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**Excite@Home (NASDAQ: ATHM)**

**Update: Lower than expected Q4 Loss  
LONG TERM BUY**

January 29, 2001

**KEY CONSIDERATIONS**

- The a fourth-quarter operating loss was lower than most forecasts, but showed a staggering net loss of some \$5.43 billion that resulted from a write-off of its struggling media properties. Its fourth -quarter EPS is -0.09 and annual EPS is -0.29.
- The company decided to sell its iMall storefront hosting service and its Enliven rich-media advertising unit.
- The company said it would cut 250 jobs, about 8 percent of its work force, because of a slowdown in online advertising revenue.
- Growing its subscribers by more than 100% to 2.95 million in the twelve months of its worldwide broadband service, ATHM is still the top dog
- Recent deal between Cox & Comcast and AT&T results in AT&T holding approximately 38% of the total outstanding shares of ATHM's common stock and approximately 79% of its voting power.
- Mark A. McEachen was named to the role of Executive Vice-President & Chief Financial Officer and the company is still looking for new CEO.
- The recent merger between Time Warner Inc. and American Online completed On Dec.14, 2000 will challenge ATHM's ability to retain existing customers and gain market share.

Recent Price	\$6.47
52WK Low	\$3.875
52WK High	\$38.875
P/E	N/A
P/Book	2.75
P/Sales	4.85
Market Capitalization	\$2.61 billion
Shares Outstanding	404.2million
Float	133.4million
<b>EPS</b>	
1998	\$-(0.02)
1999	\$-(0.07)
2000	\$(-0.29)
Current Ratio	1.17
LTD/EQUITY	0.6
Total Debt to Equity	0.66
Total Cash	\$ 200.8million

**ONE-YEAR PRICE AND VOLUME GRAPH**



**COMPANY PROFILE**

Excite@Home is the leader in broadband, offering residential and commercial broadband services, with a global footprint of 88 million homes under long-term contract. Excite@Home offers consumers broadband services over cable-modem and DSL and businesses high-speed commercial services. Excite@Home has over 13.5 million cable franchise homes under contract outside of North America and localized versions of the Excite service in 15 leading international markets.

This report was prepared by Min Wu and David R. Rivas, Ph.D.

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## **The Company Overview**

Excite@Home is the leading provider of broadband online services. As the end of 2001, it had 2.95 million worldwide subscribers to its @Home service, which provides high-speed Internet access to consumers utilizing the cable television infrastructure. The service is available in more than 183 local markets in North America. In mature @Home markets where the service has been operational for at least 24 months, the @Home service has typically risen to the #2 position for paid Internet service providers. The @Home service offers an "always on" connection with speeds many times faster than 56 kilobits-per-second dialup modems and features a scalable, distributed, intelligent private network designed to avoid bottlenecks frequently encountered on the public Internet. Elements of this advanced data network include a national, optical fiber Internet protocol backbone, regional data centers and local caching servers. The company intends to leverage its broadband connectivity services to deliver a comprehensive broadband experience to its customers, including entertainment, information, communications, e-commerce and other services. NetConnections. The @Home service is provided not only in North America, but also in many international companies such as Australia, Belgium, Germany, Japan and the Netherlands. It is planning to offer the @Home service over digital subscriber lines (DSL) in partnership with Rhythms.

The company enhanced its online media and advertising services by acquiring Excite, a leading consumer Internet destination, MatchLogic, a subsidiary of Excite specializing in targeted advertising services, Bluemountain.com, an online greeting card service, and other companies such as Webshots, Kendara and Worldprints. The Excite Network includes all of its web properties and delivers Internet-based search, communications, news and information, entertainment, community, photo, shopping and other services to our users that can be customized and personalized to users' preferences. The @Work service provides businesses with high-speed, fully managed data services designed to meet the demand for superior, reliable, and secure network communications.

