1,082,194**	724,383
Furniture, fixtures and office equipment	**9,646**	9,626
	1,115,276	747,995
Less accumulated depreciation and amortization	**(294,388)**	(104,857)
Total fixed assets	**$ 820,888**	$ 643,138

I. INTANGIBLE ASSETS

Intangible assets consist of:

	December 31,	
(in thousands)	**2000**	1999
Franchise rights	**$1,396,416**	$1,223,964
Goodwill	**71,267**	6,867
	1,467,683	1,230,831
Less accumulated amortization	**(197,051)**	(90,457)
Total intangible assets	**$1,270,632**	$1,140,374

J. DEBT

Debt consists of:

	December 31,	
(in thousands)	**2000**	1999
Credit Facility	**$ —**	$ 1,000
Insight Ohio Credit Facility	**25,000**	—
Insight Indiana Credit Facility	**298,600**	470,000
Insight Kentucky Credit Facility	**356,300**	562,000
Insight Midwest 9¾% Senior Notes	**200,000**	200,000
Insight Midwest 10½% Senior Notes	**500,000**	—
	1,379,900	1,233,000
Unamortized discount on Senior Notes	**(7,377)**	—
Total debt	**$1,372,523**	$1,233,000

Credit Facility

We have a credit facility (the "Credit Facility") which expires in December 2005 and provides for a maximum amount of borrowings of $140.0 million. The Credit Facility requires us to meet certain financial and other debt covenants, including a series of financial tests including those measuring our coverage ratios and leverage. Borrowings under the 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.

The interest rate in effect as of December 31, 1999 was 8.0%. The Credit Facility is secured by substantially all our present and future assets excluding those of Insight Midwest and Insight Ohio.

On January 5, 2001, the Credit Facility was replaced by the Midwest Holdings Credit Facility.

Midwest Holdings Credit Facility

On January 5, 2001, through an affiliate, Insight Midwest entered into a credit facility (the "Midwest Holdings Credit Facility") in connection with the AT&T Transactions and to repay the outstanding indebtedness under the Insight Indiana Credit Facility and Insight Kentucky Credit Facility. The Midwest Holdings Credit Facility expires in 2009 and provides for maximum borrowings of $1.75 billion. Obligations under this credit facility are secured by a pledge of the outstanding equity interests of Midwest Holdings and its subsidiaries.

The Midwest Holdings Credit Facility requires Insight Midwest to meet certain financial and other debt covenants. Borrowings under this credit facility bear interest at either an alternative base rate or Eurodollar rate, plus an additional margin yield to Midwest Holdings' leverage ratio, of between 0.5% and 2.8%.

Insight Ohio Credit Facility

Insight Ohio's credit facility (the "Insight Ohio Credit Facility") provides for revolving credit loans of up to $25.0 million. The Insight Ohio Credit Facility has a six-year maturity from the date of borrowings, with reductions to the amount of the commitment commencing after three years. Our obligations under the Insight Ohio Credit Facility are secured by substantially all the assets of Insight Ohio. The Insight Ohio Credit Facility requires Insight Ohio to meet certain financial and other debt covenants. Loans under the Insight Ohio Credit Facility bear interest, at our option, at the prime rate or at a Eurodollar rate. In addition to the index rates, we pay an additional margin percentage tied to Insight Ohio's ratio of total debt to adjusted annualized operating cash flow. The interest rates in effect as of December 31, 2000 and 1999 were 8.8% and 7.9%.

Insight Indiana Credit Facility

Insight Indiana's credit facility (the "Insight Indiana Credit Facility") provides for term loans of up to $300.0 million and for revolving credit loans of up to $250.0 million. Obligations under this credit facility are secured by all of the membership interests of Insight Indiana and any amounts payable to its members. The Insight Indiana Credit Facility requires Insight Indiana to meet certain financial and other debt covenants. 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 interest rates in effect as of December 31, 2000 and 1999 were 8.8% and 8.1%.

