rating segments of Ascent Media, and DCI, which is an equity affiliate. Corporate related items and unallocated income and expenses are reflected in the Corporate and Other n listed below.

he Creative Services Group provides post-production services, which are comprised of services necessary to complete the creation of original content including feature films, ion shows, movies of the week/mini series, television commercials, music videos, promotional and identity campaigns and corporate communications programming. The Media gement Services Group provides content storage services, which are comprised of facilities and services necessary to optimize, archive, manage and repurpose media assets for g ution via freight, satellite, fiber and the Internet; access to all forms of content, duplication and formatting services, language conversions and laybacks, restoration and preserva or damaged content, mastering from motion picture film to high resolution or data formats, digital audio and video encoding services and digital media management services fo home video, broadcast, pay-per-view and emerging new media distribution channels. The Network Services Group provides broadcast services, which are comprised of service ary to assemble and distribute programming for cable and broadcast networks via fiber and satellite to viewers in North America, Europe and Asia. Additionally, the Networks es Group provides systems integration, design, consulting, engineering and project management services.

ne Company's chief operating decision maker, or his designee (the "CODM"), has identified the Company's reportable segments based on (i) financial information reviewed by I and (ii) those operating segments that represent more than 10% of the Company's combined revenue or earnings before taxes. In addition, those equity investments whose shar gs represent more than 10% of the Company's earnings before taxes are considered reportable segments.

ne accounting policies of the segments are the same as those described in the summary of significant accounting policies and are consistent with GAAP.

ne Company evaluates the performance of these operating segments based on financial measures such as revenue and operating cash flow. The Company defines operating cash nue less operating expenses and selling, general and administrative expense (excluding stock and other equity-based compensation). The Company believes this is an important or of the operational strength and performance of its businesses, including the ability to service debt and capital expenditures. In addition, this measure allows management to v ng results and perform analytical comparisons and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock and based compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, operating cash flow be considered in addition to, but not as a substitute for, operating income, cash flow provided by operating activities and other measures of financial performance prepared in nce with GAAP.

ımmarized financial information concerning the Company's reportable segments is presented in the following tables:

		Creative Services Group	Media Management Services Group	Network Services Group(1)	DCI	Corporate and Other and eliminations	Total
				amounts in thousands			
ıonths ended March 31, 2005							
/enue from external customers	$	74,228	28,776	71,286	601,471	(601,471)	174,290
ɛrating cash flow	$	13,051	3,691	15,006	148,454	(160,351)	19,851
ɔital expenditures	$	4,499	5,261	10,249	35,459	(34,547)	20,921
ɔreciation and amortization	$	7,499	2,186	4,709	28,821	(26,454)	16,761
al assets	$	295,970	170,069	291,723	3,192,249	1,627,699	5,577,710
ıonths ended March 31, 2004							
/enue from external customers	$	75,166	25,450	45,327	527,362	(527,362)	145,943
ɛrating cash flow	$	14,381	4,687	13,108	137,417	(147,105)	22,488
ɔital expenditures	$	4,368	765	792	5,703	(5,703)	5,925
ɔreciation and amortization	$	7,182	2,093	4,510	30,833	(28,566)	16,052

Included in Network Services Group revenue is broadcast services revenue of $35,912,000 and $25,741,000 and systems integration revenue of $35,374,000 and $19,586,000 f three months ended March 31, 2005 and 2004, respectively.

ıe Company's reportable segments are strategic business units that offer different products and services. They are managed separately because each segment requires different ogies, distribution channels and marketing strategies.

e following table provides a reconciliation of segment operating cash flow to earnings before income taxes.

		Three months ended March 31, 2005	2004
		amounts in thousands	
Segment operating cash flow	$	19,851	22,488
Stock compensation		(213)	(522)
Depreciation and amortization		(16,761)	(16,052)
Share of earnings of DCI		22,814	10,449
Other, net		322	(111)
Earnings before income taxes	$	26,013	16,252

Information as to the Company's operations in different geographic areas is as follows:

	Three months ended March 31,	
	2005	2004
	amounts in thousands	
Revenue		
United States	$ 132,499	112,042
United Kingdom	37,283	27,888
Other countries	4,508	6,013
	$ 174,290	145,943

Report of Independent Registered Public Accounting Firm

ockholders and Board of Directors
y Media Corporation:

Ve have audited the accompanying combined balance sheets of LMC Discovery Group (a combination of certain assets and businesses owned by Liberty Media Corporation, as d in note 1) as of December 31, 2004 and 2003, and the related combined statements of operations, parent's investment and cash flows for each of the years in the three-year pe December 31, 2004. These combined financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these combined ial statements based on our audits. We did not audit the financial statements of Discovery Communications, Inc. (a 50 percent owned investee company). The Company's invest covery Communications, Inc. at December 31, 2004 and 2003, was $2,945,782,000 and $2,863,003,000, respectively, and its equity in earnings (losses) of Discovery unications, Inc. was $84,011,000, $37,271,000 and $(32,046,000) for the years 2004, 2003 and 2002, respectively. The financial statements of Discovery Communications, Inc l by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included in the financial statements of Discovery Communication pport the equity in earnings (losses) of Discovery Communications, Inc. and the accumulated equity earnings (loss) included within the Company's investment in Discovery unications, Inc., is based solely on the report of the other auditors.

Ve conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform o obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the am sclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the o al statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

our opinion, based on our audits and the report of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial po C Discovery Group as of December, 31, 2004 and 2003, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 20 nity with U.S. generally accepted accounting principles.

LLP

, Colorado
14, 2005, except as to the last three paragraphs of note 3, which are as of April 15, 2005

LMC Discovery Group

Combined Balance Sheets

December 31, 2004 and 2003

	2004	2003
	amounts in thousands	
t assets:		
h and cash equivalents	$ 34,441	8,599
de receivables, net	151,120	102,889
paid expenses and other current assets	26,208	19,949
Total current assets	211,769	131,437
estment in Discovery Communications, Inc. ("DCI")	2,945,782	2,863,003
perty, plant, and equipment, net	258,741	257,536
odwill and other intangible assets, net	2,140,355	2,136,667
er assets, net	8,181	7,984
Total assets	$ 5,564,828	5,396,627
ties and Parent's Investment		
t liabilities:		
ounts payable	$ 33,327	12,269
rued payroll and related liabilities	23,632	18,824
er accrued liabilities	29,606	16,575
erred revenue	20,858	12,927
to parent	1,104	—
Total current liabilities	108,527	60,595
d income tax liabilities	1,083,964	1,053,113
iabilities	25,058	22,650
Total liabilities	1,217,549	1,136,358
tments and contingencies (see note 13)		
investment:		
nt's investment	5,506,066	5,490,799
umulated deficit	(1,171,097)	(1,237,205)

Accumulated other comprehensive earnings	12,310	6,675
Total parent's investment	4,347,279	4,260,269
Total liabilities and parent's investment	$ 5,564,828	5,396,627

See accompanying notes to combined financial statements.

LMC Discovery Group

Combined Statements of Operations

Years ended December 31, 2004, 2003 and 2002

		2004	2003	2002
			amounts in thousands	
venue	$	631,215	506,103	539,333
f services (excluding depreciation shown below)		380,290	301,005	322,007
ss profit		250,925	205,098	217,326
ng expenses:				
ing, general, and administrative		153,559	130,336	128,271
reciation and amortization		77,605	70,526	67,272
ck compensation		2,775	2,602	(48)
airment of goodwill		51	562	83,718
tructuring and other charges		—	3,476	(435)
		233,990	207,502	278,778
rating income (loss)		16,935	(2,404)	(61,452)
ncome (expense):				
rest expense		—	(47,489)	(42,713)
rest to parent		—	(24,689)	(22,107)
e of earnings (losses) of DCI		84,011	37,271	(32,046)
ealized gains on derivative instruments, net		406	6,444	12,416
er, net		(274)	(3,623)	4,823
		84,143	(32,086)	(79,627)
ings (loss) before income taxes, minority interest and change in accounting principle		101,078	(34,490)	(141,079)
tax benefit (expense)		(34,970)	(20,156)	30,479
y interests in losses of subsidiaries		—	2,252	1,552
ings (loss) before change in accounting principle		66,108	(52,394)	(109,048)
in accounting principle		—	—	(20,227)
earnings (loss)	$	66,108	(52,394)	(129,275)

comprehensive earnings, net of taxes:			
realized holding gains (losses) arising during the period	(1,162)	1,770	(6,501)
eign currency translation adjustments	6,797	7,528	9,103
er comprehensive earnings	5,635	9,298	2,602
ehensive earnings (loss)	$ 71,743	(43,096)	(126,673)
ted pro forma basic and diluted earnings (loss) per common share (note 3):			
nings (loss) before change in accounting principle	$ 0.24	(0.19)	(0.39)
nge in accounting principle	—	—	(0.07)
Earnings (loss)	$ 0.24	(0.19)	(0.46)

See accompanying notes to combined financial statements.