## **Recent Developmentt**

### **@Home 2000**

@Home 2000 includes a custom browser, expanded features such as additional e-mail accounts and a broadband version of the Excite service incorporating the personalization capabilities of Excite with multimedia content made possible by a high-speed connection.

### **New Excite Messenger:**

Excite Messenger, a new instant messaging product that lets Excite users worldwide communicate instantly via private, personalized text and voice messages, is to replace Excite Pal as Excite@Home's new instant messaging product and the new platform allows Excite@Home to expand its instant messaging offering with voice capabilities, personalization and tight integration with Excite@Home products and services including Excite Inbox and Excite Address Book.

### **Tools:**

QuickStart Kit, a suite of consumer-friendly self-installation tools and services, will simplify the installation of the @Home service and reduce the reliance of subscriber growth on the availability of installation technicians. The QuickStart Kit has been available in a number of retail locations including Radio Shack since the fourth quarter of 2000.

Enliven for Flash introduced on November gives the online advertising industry the ability to turn a Macromedia Flash movie into an interactive rich media Enliven advertisement. Enliven for Flash improves upon the existing Flash technology with the incorporation of the Enliven rich media advertising technologies.

### **Free E-Commerce Storefront Service:**

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Freetailer(SM) ([www.freetailer.com](http://www.freetailer.com)), an e-commerce storefront service that enables users to create and manage a fully functioning store on the Internet at no cost. Freetailer makes Excite@Home the first major Internet Company to embrace a free online-store model that incorporates top-tier e-commerce features. It has expanded to more than 20,000 merchants in November.

**New Online Sweepstakes:**

On August, recognizing consumers' enthusiasm for online promotions, Excite@Home introduced FastFreeFun(SM) ([www.fastfreefun.com](http://www.fastfreefun.com)), its new online sweepstakes. FastFreeFun is an entertainment site aiming at Internet users that look for a fast way to win free stuff and play fun games.

**Business Service:**

Excite@Home launched in November a new version of the Business Channel on Excite.com to offer users business tools, and Web-based resources. Users will be able to access original content produced by Work.com's editorial teams for Excite.com users, including in-depth Q&A sessions with analysts and CEOs.

**Multiple Access Service:**

Since a broadband connection is not always available to Excite@Home's customers, the company provides Internet-based services using handheld wireless devices through its recent introduction of Excite Mobile and offer a free dialup Internet service called FreeLane powered by Excite. These services enable customers to access its online offerings from multiple locations and represent additional opportunities to raise awareness for our broadband online services.

**Management**

**CFO Change:** On July 10, Mark A. McEachen was named to the role of Executive Vice-President & Chief Financial Officer, succeeding CFO Kenneth A. Goldman.

**Board Of Directors:** On August 28, 2000, Excite@Home converted about 50 million of AT&T's Series A shares into Series B shares, each of which had 10 votes. As a result, AT&T have, on a fully diluted basis, approximately 23 percent of the economic interest in Excite@Home and 74 percent of the voting interest, as compared to the 24 percent economic interest and 56 percent voting interest AT&T had previously. On January 12, AT&T agreed to trade approximately \$2.9 billion in its stock for the ownership stakes that competing cable operators Cox Communications and Comcast hold in high-speed Internet access provider [Excite@Home](#). The deal increases AT&T's ownership stake in [Excite@Home](#) to 38 percent, up from 23 percent. It also will now hold a 79 percent voting interest in the broadband Net access company, compared with a 74 percent voting stake before.

**STRATEGIES FOR GROWTH AND ALLIANCES**

On January 25, CEO of ATHM, George Bell outlined the company's new criteria of focusing only on businesses that would support its broadband Internet service, and only on those which were on a clear path to profitability. So the company decided to sell a number of properties, including its iMall e-commerce business, which hosts small merchants online, and its Enliven advertising business, which develops rich-media ads for a broadband audience. Originally acquired to augment the company's bag of tricks and broaden its revenue base, both operations have been assessed as "not integral" to Excite@Home's latest long-term plans.