On January 5, 2001, the Insight Indiana Credit Facility was repaid in full and replaced by the Midwest Holdings Credit Facility. This resulted in an extraordinary loss of approximately $4.8 million related to the write-off of unamortized deferred financing costs.

Insight Kentucky Credit Facility

The Kentucky credit facility (the "Insight Kentucky Credit Facility") provides for two term loans of up to $100.0 million and $250.0 million and for revolving credit loans of up to $325.0 million. Obligations under the Insight Kentucky Credit Facility are guaranteed by Insight Kentucky and its subsidiaries and any intercompany notes made in favor of Insight Kentucky and its subsidiaries. The Insight Kentucky Credit Facility requires Insight Kentucky to meet certain financial and other debt covenants. 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. Loans under the Insight Kentucky Credit Facility bear interest at Insight Midwest's option at an ABR 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 our option, at an ABR or Eurodollar rate, plus an additional margin. The interest rates in effect as of December 31, 2000 and 1999 were 8.7% and 8.3%.

On January 5, 2001, the Insight Kentucky Credit Facility was repaid in full and replaced by the Midwest Holdings Credit Facility. This resulted in an extraordinary loss of approximately $4.1 million related to the write-off of unamortized deferred financing costs.

Insight Midwest Senior Notes

On October 1, 1999 simultaneously with the closing of the purchase of Insight Kentucky, Insight Midwest completed a $200.0 million offering of 9¾% Senior Notes due in October 2009. The proceeds of the offering were used to repay certain debt of the IPVI Partnership. Interest payments on these Senior Notes, which commenced on April 1, 2000, are payable semi-annually on April 1 and October 1.

On November 6, 2000, Insight Midwest completed a $500.0 million offering of 10½% Senior Notes due in November 2010. Insight Midwest received proceeds of $487.5 million, net of an underwriting fee of $5.0 million and a bond discount of $7.5 million which is being amortized through November 2010. The proceeds of the offering were used to repay a portion of the outstanding debt under the Insight Indiana Credit Facility and Insight Kentucky Credit Facility. Interest payments on these Senior Notes, which commence on May 1, 2001, are payable semi-annually on May 1 and November 1.

The Insight Midwest 9¾% and 10½% Senior Notes are redeemable on or after October 1, 2004 and November 1, 2005, respectively. In addition, Insight Midwest can redeem up to 35% of the Insight Midwest 9¾% and 10½% Senior Notes prior to October 1, 2002 and November 1, 2005, respectively, 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 certain changes of control. The Insight Midwest Senior Notes are general unsecured obligations and are subordinate to all liabilities of Insight Midwest, the amounts of which were $770.5 million and $1.1 billion as of December 31, 2000 and 1999. The Insight Midwest Senior Notes contain certain financial and other debt covenants.

Debt Facility Principal Payments

As of December 31, 2000, annual principal payments required on our debt are as follows (in thousands):

2001	$ 19,695
2002	53,316
2003	96,304
2004	131,218
2005	124,820
Thereafter	947,170
	$1,372,523

On February 6, 2001, we completed a $400.0 million offering of 12¼% Senior Discount Notes due in February 2011. These notes were issued at a discount to their principal amount at maturity resulting in gross proceeds to us of $220.1 million. We utilized $20.2 million of the proceeds to repay an outstanding inter-company loan from Insight Midwest, which we incurred in connection with the AT&T Transactions. We intend to use the remaining proceeds for general corporate purposes and other joint ventures and/or strategic acquisitions.

No cash interest on the discount notes will accrue prior to February 15, 2006. Thereafter, cash interest on the discount notes will accrue and be payable on February 15 and August 15 of each year, commencing August 15, 2006. The initial accreted value of the discount notes of $220.1 million will increase until February 15, 2006 such that the accreted value will equal the principal amount of $400.0 million on February 15, 2006.

As a result of the AT&T Transactions, as of January 5, 2001, required principal payments under the aforementioned debt have changed to (in thousands):

2001	$ —
2002	2,500
2003	3,750
2004	78,750
2005	81,250
Thereafter	1,901,250
	$2,067,500

Interest Rate Swap and Collar Agreements

We enter into interest rate swap agreements to modify the interest characteristics of our 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 or receivable is included in other liabilities or assets.