LMC Discovery Group

Combined Statements of Parent's Investment

Years ended December 31, 2004, 2003 and 2002

	Parent's investment	Accumulated deficit	Accumulated other comprehensive income (loss)	Total
	amounts in thousands			
e at January 1, 2002	$ 4,638,486	(1,055,536)	(4,586)	3,578,364
ıance of stock	13,293	—	—	13,293
ıance of stock for interest on convertible subordinated notes	21,268	—	—	21,268
ıllocation of enterprise level goodwill from parent	184,000	—	—	184,000
: cash transfers to parent	(54,267)	—	—	(54,267)
ıer	1,432	—	—	1,432
ıer comprehensive income	—	—	2,602	2,602
: loss	—	(129,275)	—	(129,275)
e at December 31, 2002	4,804,212	(1,184,811)	(1,984)	3,617,417
ıance of stock for interest on convertible subordinated notes	11,129	—	—	11,129
ıversion of debt to equity	654,330	—	—	654,330
llocation of enterprise level goodwill from parent	15,000	—	—	15,000
ıuisition of Ascent Media's minority interest	5,811	—	—	5,811
er comprehensive income	—	—	9,298	9,298
er	317	—	(639)	(322)
loss	—	(52,394)	—	(52,394)
: at December 31, 2003	5,490,799	(1,237,205)	6,675	4,260,269
:k compensation	2,268	—	—	2,268
llocation of enterprise level goodwill from parent	(18,000)	—	—	(18,000)
cash transfers from parent	30,999	—	—	30,999
er comprehensive income	—	—	5,635	5,635
earnings	—	66,108	—	66,108
: at December 31, 2004	$ 5,506,066	(1,171,097)	12,310	4,347,279

See accompanying notes to combined financial statements.

LMC Discovery Group

Combined Statements of Cash Flows

Years ended December 31, 2004, 2003 and 2002

	2004	2003	2002
		amounts in thousands (see note 4)	
lows from operating activities:			
earnings (loss)	$ 66,108	(52,394)	(129,275)
ustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Depreciation and amortization	77,605	70,526	67,272
Stock compensation	2,775	2,602	(48)
Impairment of goodwill	51	562	83,718
Noncash interest expense	—	26,218	24,001
Amortization of discount	—	19,044	3,462
Share of losses (earnings) of DCI	(84,011)	(37,271)	32,046
Unrealized gains on derivative instruments	(406)	(6,444)	(12,416)
Deferred income tax expense (benefit)	31,692	17,653	(28,661)
Change in accounting principle	—	—	20,227
Other non-cash charges, net	1,112	3,295	2,076
nges in assets and liabilities (net of acquisitions):			
Trade receivables	(36,405)	(4,040)	(838)
Inventories and prepaid expenses	(6,631)	(3,069)	(1,861)
Payables and other liabilities	32,432	(7,000)	3,329
Net cash provided by operating activities	84,322	29,682	63,032
ows from investing activities:			
ital expenditures	(49,292)	(25,863)	(56,358)
h paid for acquisitions, net of cash acquired	(44,238)	—	—
h proceeds from dispositions	3,978	5,453	51,666
er investing activities, net	73	177	(6,318)
Net cash used in investing activities	(89,479)	(20,233)	(11,010)
ows from financing activities:			
cash transfers to/from parent	30,999	—	(54,267)
rowings of long-term debt	—	2,945	8,955
nents of long-term debt and capital lease obligations	—	(406,820)	(45,802)
rowings under convertible subordinated notes with parent	—	391,027	18,151
eeds from issuance of common stock	—	—	13,293
er financing activities, net	—	—	(3,787)
Net cash provided by (used in) financing activities	30,999	(12,848)	(63,457)

Net increase (decrease) in cash and cash equivalents	25,842	(3,399)	(11,435)
Cash and cash equivalents at beginning of year	8,599	11,998	23,433
Cash and cash equivalents at end of year	$ 34,441	8,599	11,998

See accompanying notes to combined financial statements.

asis of Presentation

ne accompanying combined financial statements of LMC Discovery Group or the "Company" represent a combination of the historical financial information of (1) Ascent Medi Inc. ("Ascent Media"), a wholly owned subsidiary of Liberty Media Corporation ("Liberty"), and (2) Liberty's 50% ownership interest in DCI. Upon consummation of the spin tion described in note 2, Discovery Holding Company will own the assets that comprise LMC Discovery Group.