Over the next few years, a critical part of @Home's strategy for growth is to enable consumers to easily acquire the technology that is required for the high-speed connection that @Home provides. Retail electronic stores are the primary means by which consumers acquire computers and related technology. A strategic alliance between [Excite@Home](#) and Radioshack Corporation is designed to acquire new subscribers and accelerate the adoption of cable broadband Internet service among mass-market consumers. It gives consumers a convenient

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and fast way to obtain broadband Internet service with a seamless installation process easily implemented by even the most inexperienced Internet users. In addition, the nationwide program will underscore Excite@Home's goal of obtaining distribution throughout multiple sales channels and will add yet another component to RadioShack's home connectivity strategy.

@Home's growth strategy also focuses on establishing key partnerships and acquisitions. Underscoring Excite@Home's focus on accelerating broadband deployment, the new cable partnership of [Excite@Home](#) through @Home Solutions with Susquehanna Communications and Horry Telephone Cooperative extends Excite@Home's broadband footprint by 228,000 households. Excite@Home's overall footprint now totals more than 105(1) million homes worldwide. These new affiliates join @Home Solutions' existing partners, Adelphia Communications, Charter, Daniels Cablevision, Eastern Connecticut Cable TV, Moffat Cable, Rhythms NetConnections Inc., and USA Media Group. Through @Home Solutions, and in conjunction with these partners, Excite@Home is bringing affordable broadband Internet services to consumers regardless of the size of the community they live in. In December, @Home Solutions, a partially owned subsidiary of Excite@Home, and Mediacom Communications Corporation, the ninth largest cable television company in the United States, announced a binding commitment between @Home Solutions and Mediacom for a new cable affiliate relationship. This new affiliation will enable Mediacom to offer Excite@Home's high-speed broadband Internet service to its customers, which currently are serviced by ISP Channel, Inc. The binding commitment, which is subject to the completion of a final agreement between @Home Solutions and Mediacom, is expected to extend Excite@Home's broadband footprint by up to 1.2 million households, increasing its overall footprint to more than 88 million homes worldwide. Besides forming partnership with other companies, [Excite@Home](#) acquired DataInsight, an online and offline database marketing systems and applications provider. The acquisition will further enhance the growing eCRM business of Excite@Home's wholly owned subsidiary MatchLogic, the leading online database marketing Solutions Company. By unifying MatchLogic's leading eCRM expertise with DataInsight's eVistaO Solutions and Professional Services, MatchLogic is pursuing its goal to become the pre-eminent provider of eBusiness and eCRM solutions.

Excite@Home has entered into distribution arrangements for @Home service with Sony Electronics Inc. to promote the @Home(SM) broadband Internet service. Through this agreement, Sony VAIO(R) personal computers (PCs) sold through retail channels, starting with the fall 2000 product launch, will be equipped with a pre-loaded demonstration of the @Home service. @Home plans to extend its retail channel, make it easier for consumers to get the service, and demonstrate consumer acceptance and interest in broadband.

The company also plans to utilize key partnerships and alliances to complete its commercial strategies. To distribute media via Excite@Home's broadband network infrastructure, Excite@Home formed a new relationship with WebUseNet, one of the world's largest operators of Internet Usenet systems. To allow content distribution networks (CDNs) to distribute media via Excite@Home's broadband network infrastructure, [Excite@Home](#) also formed a relationship with NET-36 (TM), a PanAmSat (NASDAQ:SPOT - news) company and provider of satellite-based Internet broadcast services to deliver rich, dynamic content to Excite@Home's more than two million broadband subscribers served by Excite@Home's broadband network. Such relationship marks the continued and rapid growth of Excite@Home Business Solutions (EBS), the Company's commercial services division, highlights the Company's commercial business model and fortifies Excite@Home's commitment to provide broadband users with the best possible online experience. In order for Excite@Home's wholly-owned subsidiary MatchLogic, the leading online database marketing solutions company, to become the pre-eminent provider of eBusiness and eCRM solutions, Excite@Home acquired DataInsight, an online and offline database marketing systems and applications provider, based in Golden, Colo.