As of December 31, 2000 and 1999, we 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 $701.0 million and $766.0 million notional value of debt. These agreements expire between December 2001 and July 2003.

K. Capital Stock

Our authorized capitalization 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 our IPO, we operated as a limited partnership and had outstanding limited partnership units. In addition, as of December 31, 1998, we had outstanding redeemable Class B units. In connection with our IPO, the limited partnership units and redeemable Class B units were exchanged for shares of our Class A and Class B common stock as summarized below:

			Common Stock	
	LP Units	Redeemable Class B Units	Class A	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

L. @Home Warrants

Under distribution agreements with At Home Corporation, a high-speed internet access service provider (“@Home”), we provide high-speed Internet access to subscribers over our network in certain of our cable television systems. In connection with the acquisition of the Kentucky systems, Insight Kentucky obtained agreements whereby @Home issued warrants, effective January 1, 1999, 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. The warrants become vested and exercisable, subject to certain forfeiture and other conditions, based on obtaining specified numbers of @Home subscribers through December 31, 2001. If Insight Kentucky were to meet the target number of @Home subscribers through December 31, 2001, as set forth in the agreement, 180,267 warrants would become vested and exercisable. We have not recognized any income related to the warrants for the years ended December 31, 2000 or 1999.

M. Comprehensive Income

Statement of Financial Accounting Standards 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. We recognized an impairment write-down to investments as of and for the year ended December 31, 2000 which resulted in a reversal of a net unrealized gain on investments of $3.2 million, net of income tax of $2.2 million. For the year ended December 31, 1999, components of other comprehensive income consisted of the net unrealized gain on investments of $3.2 million, net of income tax of $2.2 million. Prior to 1999, there were no items of other comprehensive income.

N. Earnings Per Share

The following table sets forth the computation of basic and diluted 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 Redeemable Class B units and warrants.

	YEAR ENDED DECEMBER 31,		
(in thousands, except per share amounts)	**2000**	1999	1998
Numerator:			
Net income (loss) applicable to common stockholders	**$(61,712)**	$(91,326)	$132,877
Extraordinary loss from early extinguishment of debt	**—**	—	3,267
Numerator for basic income (loss) per share	**(61,712)**	(91,326)	136,144
Effect of dilutive securities	**—**	—	5,729
Numerator for diluted income (loss) per share	**$(61,712)**	$(91,326)	$141,873
Denominator for basic income (loss) per share:			
Weighted average Class A common stock	**49,477**	—	—
Weighted average Class B common stock	**10,226**	—	—
Weighted average Class A and B units and general partner's interest	**—**	35,417	20,287
Effect of dilutive securities			
Redeemable Class B units	**—**	—	10,285
Warrants	**—**	—	621
Potential dilutive securities	**—**	—	10,906
Denominator for dilutive income (loss) per share	**59,703**	35,417	31,193
Basic income (loss) per share before extraordinary item	**$ (1.03)**	$ (2.58)	$ 6.71
Diluted income (loss) per share before extraordinary item	**$ (1.03)**	$ (2.58)	$ 4.55
Basic income (loss) per share	**$ (1.03)**	$ (2.58)	$ 6.55
Diluted income (loss) per share	**$ (1.03)**	$ (2.58)	$ 4.61

O. INCOME TAXES

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

Effective July 26, 1999, we converted to a corporation and are now subject to federal, state and local income taxes. In connection with our IPO, we recorded a one-time non-recurring charge of $39.5 million for deferred taxes upon the exchange of the limited partnership interests in Insight LP for our stock. Such charge relates to the deferred tax liability associated with the difference between the financial statements and tax basis of our assets and liabilities. For the year ended December 31, 2000, we recorded a deferred tax benefit of $34.3 million and a current tax expense of $500,000 for state and local taxes. For the year ended December 31, 1999, we recorded net deferred tax benefits of $8.2 million, relating to losses from operations subsequent to the conversion. In addition, we recorded a current tax provision of $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 our deferred tax assets and liabilities consist of the following:

	December 31,	
(in thousands)	**2000**	1999
Deferred tax assets:		
Net operating loss carryforward	**$ 51,348**	$ 2,871
Accounts receivable	**252**	145
Investment in unconsolidated affiliates	**1,954**	12,899
Unrealized loss on investments	**3,120**	—
Accrued expenses and other liabilities	**70**	127
Gross deferred tax asset	**56,744**	16,042
Valuation allowance	**(3,120)**	—
Net deferred tax asset	**$53,624**	$ 16,042
Deferred tax liabilities:		
Depreciation & amortization	**$114,448**	$ 47,370
Unrealized gain on investments	**—**	2,201
Gross deferred tax liability	**114,448**	49,571
Net deferred tax liability	**$ (60,824)**	$(33,529)

The increase in the valuation allowance relates to the unrealized loss on investments.

The reconciliation of income tax expense computed at the U.S. federal statutory rate to income tax expense for the years ended December 31, 2000, 1999 and 1998 are as follows:

	Year Ended December 31,		
(in thousands)	**2000**	1999	1998
Expense (benefit) at federal statutory rate	**$(26,116)**	$(17,756)	$ 47,100
State and local taxes, net	**(5,258)**	(1,141)	—
Expenses not deductible for U.S. tax purposes	**70**	196	11
Non-deductible amortization	**726**	—	—
Preferred interest accrual	**(6,367)**	—	—
Increase in valuation allowance	**3,120**	—	—
Adjustment to record charge upon conversion from a partnership to a corporation	**—**	39,526	—
Loss (income) for which no expense/benefit has been provided	**—**	10,761	(47,111)
Income tax (benefit) expense	**$(33,825)**	$ 31,586	$ —

As of December 31, 2000, we had a net operating loss carryforward of $125.0 million for U.S. federal income tax purposes. Our net operating loss began accumulating effective July 26, 1999, the date of our IPO. The net operating loss will expire in the years 2019 through 2020.

P. Stock Option Plan and Other Stock Based Compensation

Stock Option Plan

We 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”). We have reserved 5,000,000 shares of common stock for grant under the Plan. ISOs may be granted only to our officers and key employees and nonqualified stock options and SARs may be granted to our 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.

Employee stock options vest over five years and expire ten years from the date granted. The following summarizes stock option activity for the years ended December 31, 2000 and 1999:

	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding as of January 1, 1999	—	$ —
Granted	2,900,900	24.57
Exercised	—	—
Canceled/forfeited	(15,000)	24.50
Outstanding as of December 31, 1999	2,885,900	24.57
Granted	217,480	15.91
Exercised	—	—
Canceled/forfeited	(130,500)	23.93
Outstanding as of December 31, 2000	2,972,880	$23.96

The weighted average fair value of options granted in 2000 and 1999 was $9.55 and $13.39 per share. As of December 31, 2000, 569,400 of the options were exercisable with a weighted average exercise price of $24.32. The following summarizes details of outstanding stock options as of December 31, 2000:

RANGE OF EXERCISE PRICES	NUMBER OF OPTIONS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE (IN YEARS)
$13.25–$17.94	159,980	$14.51	9.6
$20.38–$29.18	2,782,900	24.44	8.6
$30.13	30,000	30.13	8.7
	2,972,880	$23.96	8.7

Pursuant to Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS No. 123”), we have 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 or greater than 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, our net loss applicable to common stockholders and net loss per share for the years ended December 31, 2000 and 1999 would have been $62.9 million and $1.05 and $86.2 million and $2.63. 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—6.25% (2000) and 6.5% (1999); expected dividend yield—0%; expected option life—7 years; and expected stock price volatility—50% (2000) and 42% (1999).