scent Media is comprised of three operating divisions or groups. Ascent Media's Creative Services group provides services necessary to complete the creation of original conter ng feature films, mini-series, television shows, television commercials, music videos, promotional and identity campaigns, and corporate communications programming. The gr lates or enhances original visual images or audio captured in principal photography or creates new three dimensional images, animation sequences, or sound effects. The Media ement Services group provides owners of content libraries with an entire complement of facilities and services necessary to optimize, archive, manage, and repurpose media ass bal distribution via freight, satellite, fiber, and the Internet. The Networks Services group provides the facilities and services necessary to assemble and distribute programming for cable and broadcast networks via fiber, satellite, and the Internet to viewers in North America, Europe, and Asia. Additionally, the networks services group provides systen tion, design, consulting, engineering and project management services.

CI is a global media and entertainment company that provides original and purchased cable and satellite television programming in the United States and over 160 other countri

in off Transaction

ring the first quarter of 2005, the Board of Directors of Liberty (the "Board") approved a resolution to spin off the capital stock of Discovery Holding Company to the holders Series A and Series B common stock (the "Spin Off"). The Spin Off will be effected as a distribution by Liberty to holders of its Series A and Series B common stock of shares A and Series B common stock of Discovery Holding Company. The Spin Off will not involve the payment of any consideration by the holders of Liberty common stock and is d to qualify as a tax-free transaction. The Spin Off is expected to occur in the third quarter of 2005, on a date to be determined by the Board, and will be made as a dividend to of record of Liberty common stock as of the close of business on the date of record for the Spin Off. The Spin Off is expected to be accounted for at historical cost due to the p ure of the distribution.

llowing the Spin Off, the Company and Liberty will operate independently, and neither will have any stock ownership, beneficial or otherwise, in the other. In connection with f, the Company and Liberty will enter into certain agreements in order to govern certain of the ongoing relationships between the Company and Liberty after the Spin Off and t for an orderly transition. These agreements include a Reorganization Agreement, a Services Agreement and a Tax Sharing Agreement.

e Reorganization Agreement provides for, among other things, the principal corporate transactions required to effect the Spin Off and cross indemnities. Pursuant to the Service ent, Liberty will provide the Company with certain general and administrative services including legal, tax, accounting, treasury and investor relations support. The Company v se Liberty for direct,

-pocket expenses incurred by Liberty in providing these services and for the Company's allocable portion of costs associated with any shared services or personnel.

Jnder the Tax Sharing Agreement, Liberty will generally be responsible for U.S. federal, state, local and foreign income taxes reported on a consolidated, combined or unitary re
cludes the Company or one of its subsidiaries and Liberty or one of its subsidiaries. The Company will be responsible for all other taxes that are attributable to the Company or
sidiaries, whether accruing before, on or after the Spin Off. The Tax Sharing Agreement requires that the Company will not take, or fail to take, any action where such action, o
to act, would be inconsistent with or prohibit the Spin Off from qualifying as a tax-free transaction. Moreover, the Company will indemnify Liberty for any loss resulting from
or failure to act, if such action or failure to act precludes the Spin Off from qualifying as a tax-free transaction.

ummary of Significant Accounting Policies

nd Cash Equivalents

he Company considers investments with original purchased maturities of three months or less to be cash equivalents.

Receivables

rade receivables are shown net of an allowance based on historical collection trends and management's judgment on the collectibility of these accounts. These collection trends,
prevailing and anticipated economic conditions, are routinely monitored by management, and any adjustments required are reflected in current operations. The allowance for
il accounts as of December 31, 2004 and 2003 was $12,104,000 and $11,580,000, respectively.

summary of activity in the allowance for doubtful accounts is as follows:

	Balance beginning of year	Charged (credited) to expense	Acquired or charged to other accounts	Deductions and other	Balance end of year
			amounts in thousands		
	$ 11,580	555	(403)	372	12,104
	$ 9,013	(5)	2,004	568	11,580
	$ 11,951	(963)	(1,858)	(117)	9,013

tration of Credit Risk and Significant Customers

r the years ended December 31, 2004, 2003 and 2002, no single customer accounted for more than 10% of combined revenue.

ent in Discovery

AC Discovery Group accounts for its 50% ownership interest in DCI using the equity method of accounting. Under this method, the investment, originally recorded at cost, is
l to recognize the Company's share of the net earnings or losses of DCI as they occur, rather than as dividends or other distributions are received. The excess of the Company's
; value over its proportionate share of

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very's equity is accounted for as equity method goodwill, and accordingly, is not amortized, but periodically reviewed for impairment.