As part of the company's strategy to expand into and increase its brand name in international markets, it entered into agreements with Seven Network for the distribution of Seven Network's Olympic games highlights program delivered on Excite@Home's high-speed cable access service, [Optus@Home](#), in August and opened in October Excite Germany in Hamburg. In November, its wholly-owned subsidiary, MatchLogic(R), opened its London office to provide sophisticated online marketing tools to maximize the return on investment for marketers using this medium and enable them to successfully integrate online and offline activities.

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In addition to establishing alliances and acquisitions for marketing, distribution, and technological purposes, @Home also aims to offer superior content to attract and retain customers. The @Media group works with content providers to facilitate the creation of multimedia broadband content delivered through the @Home portal and to facilitate online transactions and services for @Home subscribers. Multimedia content offerings include on-demand video clips from partners such as Z.com, and MusicMatch, on-demand sports clips from partner of Bluetorch and wireless telephone products previews provided by Cellmania Inc, the first information technology ecosystem to touch all aspects of the wireless supply chain.

## **INDUSTRY OUTLOOK AND COMPETITION**

The U.S. market for high-speed services will increase to 15.3 million customers in 2003, up from about 2.2 million subscribers at the end of 1999. The market is quickly moving to broadband. In broadband, Excite@Home has become the nation's 5th largest paid ISP (Internet Service Provider) with the @Home broadband service, illustrating the high consumer demand for broadband services. Growing its subscribers by more than 100%, Excite@Home is proving that broadband offerings are effectively competing with dial-up services on a national level. While Excite@Home's share of the overall Internet access market is growing, the company holds a small percentage of the overall ISP marketplace, with 3%. The @Home service remains the world's leading broadband service, with more than 50% of the broadband worldwide marketplace and more than 35% of the U.S. broadband market. It has 2.95 million subscribers at the end of 2000, more than double the 1.1 million of its nearest direct competitor, Road Runner. Ninety-three percent of @Home's customers say that they are not likely to switch to another ISP. In addition, the average education and salary of [s@Home's](#) customers are much higher than those of the subscribers of dial up service. That customer loyalty and the exclusivity agreements @Home still has with its cable partners give @Home a competitive advantage. The three companies have been under contract to use Excite@Home as their exclusive cable Net provider until 2002. AT&T agreed to use the company as its broadband Net provider, though not necessarily exclusively, until 2008; Comcast and Cox will continue to carry [Excite@Home's](#) services, though not necessarily exclusively, until 2006.

In the market of providing Telecommunications, ATHM compete with national long-distance and local exchange carriers that offer high-speed, Internet access services such as asymmetric digital subscriber line, known as DSL. Recently, these services have been offered in a number of areas and at lower prices than in the past. These advanced services are offered by a number of Internet service providers in conjunction with local exchange carriers, which may result in additional marketing, installation and customer service resources for DSL. However, DSL is just beginning to be rolled out and has its own issues. For DSL to work, for instance, the subscriber has to live within three miles of one of the phone company's "switching centers," and 40% of American households currently don't. An additional 20% of Americans get their phone service through a digital loop carrier. DSL won't work on those kinds of systems. In addition while the phone companies are working on getting this stuff taken care of and up and going, Excite@Home is buzzing ahead with its cable modems, connecting 1.5 million people so far to the Internet. The company expects to have 8 million wired up and surfing with ease by 2002. Catching up to Excite@Home will be an enormous challenge for its competitors.

The most direct competitor of providers of cable-based Internet services. MediaOne Group, which was recently acquired by AT&T, and Time Warner Inc. have deployed high-speed Internet access services over their local cable networks through their own cable-based Internet service, Road Runner. ATHM currently compete with Road Runner to establish distribution arrangements with cable system operators and it may compete for subscribers in the future if and when its cable partners cease to be subject to their exclusivity obligations.