Other Stock Based Compensation

In connection with our IPO, we issued a total of 1,412,181 shares of common stock to our employees. We recorded non-cash compensation expense of $19.3 million in connection with the issuance of these shares. In October 1999 and April 2000, we granted loans to certain of these employees, the proceeds of which were used to satisfy the individual income tax withholding obligations with respect to the receipt of these shares. In the aggregate, these loans total $14.7 million. The loans are non-recourse and are represented by notes which are secured by our common stock pledges equal to the number of shares each individual received as compensation. Through April 1, 2001, the notes bear interest at a rate of 6% per annum and will adjust to a rate of 5.1% thereafter. The notes are payable upon the fifth anniversary, 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. As of December 31, 2000 and 1999, accrued interest on these loans are fully reserved as a result of a loan forgiveness provision approved by the board of directors.

Q. Financial Instruments

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. We maintain cash and cash equivalents with various financial institutions. These financial institutions are located throughout the country and our 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 our customer base.

Fair Value

We used the following methods and assumptions in estimating our fair value disclosures for financial instruments:

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

Debt: The carrying amounts of our borrowings under our credit arrangements approximate fair value as they bear interest at floating rates. The fair value of Insight Midwest's 9¾% Senior Notes as of December 31, 2000 was $198.5 million.

The fair value of Insight Midwest's 10½% Senior Notes as of December 31, 2000 was $515.0 million.

Interest rate swap agreements: The fair value of swap agreements are not recognized in the financial statements. The fair value (cost) to us if we would have disposed of such swap agreements would have been $(1.9) million and $7.2 million as of December 31, 2000 and 1999.

R. Related Party Transactions

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

In addition, we purchase substantially all of our pay television and other programming for the Indiana and Kentucky systems from affiliates of AT&T Broadband. Charges for such programming were $57.4 million, $29.6 million and $1.4 million for the years ended December 31, 2000, 1999 and 1998. As of December 31, 2000 and 1999, $9.9 million and $10.5 million of accrued programming costs were due to affiliates of AT&T Broadband. We believe that the programming rates charged by affiliates of AT&T Broadband are lower than those available for independent parties.

Telephony Agreements

On July 17, 2000, we entered into definitive agreements with AT&T Broadband, LLC for the provision by AT&T Broadband of all-distance telephone service utilizing our cable infrastructures under the AT&T brand name. Telephony revenues are to be attributed to AT&T Broadband who, in turn, will pay us a monthly per line access fee. AT&T Broadband will also pay us for marketing, installation and billing support. AT&T Broadband would be required to install and maintain the necessary switching equipment, and would be the local exchange carrier of record. It is expected that we will market the telephone services both independently and as part of a bundle of services.

S. 401(k) Plan

We sponsor a savings and investment 401(k) Plan (the "Plan") for the benefit of our employees. All employees who have completed six months of employment and have attained age 18 are eligible to participate in the Plan. We make matching contributions equal to 100% of the employee's contribution up to 5% of the employee's wages. During 2000, 1999 and 1998, we matched contributions of $957,000, $562,000 and $188,000.

T. COMMITMENTS AND CONTINGENCIES

Operating Lease Agreements

We lease and sublease equipment and office space under various operating lease arrangements expiring through December 31, 2015. Future minimum rental payments required under operating leases as of December 31, 2000 are as follows (in thousands):

2001	$ 3,533
2002	2,884
2003	2,725
2004	2,341
2005	2,037
Thereafter	1,783
Total	$15,303

Rental expense for the years ended December 31, 2000, 1999 and 1998 was $4.6 million, $2.1 million and $1.0 million.

Litigation

Insight Kentucky and certain prior owners of the Kentucky Systems have been named in class actions regarding the pass-through of state and local property tax charges to customers by the prior owners of the Kentucky Systems. The plaintiffs seek monetary damages and the enjoinment of the collection of such taxes. The classes have not been certified. We believe that the Kentucky Systems have substantial and meritorious defenses to these claims.

We are subject to 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 our opinion that the resolution of these matters will not have a material adverse affect on our consolidated financial condition.