hanges in the Company's proportionate share of the underlying equity of DCI which result from the issuance of additional equity securities by DCI are recognized as increases c ses in parent's investment.

he Company periodically compares the carrying value of its investment in DCI to its estimated fair value to determine if there are any other-than-temporary declines in value, w require an adjustment in the statement of operations. The estimated fair value of the investment in DCI exceeds its carrying value for all periods presented.

ty and Equipment

operty and equipment are carried at cost and depreciated using the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorte timated useful lives or the term of the underlying lease. Estimated useful lives by class of asset are as follows:

Buildings	20 years
Leasehold improvements	15 years or lease term, if shorter
Furniture and fixtures	7 years
Computers	3 years
Machinery and equipment	5 to 7 years

epreciation expense for property and equipment was $74,986,000, $68,032,000 and $64,134,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

ill and Nonamortizable Other Intangible Assets

fective January 1, 2002, the Company adopted SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), and ceased amortizing goodwill and nonamortizable o ble assets. In accordance with SFAS No. 142, the Company reviews the impairment of goodwill annually and whenever events or changes in circumstances indicate that the car ay not be recoverable. The effect of the adoption was to record a transitional impairment of $20,227,000 during the first quarter of fiscal 2002 reflected as a change in accounti le in the consolidated statements of operations.

ntangible Assets

nortizable other intangible assets are amortized on a straight-line basis over their estimated useful lives of four to five years, and are reviewed for impairment in accordance wit No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* ("SFAS No. 144").

ived Assets

accordance with SFAS No. 144, management reviews the realizability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of ay not be recoverable. In evaluating the value and future benefits of long-term assets, their carrying value is compared to management's best estimate of undiscounted future cas ver the remaining amortization period. If such assets are considered to be impaired, the impairment to be recognized is red by the amount by which the carrying value of the assets exceeds the estimated fair value of the assets.

n Currency Translation

he functional currencies of the Company's foreign subsidiaries are their respective local currencies. Assets and liabilities of foreign operations are translated into U.S. dollars us ge rates on the balance sheet date, and revenues and expenses are translated into U.S. dollars using average exchange rates for the period. The effects of the foreign currency tion adjustments are deferred and are included in parent's investment as a component of accumulated other comprehensive earnings.

alue of Financial Instruments

he carrying amounts of cash and cash equivalents, accounts receivable, and accounts payable approximate fair value because of the short-term maturity of these instruments.

t Rate Swap Agreements

om time to time, the Company may utilize interest rate swap agreements to manage interest rate exposure. The Company accounts for these swaps in accordance with SFAS No *nting for Derivative Instruments and Hedging Activities, and* SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of* *3* . The Company records all derivatives on the balance sheet at fair value. At December 31, 2004 the Company had no interest rate swap agreements.

e Recognition

evenues from post-production and certain distribution related services are recognized when services are provided. Revenues on long-term contracts are recorded on the basis of ed percentage of completion of individual contracts. Estimated losses on long-term contracts are recognized in the period in which a loss becomes evident.

epayments received for services to be performed at a later date are reflected in the combined balance sheets as deferred revenue until such services are provided.

Taxes

e Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS No. 109"). SFAS No. 109 is an asset approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's dated financial statements or tax returns. In estimating future tax consequences, SFAS No. 109 generally considers all expected future events other than proposed changes in the rates.

sing Costs

lvertising costs generally are expensed as incurred. Advertising expense aggregated $3,303,000, $3,089,000 and $3,025,000 for the years ended December 31, 2004, 2003 and 2 vely.

Based Compensation

mployees of the Company hold stock options with respect to shares of Liberty Series A common stock. The Company applies the intrinsic-value-based method of accounting bed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* , and related interpretations including FASB Interpretation No. 44, *nting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25* , to account for its fixed-plan stock options. Under this method, compen e is recorded on the date of grant only if the current market price of the underlying stock exceeds the exercise price and is recognized on a straight-line basis over the vesting pe No. 123, *Accounting for Stock-Based Compensation* , established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based emplo nsation plans. As allowed by SFAS No. 123, the Company has elected to continue to apply the intrinsic-value-based method of accounting described above and has adopted onl ure requirements of SFAS No. 123.

ne following table illustrates the effect on net earnings (loss) if the fair-value-based method had been applied to all outstanding and unvested awards in each period.