As a Internet and online service providers, Excite@Home competes with Internet service providers that provide basic Internet access services, online service providers such as America Online, and other Internet portals and online services that have announced broadband strategies, such as Yahoo! Also as a Cable and fiber-optic system over-builder, it competes with companies that have obtained franchises from local authorities to build their own coaxial cable and fiber-optic networks to deliver bundled telecommunications services to residential customers. These companies, such as RCN Corp., act as exclusive providers of broadband Internet, phone and cable television services over their own advanced local network infrastructure. Although these systems have

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been built in limited geographic areas to date, widespread availability of bundled services by system over-builders would represent significant competition against our services.

## KEY RISK FACTORS

- The Company has incurred losses since its inception and anticipates continuing to incur substantial losses for the foreseeable future. As of September 30, 2000, it had an accumulated deficit of \$3,698 million. The recent acquisition will incur substantial non-cash charges including charges relating to the amortization of goodwill and other intangible assets in future periods. In addition, it currently intends to increase capital expenditures and operating expenses in order to expand its network and market and provides its broadband services to potential subscribers.
- The recent acquisition business may not be successful. For example, the recently acquired Kendara, Inc., Worldprints.com International, Inc., DataInsight, Inc. and Join Systems, Inc., have specific technology and other capabilities that it may not be able to successfully integrate with our services or transition to our online platforms.
- Recent softening in the demand for Internet advertising services may decrease the company's Internet advertising revenues. In addition, merger between Time Warner Inc. and America Online would create a very large, diverse media conglomerate. The combined companies may be able to use their diverse media holdings and Internet service delivery capabilities to develop or expand Internet services and content that could attract a significant number of new users and increased traffic. Additionally, America Online will likely use Time Warner's subscription-based services as an advertising mechanism to attract users to the Internet access services provided by America Online and Road Runner. Increased competition for users of Internet services and content may result in lower subscriber growth rates for our online and Internet services and lowers advertising rates and decreased demand for advertising space on our web sites.
- The company could face potential liability related to the privacy of personal information about its users, links to third party web sites and its advertising arrangements. For example, in October 2000, a purported class action suit was filed against its Math Logic Subsidiary, alleging unauthorized access, interception and misuse of customer data based on its advertising targeting technology. If new regulations regarding the use of personal information are introduced or if government agencies choose to investigate its privacy practices, it could incur additional expenses
- The company has substantial amounts of outstanding indebtedness, primarily from its convertible subordinated debentures due 2018 and its 4 3/4% convertible subordinated notes due 2006. It may be unable to generate cash sufficient to pay the principal of, interest on and other amounts in respect of its indebtedness when due. As of September 30, 2000, the total principal amount of its debt outstanding was \$942 million. Its substantial leverage could have significant negative consequences.
- Future success depends on the company's ability to attract, retain and motivate highly skilled employees. However, recently several members of its executive management team have resigned, and its Chief Executive Officer has announced his intention to resign this position. Although the company has replaced most of these employees, the new employees have generally not had previous experience working with each other or other members of its executive management team.
- The recent approval of the merger of American Online & Time Warner with the condition that they open the access to other competitors may predict that the FCC or local agencies could require its cable partners to grant competitors access to their cable systems.
- The increasing intense competition in the market of providing broadband service may cause the company's loss of subscribers, distribution relationships and revenues. The merger between America Online and Time Warner Inc. creates uncertainties about which cable markets will be served by Road Runner on an exclusive or non-exclusive basis, and the merger may improve Road Runner's ability to negotiate distribution agreements with cable system operators. Additionally, its principal stockholder, AT&T, has a substantial ownership interest in Time Warner and Road Runner due to AT&T's recent acquisition of MediaOne. This relationship among America Online, AT&T, Time Warner and Road Runner creates further uncertainties about which cable markets ATHM will be able to serve and under what terms. The merger would also give America Online, the largest dial-up Internet service provider, the ability to utilize Road Runner's technology as a basis for leveraging its marketing and extensive



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subscriber base to compete for customers in ATHM's cable markets once its exclusivity agreements have expired. As a result, [Excite@Home](#) may face intense long-term competition for customers in previously exclusive cable markets.