U. QUARTERLY FINANCIAL DATA (UNAUDITED)

	THREE MONTHS ENDED				YEAR ENDED
(in thousands, except per share amounts)	MARCH 31(1)	JUNE 30(1)	SEPTEMBER 30	DECEMBER 31	DECEMBER 31
2000					
Revenue	$114,807	$118,931	$119,275	$123,173	$476,186
Operating loss	(6,407)	(4,122)	(8,035)	(3,577)	(22,141)
Net income (loss)	38,258	(8,984)	(11,882)	(60,379)	(42,987)
Basic income (loss) per share	$ 0.57	$ (0.23)	$ (0.28)	$ (1.08)	$ (1.03)
Diluted income (loss) per share	$ 0.57	$ (0.23)	$ (0.28)	$ (1.08)	$ (1.03)

(1) The March 31, 2000 and June 30, 2000 quarterly financial data include the results of Insight Ohio, which was accounted for under the equity method prior to August 8, 2000, the date of acquisition.

	THREE MONTHS ENDED				YEAR ENDED
(in thousands, except per share amounts)	MARCH 31	JUNE 30	SEPTEMBER 30	DECEMBER 31	DECEMBER 31
1999					
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	$ 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)

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. (the "Company") as of December 31, 2000 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, 2000. 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 the Company as of December 31, 2000 and 1999, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

New York, New York
March 12, 2001

Our 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
March 31, 2000	$30.500	$19.688
June 30, 2000	$24.125	$13.375
September 30, 2000	$18.500	$12.000
December 31, 2000	$23.875	$11.688

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

At February 28, 2001, there were approximately 230 and 25 stockholders of record of our 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

We have never paid any cash dividends and intend, for the foreseeable future, to retain any future earnings for the development of our business. The terms of our indebtedness and the indebtedness of our subsidiaries restrict our ability to pay dividends. Our future dividend policy will be determined by the Board of Directors on the basis of various factors, including our results of operations, financial condition, capital requirements and investment opportunities.

RECENT SALES OF UNREGISTERED SECURITIES

During the fourth quarter of 2000, we granted stock options to certain of our employees to purchase an aggregate of 57,500 shares of Class A common stock. The grants were not registered under the Securities Act of 1933 because the stock options either did not involve an offer or sale for purposes of Section 2(a)(3) of the Securities Act of 1933, in reliance on the fact that the stock options were granted for no consideration, or were offered and sold in transactions not involving a public offering, exempt from registration under the Securities Act of 1933 pursuant to Section 4(2) and in compliance with Rule 506 thereunder.

Board of Directors

Sidney R. Knafel, Director
Chairman of the Board and Co-founder
Insight Communications Company

Michael S. Willner, Director
President, Chief Executive Officer
and Co-founder
Insight Communications Company

Kim D. Kelly, Director
Executive Vice President,
Chief Operating and Financial Officer
Insight Communications Company

Thomas L. Kempner, Director
Chairman and Chief Executive Officer
Loeb Partners Corporation

James S. Marcus, Director
Retired Partner
The Goldman Sachs Group

Prakash A. Melwani, Director
Managing Director
Vestar Capital Partners

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

Senior Management

Sidney R. Knafel
Chairman of the Board

Michael S. Willner
President and Chief Executive Officer

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

Elliot Brecher
Senior Vice President,
General Counsel and Secretary

E. Scott Cooley
Senior Vice President,
Employee Relations and Development

Charles E. Dietz
Senior Vice President, Engineering

David R. Finch
Senior Vice President, Operations,
Illinois Region

Gregory B. Graff
Senior Vice President, Operations,
Western Kentucky Region

Pamela Euler Halling
Senior Vice President,
Marketing and Programming

Daniel Mannino
Senior Vice President and Controller

Judy Poole
Senior Vice President, Human Resources

Colleen Quinn
Senior Vice President, Corporate Relations

Mary E. Rhodes
Senior Vice President, Customer Service

David Servies
Senior Vice President, Operations,
Indiana Region

Matthew Siegel
Senior Vice President, Finance and Treasurer

James A. Stewart
Senior Vice President, Operations,
Eastern Kentucky and National Regions

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