		Years ended December 31,		
		2004	2003	2002
			amounts in thousands, except per share amounts	
Net earnings (loss), as reported	$	66,108	(52,394)	(129,275)
Add:				
Stock-based employee compensation expense included in reported net loss		2,268	2,452	3,189
Deduct:				
Stock-based employee compensation expense determined under fair value based method for all awards		(6,247)	(4,817)	(3,709)
Pro forma net earnings (loss)	$	62,129	(54,759)	(129,795)
Unaudited pro forma basic and diluted net earnings (loss) per share:				
As reported	$	0.24	(0.19)	(0.46)
Pro forma for fair value stock compensation	$	0.22	(0.20)	(0.46)

ted Pro Forma Earnings (Loss) Per Common Share

audited pro forma basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the pro forma number of common shares outstanding for the The pro forma number of shares outstanding for all periods presented is 279,996,000 shares, which is the number of shares that would have been issued on December 31, 2004 f had been completed on such date. Dilutive EPS presents the dilutive effect on a per shares basis of potential common shares as if they had been converted at the beginning of presented. Due to the relative insignificance of the dilutive securities in 2004, their inclusion does not impact the EPS amount as reported in the accompanying combined staten tions.

Estimates

he preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires manageme estimates and assumptions that affect the reported amounts of revenues and expenses for each reporting period. The significant estimates made in preparation of the Company's idated financial statements primarily relate to valuation of goodwill, other intangible assets, long-lived assets, deferred tax assets, and the amount of the allowance for doubtful ts. Actual results could differ from the estimates upon which the carrying values were based.

Accounting Pronouncements

December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), " *Share-Based Payments* " ("Statemei). Statement 123R, which is a revision of Statement 123 and supersedes APB Opinion No. 25, establishes standards for the accounting for transactions in which an entity exchar ty instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and to ize that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Statement 123R also requires companies to mea t of employee services received in exchange for an award of liability instruments (such as stock appreciation rights) based on the current fair value of the award, and to remeasu ue of the award at each reporting date.

blic companies were originally required to adopt Statement 123R as of the beginning of the first interim period that begins after June 15, 2005. On April 14, 2005, the Securitie ge Commission amended the effective date to the beginning of a registrant's next fiscal year, or January 1, 2006 for calendar-year companies, such as the Company. The provis ement 123R will affect the accounting for all awards granted, modified, repurchased or cancelled after January 1, 2006. The accounting for awards granted, but not vested, prior 1, 2006 will also be impacted. The provisions of Statement 123R allow companies to adopt the standard on a prospective basis or to restate all periods for which Statement 12 e. The Company expects to adopt Statement 123R on a prospective basis, and will include in its financial statements for periods that begin after December 31, 2005 pro forma ation as though the standard had been adopted for all periods presented.

hile the Company has not yet quantified the impact of adopting Statement 123R, it believes that such adoption could have a significant impact on its operating income and net s in the future.

upplemental Disclosure of Cash Flow Information

	Years ended December 31,		
	2004	2003	2002
	amounts in thousands		
Cash paid for acquisitions:			
Fair value of assets acquired	$ 60,950	11,811	—
Net liabilities assumed	(17,073)	(6,000)	—
Deferred tax liability	361	—	—
Contribution from parent	—	(5,811)	—
Cash paid for acquisitions, net of cash acquired	$ 44,238	—	—
Cash paid during the year for:			
Interest	$ —	25,206	35,748
Income taxes	$ 1,916	731	1,874
Noncash investing and financing activities:			
Stock issued for payment of interest on convertible subordinated notes	$ —	11,129	21,268
Conversion of subordinated notes to parent's investment	$ —	654,330	—

vestment in DCI

ıe Company has a 50% ownership interest in DCI and accounts for its investment using the equity method of accounting. DCI is a global media and entertainment company, tha s original and purchased video programming in the United States and over 160 other countries.

cluded in the Company's share of earnings (losses) of DCI in 2003 and 2002 is the Company's 50% share of adjustments to the redemption value of redeemable common stock l fficer of DCI. Such adjustments were recorded as reductions to equity by DCI. These shares were redeemed in June 2003.