- Excite@Home is controlled by AT&T, and its interests may not always align with AT&T's interests. AT&T controls approximately 79% of its voting power. It is possible that AT&T's objectives will diverge from what Excite@Home's management considers to be our optimum strategy. On October 25, 2000, AT&T announced that it will restructure its operations into four separate companies and AT&T's interest in Excite@Home will be held by one of these companies. [Excite@Home](#) cannot predict what impact, if any, this restructuring may have on [Excite@Home](#).
- The changes in subscriber growth rates and price charged by the company's cable partners may cause the quarterly operating results fluctuate.
- The level of usage of the Internet in general and portal web sites in particular may not be as high as anticipated.

## FINANCIALS

**Revenues.** ATHM's revenues are primarily derived from media, advertising, and subscriber network services. Fourth quarter 2000 revenues is \$169.1 million, an increase of 31% compared to revenues of \$128.8 million in the fourth quarter of 1999. Revenue increased 5.3% from \$160.5 million in the third quarter of 2000. Full-year 2000 revenues were \$616.4 million, an increase of 47% from pro forma revenue of \$420.5 million in 1999. These increases were primarily attributable to the growth of subscribers to the @Home service and customers of the @Work service. The one-time, non-cash charge ATHM took in the fourth quarter reflects the company's decision to exit non-core businesses and focus only on businesses that would support its broadband Internet service. And the decision to expand its service on DSL will further increase the subscriber revenue. So we believe that @Home's revenue from media and advertising will decline as the percentage of total revenue in the future because of ongoing weakness in the online and traditional advertising markets. We anticipate approximately 32% decline in media and advertising revenue in the first quarter of 2001. But we believe that Subscriber Network and Other Services will increase at a higher rate than before. Therefore, we estimate that the revenue in the first quarter will decrease by about 12% but will increase since then gradually.

**Gross Profit.** Given the positive industry outlook for the growth of broadband Internet service, it seems that @Home will have the opportunity to grow in the years to come. Its strong alliances with cable distributors such as AT&T should allow the company to fulfill the rapidly growing demand for cable access. In addition, its recent reduction of 8% of workforce will save the cost since the second quarter of 2001. However, with increase in the number of subscribers, the company also needs to make more investment in network infrastructure and customer service operations. The current readjusted strategy to focus mainly on broadband service providing rather than advertising and media will induce a lower gross margin. So we believe that the company will experience lower gross margin than before in the year 2001.

**Net Income.** In spite of the enormous growth opportunities for @Home over the next few years, the company still faces numerous costly obstacles. Intense competition will bring about greater marketing expenses, Competition may also force @Home to allocate a greater amount of money towards product development and engineering; doing so could allow the company to remain unique and innovative. With these possibilities in mind, it seems most likely that @Home will not reach profitability for quite some time, but it may become less unprofitable in the near future according to stable increase in the number of subscribers and its closer relationship with AT&T to operate under the AT&T Broadband business.

Million of US dollar, except EPS	1997	1998	1999	2000	2001E
Revenue	\$7.44	\$48.05	\$336.96	\$616.38	\$719.82
Growth		546%	601%	83%	17%
Cost and Expenses					
Operating Costs	\$22.46	\$46.97	\$143.06	\$290.55	\$381.09
Gross Profits	(\$15.02)	\$1.08	\$193.90	\$325.83	\$338.73
Gross Margin %	-202%	2%	58%	53%	47%
Product Development and Engineering	\$11.98	\$17.01	\$54.81	\$95.62	\$110.04
R&D Margin %	161%	35%	16%	16%	15%
Sales and Marketing	\$11.86	\$18.09	\$130.73	\$290.02	\$304.72
General and Administrative	\$10.64	\$12.43	\$30.28	\$65.89	\$58.03
Total operating Cost and Expenses	\$56.94	\$94.50	\$358.88	\$742.08	\$853.89
Operating loss	(\$49.50)	(\$46.45)	(\$21.92)	(\$125.70)	(\$134.07)
Interest and other income	\$3.03	\$6.41	\$10.25	\$9.87	\$0.48
Net Operating loss	(\$46.47)	(\$40.04)	(\$11.67)	(\$115.83)	(\$133.59)
Operating Margin %	-625%	-83%	-3%	-19%	-19%
Earnings per share excluding non-operating cost and other items	(\$0.22)	(\$0.18)	(\$0.04)	(\$0.29)	(\$0.29)
Equity Share loss from affiliated companies			\$9.57	\$46.06	\$44.72
Investment gain from business combination			\$12.57		
Amortization of goodwill	\$0.00	\$2.76	\$1,157.00	\$2,341.60	\$908.78
Cost of distribution	\$9.25	\$101.39	\$291.97	\$171.10	\$97.40
Writedown of goodwill and intangible and other assets				\$4,765.17	
Net Income	(\$55.72)	(\$144.19)	(\$1,457.64)	(\$7,439.76)	(\$1,184.49)
Net Margin %	-749%	-300%	-433%	-1207%	-165%
Shares Outstanding	207.09	228.48	316.44	397.24	453
Earnings per share after cost of dist.	(\$0.27)	(\$0.63)	(\$4.61)	(\$18.73)	(\$2.61)

\*2001 Estimate is based on the Earnings per share excluding non-operating cost and other items.



\*2001 Estimate is based on the Earnings per share excluding non-operating cost and other items.

Million of US dollar, except EPS	2001 1stQE	2001 2ndQE	2001 3rdQE	2001 4thQE
Revenue	\$148.77	\$168.11	\$188.29	\$214.65
Growth	-12%	13%	12%	14%
Cost and Expenses				
Operating Costs	\$86.29	\$87.42	\$97.91	\$109.47
Gross Profits	\$62.48	\$80.69	\$90.38	\$105.18
Gross Margin %	42%	48%	48%	49%
Product Development and Engineering	\$19.34	\$30.26	\$28.24	\$32.20
R&D Margin %	13%	18%	15%	15%
Sales and Marketing	\$66.95	\$79.01	\$77.20	\$81.57
Sales and Marketing Margin%	45%	47%	41%	38%
General and Administrative	\$28.27	\$11.77	\$9.41	\$8.59
General and Administrative Margin%	19%	7%	5%	4%
Total operating Cost and Expenses	\$200.84	\$208.46	\$212.76	\$231.82
Operating Loss	(\$52.07)	(\$40.35)	(\$24.48)	(\$17.17)
Interest and other income	\$0.12	\$0.12	\$0.12	\$0.12
Net Operating Loss	(\$51.95)	(\$40.23)	(\$24.36)	(\$17.05)
Operating Margin %	-35%	-24%	-13%	-8%
Earnings per share excluding non-operating cost and other items	(\$0.13)	(\$0.10)	(\$0.06)	(\$0.04)
Equity Share loss from affiliated companies	\$14.00	\$12.12	\$10.25	\$8.35
Amortization of goodwill	\$508.00	\$400.78	\$0.00	\$0.00
Cost of distribution	\$24.35	\$24.35	\$24.35	\$24.35
Writedown of goodwill and intangible and other assets				
Net Income	(\$598.30)	(\$477.48)	(\$58.96)	(\$49.75)
Net Margin %	-402%	-284%	-31%	-23%
Shares Outstanding	410.5	422.8	432	443
Earnings per share	(\$1.46)	(\$1.13)	(\$0.14)	(\$0.11)

### 1-Year Daily Chart of At Home Corporation



#### VALUATION

It could be easily seen that Earthlink, and @Home fell behind the performance of the AMEX Internet Index. As companies in the ISP sector, these two stocks have some level of correlation. The increase in the price of AOL results from its plan to merge with Time Warner. As a result, we believe that one of the major factors that drive the stock of these companies down is the sector performance. Another major factor for the downward of stock price is due to its acquisition with Excite and bluemountain.com. Such acquisitions not only cost a large amount of money but also change the company's original business model.