2001, the Company acquired 25,200 shares of DCI Class B non-voting common stock for an additional $49,788,000 cash investment. In 2002, DCI redeemed these shares for ,000. The Company recorded the $4,481,000 difference between its 2001 investment and the redemption proceeds as interest income.

ummarized financial information for DCI is as follows:

lidated Balance Sheets

	December 31,	
	2004	2003
	amounts in thousands	
Current assets	$ 835,450	858,383
Property and equipment	380,290	360,411
Goodwill and intangible assets	445,221	466,968
Programming rights, long term	1,027,379	881,735
Other assets	547,346	626,714
Total assets	3,235,686	3,194,211
Current liabilities	885,353	1,538,798
Long term debt	2,498,287	1,833,942
Other liabilities	160,405	212,984
Mandatorily redeemable equity in subsidiaries	319,567	410,252
Stockholders' deficit	(627,926)	(801,765)
Total liabilities and stockholders' deficit	3,235,686	3,194,211

lidated Statements of Operations

	Years ended December 31,		
	2004	2003	2002
		amounts in thousands	
Revenue	$ 2,365,346	1,995,047	1,716,775
Cost of revenue	(846,316)	(751,578)	(699,737)
Selling, general and administrative	(856,340)	(735,017)	(638,405)
Equity-based compensation	(71,515)	(74,119)	(96,865)
Depreciation and amortization	(129,011)	(120,172)	(112,841)
Gain on sale of patents	22,007	—	—
Operating income	484,171	314,161	168,927
Interest expense	(167,420)	(159,409)	(163,315)
Other expense	(6,930)	(16,730)	(63,725)
Income tax benefit (expense)	(141,799)	(74,785)	10,057

Net earnings (loss)	$ 168,022	63,237	(48,056)

(6) Property and Equipment

Property and equipment at December 31, 2004 and 2003 consist of the following:

	2004	2003
	amounts in thousands	
Property and equipment, net:		
Land	$ 58,048	60,389
Buildings	183,985	158,861
Equipment	226,188	174,981
Accumulated depreciation	(209,480)	(136,695)
	$ 258,741	257,536

(7) Goodwill and Other Intangible Assets

SFAS No. 142 prescribes the financial accounting and reporting for acquired goodwill and other intangible assets. Under SFAS No. 142, the Company is no longer required to amortize goodwill and other intangible assets with indefinite lives, but is required to test such assets annually for impairment. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and be reviewed for impairment in accordance with SFAS No. 144.

Effective January 1, 2002, the Company adopted SFAS No. 142 and in accordance with its provisions, the Company recorded, during the first quarter of fiscal 2002, a transitional impairment charge of $20,227,000. Such charge has been reflected as a cumulative effect of a change in accounting principle. Also, the Company recorded a goodwill impairment charge of $83,718,000 during the fourth quarter of fiscal 2002 as a result of the annual impairment test of goodwill in accordance with SFAS No. 142. In fiscal 2004 and 2003, the Company recorded impairment charges of $51,000 and $562,000, respectively, as a result of the annual impairment test of goodwill in accordance with SFAS No. 142. The fair value of each reporting unit was determined through the use of an outside independent valuation consultant. The consultant used both the income approach and market approach in determining fair value.

SFAS No. 142 requires the Company to consider equity method affiliates as separate reporting units. As a result, a portion of Liberty's enterprise-level goodwill balance has been allocated to a separate reporting unit which includes only its investment in DCI and has been included in these combined financial statements. This allocation is performed for goodwill impairment testing purposes only and does not change the reported carrying value of the investment. However, to the extent that all or a portion of an equity method investment which is part of a reporting unit containing allocated goodwill is disposed of in the future, the allocated portion of goodwill will be relieved and included in the calculation of the gain or loss on disposal.

In addition, it has been necessary for Liberty to periodically reallocate its enterprise level goodwill due to changes in reporting units caused by transactions or by internal reorganizations. These reallocation adjustments were made based on the relative fair values of the remaining reporting units in accordance with SFAS No. 142. As a result, there have been adjustments to the enterprise level goodwill allocated to LMC Discovery during the years presented in these financial statements. Such adjustments are reflected in the Combined Statements of Parent's Investment.

he following table provides the activity and balances of goodwill for the years ended December 31, 2004 and 2003:

		Creative Services Group	Media Management Services Group	Network Services Group	DCI	Total
				amounts in thousands		
lance at January 1, 2003	$	105,761	86,519	138,425	1,774,000	2,104,705
d:						
Acquisitions		2,092	1,337	7,776	—	11,205
Foreign exchange and other		137	169	243	15,000	15,549
luct:						
2003 Impairment		(562)	—	—	—	(562)
lance at December 31, 2003		107,428	88,025	146,444	1,789,000	2,130,897
l:						
Acquisitions		—	5,325	17,379	—	22,704
Foreign exchange and other		—	—	(104)	(18,000)	(18,104)
luct:						
2004 Impairment		(51)	—	—	—	(51)
ance at December 31, 2004	$	107,377	93,350	163,719	1,771,000	2,135,446

cluded in goodwill and other intangible assets at December 31, 2004 are amortizable intangibles with a net book value of $2,469,000 and tradename (which is not subject to :ation) of $2,440,000.