#### COMPARATIVE ANALYSIS

We notice that the company's shifting its strategy in term that the management is seeking for mutual contribution between its broadband service and narrowband one. But the slower growth of the Excite media business, which could continue to be impacted by the challenging ad market, coupled with limited visibility into the company's wholesale broadband business make the revenue from media and advertising not as high as expected. The more partnership are coming into the Excite @Home in order to satisfy consumer and B2B use and consequently have brought larger brand recognition which influence the subscriber growth positively. The subscriber revenue is becoming a more important factor for the financial success. We strongly believe that exclusive agreements between the company and its cable operator partners will still place a positive push on the subscriber base. In spite of these exclusive alliances, however, the AOL-Time Warner merger most likely pose a serious threat to @Home's future operations in broadband service market. But its closer relationship with AT&T would make it become #2 ISP. Below is a graph that provides a valuation analysis of @Home and some of its prime competitors:

		Value Comparison 01/16/00				
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	<i>\$ Price</i>	<i>Market Cap. In billions</i>	<i>P/S</i>	<i>Gross Margin % (TTM)</i>	<i>Exclusivity</i>	<i>Short Interest % Floating</i>
@Home	8.72	3.52	5.9	52.10	Decreasing	6.3
America Online	56.63	127915.88	25.60	46.61	Increasing	2.095
Yahoo.	342.69	90209.19	154.16	81.86	Unchanged	15.847
Earthlink	24.56	2855.69	2.91	58	Unchanged	4.036
Average						

#### RATIO COMPARISON

##### Valuation Ratios

##### Company

##### Industry Sector S&P 500

Beta

2.69  
2.12  
1.67  
1.00

Price to Sales (TTM)

5.88  
13.38  
13.74  
5.87

Price to Book (MRQ)

0.54  
12.7  
11.31  
7.86

##### Growth Rates(%)

Sales (MRQ) vs Qtr. 1 Yr. Ago

42.62  
31.76  
37.47  
21.52

Sales (TTM) vs TTM 1 Yr. Ago

153.29  
35.44

	38.65
	23.15
<b>Financial Strength</b>	
Quick Ratio (MRQ)	1.26
	2.17
	2.64
	1.24
Current Ratio (MRQ)	1.41
	2.41
	3.19
	1.76
LT Debt to Equity (MRQ)	0.12
	0.33
	0.20
	0.58
Total Debt to Equity (MRQ)	0.13
	0.37
	0.25
	0.88
<b>Profitability Ratios (%)</b>	
Gross Margin (TTM)	55.37
	48.84
	55.17
	50.08
Gross Margin - 5 Yr. Avg.	29.90
	41.00
	52.01
	48.16
EBITD Margin (TTM)	-69.21

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	16.05
	20.39
	23.48
EBITD - 5 Yr. Avg.	
	-1,052.34
	6.53
	18.77
	21.53

### **INVESTMENT OPINION**

We believe that Excite@Home is in a positively unique strategic position. Although its stock prices have been hurting lately, we believe that @Home is well-situated in the market and that its strategy for growth is viable. Intense competition from newer technologies such as DSL and from the AOL-Time Warner merger, however, may hinder @Home's ability to become a completely dominant force in the market for broadband access. Overall, we give the AtHome Corporation a long-term buy rating and a short-term hold rating. Based on P/S of fourth quarter in 2000 and the predicted sales of fourth quarter of 2001, the target price will be about \$9 in 2001.