r the years ended December 31, 2004, 2003 and 2002, the Company recorded $2,619,000, $2,494,000 and $3,138,000, respectively, of amortization expense for other intangibl

structuring Charges

ıring 2003, the Company completed certain restructuring activities designed to improve operating efficiencies and effectiveness and to strengthen its competitive position in the place primarily through cost and expense reductions. In connection with these integration and consolidation initiatives, the Company recorded a charge of $3,476,000. This uring charge is related to the consolidation of facilities and closure-related costs in the Creative Services group both domestically and in the United Kingdom. The restructuring includes $1,170,000 for employee severance, $2,130,000 related to excess lease commitments as a result of facility closures, and $176,000 for contract exit costs.

he following table provides the activity and balances of the restructuring reserve.

		Opening balance	Additions	Deductions	Ending balance
			amounts in thousands		
Excess facility costs	$	5,133	—	(2,906)	2,227
Employee separations		255	—	(255)	—
December 31, 2002	$	5,388	—	(3,161)	2,227
Excess facility costs	$	2,227	2,130	(980)	3,377
Employee separations		—	1,170	(1,170)	—
Contract exit costs		—	176	(176)	—
December 31, 2003	$	2,227	3,476	(2,326)	3,377
Excess facility costs December 31, 2004	$	3,377	—	(788)	2,589

:quisitions

ı Playout Centre.

ı March 12, 2004, pursuant to an Agreement for the Sale and Purchase (the "Purchase Agreement"), Ascent Media acquired all of the issued share capital of London Playout Ce ł ("LPC") from an independent third party for a cash purchase price of $36,573,000 paid at closing. In addition, in the event certain existing LPC contracts, which currently exp rough 2007, are renewed on terms similar to existing terms, Ascent Media may be required to pay up to an additional £5,000,000 ($9,600,000 at December 31, 2004). As the ar ontingent consideration is not determinable at December 31, 2004, no liability has been recorded in the accompanying combined balance sheet. At the point in time that the am ingent consideration is determinable, Ascent Media will record an increase to the LPC purchase price. LPC is a UK-based television channel origination facility. The purchase in part, by proceeds from Liberty.

lectronics' System Integration Center.

ı December 31, 2003, the Company acquired Sony Electronic's ("Sony's") systems integration center business and related assets ("SIC"). In exchange for SIC, Sony received th be paid 20% of the value of the combined business of the Company's wholly owned subsidiary, A.F. Associates, Inc. ("AFA") and SIC as set forth in agreements related to the e. The acquisition was accounted for using the purchase method of accounting, and the value of 20% of the combined business of AFA and SIC was estimated at $6,000,000.

e following unaudited pro forma information was prepared assuming the acquisitions of LPC and SIC occurred on January 1, 2003. However, those pro forma amounts are not rily indicative rating results that would have occurred if the LPC and SIC acquisitions had occurred on January 1, 2003.

		Years ended December 31,	
		2004	2003
		amounts in thousands, except per share amounts	
Revenue	$	639,718	612,994
Net earnings (loss)	$	65,317	(54,530)
Pro forma basic and diluted net earnings (loss) per common share	$	0.23	(0.19)

ong-Term Debt

Credit Agreement

n December 23, 2003, Ascent Media retired its Senior Credit Agreement with Bank of America by paying down in full the Term A loan, Term B loan, and Revolver, with cash ed by Liberty.

Subordinated Credit Agreement

December 2000, when Ascent Media was a publicly traded company and had a senior bank credit facility, Liberty and Ascent Media entered into a subordinated credit agreeme t to which Liberty agreed to make subordinated convertible loans to Ascent Media. From December 2000 through December 2003, Ascent Media borrowed funds under the nated credit agreement as needed, and as agreed to by its senior lenders, for acquisitions, capital expenditures, working capital and payments under its senior bank credit facility ecember 2000 through June 2003, at which time Liberty acquired the minority interest in Ascent Media held by the public, Ascent Media paid interest at the rate of 10% per an ubordinated debt primarily with shares of its common stock. From June 2003 through December 2003, accrued interest was added to the principal amount of debt. In ber 2003, Liberty contributed the total amount of debt and accrued interest of $654,330,000 to equity and the subordinated credit agreement was cancelled.

y Mortgages and Other Debt

December 2003, Ascent Media, through a capital contribution from Liberty, paid down all principal amounts outstanding on all property mortgages, capital loans, and other deb

come Taxes

ferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or ble amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are d to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the t or refundable for the period plus or