facilities were $3,490,000,000 at March 31, 2005. Debt outstanding on these facilities aggregated $2,580,000,000 at March 31, 2005, providing excess debt availability of $910,000,000.

All term and revolving loans and senior notes are unsecured. They contain covenants that require Discovery to meet certain financial ratios and place restrictions on the payment of dividends, sale of assets, additional borrowings, mergers, and purchases of capital stock, assets and investments. Discovery has indicated they are in compliance with all debt covenants at March 31, 2005.

In 2005, including amounts discussed above, Discovery expects to spend approximately $125,000,000 for capital expenditures, $170,000,000 for interest expense, and approximately $50,000,000 for LTIP obligations. Amounts expensed and payable under the LTIP are dependent on future annual calculations of unit values which in turn are affected primarily by changes in Discovery's value as estimated by an external investment banking firm, annual grants of additional units, redemptions of existing units, and changes to the plan. Discovery believes that its cash flow from operations and borrowings available under its credit facilities will be sufficient to fund its working capital requirements, including LTIP obligations.

Discovery generated $124,690,000, $154,191,000 and $139,010,000 of cash from operations during the years ended December 31, 2004, 2003 and 2002, respectively. In 2004, the decrease in cash provided by operations was due to payments of LTIP obligations partially offset by improved net income. Additionally, Discovery paid $148,880,000 for the acquisition of a minority interest in Discovery Health. As part of his long-term incentive plan with Discovery, John Hendricks, Discovery's Founder and Chairman, had a ten-year incentive agreement that granted him a cash award equal to 1.6% of the difference between Discovery's value at December 31, 1993 and December 31, 2003 for his services as Chairman and Chief Executive Officer during the period. This cash award was paid out to Mr. Hendricks in two installments, one in December 2003 and one in February 2004. The portion of the cash award that was paid out in February 2004 along with payments to other members of the Discovery management team during 2004 totaled $240,752,000 in connection with the redemption of units pursuant to the terms of the LTIP. For a further discussion of Discovery's LTIP, please see Note 15 to the Discovery consolidated financial statements on pages F-57 to F-58.

In addition to previous long-term incentive plans that have expired and have been paid out as described herein, Mr. Hendricks has been awarded long-term compensation units, which provide Mr. Hendricks with a total 2.5% participation in Discovery's increase in valuation in accordance with Discovery's LTIP.

In 2003, the increase in cash provided by operations was principally attributed to Discovery reporting net income of $63,237,000 in 2003 compared to a net loss of $48,056,000 in 2002. In 2003, Discovery paid the first installment of the previously mentioned cash payment under John Hendricks' LTIP, along with payments to other members of management, in the amount of $51,023,000. Additionally, Discovery repurchased $55,334,000 of its common equity pursuant to a put right held by John Hendricks, the Founder, Chairman and then Chief Executive Officer of Discovery. Other than obligations under Discovery's LTIP, Discovery is not obligated under any other put rights with respect to Discovery equity securities and does not have any additional obligations to repurchase equity or equity-based securities of Discovery. However, under certain circumstances, Discovery may be required to buy out the minority interests in certain channels that are not currently wholly owned by Discovery. See "—Contractual Obligations."

Contractual Obligations. Discovery has agreements covering leases of satellite transponders, facilities and equipment. These agreements expire at various dates through 2019. Discovery is obligated to license programming under agreements with content suppliers that expire over various dates. Discovery also has other contractual commitments arising in the ordinary course of business.

A summary of all of the expected payments for these commitments as well as future principal payments under the current debt arrangements and minimum payments under capital leases at December 31, 2004 is as follows:

	Payments due by period(2)				
	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
	amounts in thousands				
Long-term debt	$2,478,000	—	534,000	1,488,000	456,000
Capital leases	32,267	5,063	11,206	7,583	8,415
Operating leases	477,755	80,088	129,987	88,932	178,748
Program license fees	638,666	296,826	128,039	112,903	100,898
Launch incentives	67,837	33,509	34,328	—	—
Other(1)	241,185	66,170	107,458	63,477	4,080
Total	$3,935,710	481,656	945,018	1,760,895	748,141

(1) Represents Discovery's obligations to purchase goods and services whereby the underlying agreements are enforceable, legally binding and specify all significant terms. The more significant purchase obligations include: agreements related to audience ratings, market research, contracts for entertainment talent and other education and service project agreements.

(2) Table does not include certain long-term obligations reflected in the Discovery consolidated balance sheet as the timing of the payments cannot be predicted or the amounts will not be settled in cash. The most significant of these obligations is the $322.4 million accrued under Discovery's LTIP plans. In addition, amounts accrued in the Discovery consolidated balance sheet related to derivative financial instruments are not included in the table as such amounts may not be settled in cash or the timing of the payments cannot be predicted.

Discovery is subject to certain contractual agreements that may require Discovery to acquire the ownership interests of minority partners. At the end of 2004, Discovery estimates its aggregate obligations thereunder at approximately $319,567,000. The put rights are exercisable at various dates, certain of which have already been exercised at December 31, 2004. The amounts due associated with the put rights that have already been exercised is $142,874,000.

In connection with the execution of long-term distribution agreements for certain of its European cable networks, Discovery is committed to pay a distributor a percentage increase in the value of these networks, if any, at the termination of the contract on December 31, 2006. Discovery adjusts its recorded liability for changes in the value of these networks each period. However, Discovery is currently unable to predict the likelihood or the terms and conditions of any renewal or extension of the distribution agreements. Discovery will record the effect of a renewed or extended distribution agreement when such terms are in place. The effect of a renewed or extended agreement could result in a payment for an amount significantly greater than the amount currently accrued.

DESCRIPTION OF OUR BUSINESS

OVERVIEW

Discovery Holding is a holding company. Through our wholly owned subsidiary, Ascent Media, and our 50% owned equity affiliate Discovery, we are engaged primarily in (1) the production, acquisition and distribution of entertainment, educational and information programming and software, (2) the retail sale and licensing of branded and other specialty products and (3) the provision of creative, media management and network services to the media and entertainment industries. Our subsidiaries and affiliates operate in the United States, Europe, Latin America and Asia.

We are currently a wholly owned subsidiary of LMC. LMC is a holding company, which through its ownership of interests in subsidiaries and other companies is primarily engaged in the electronic retailing, media, communications and entertainment industries. LMC is separating its interests in Ascent Media and Discovery from its other businesses by means of a spin off of our company. Following the spin off, we will be an independent, publicly traded company, and LMC will not retain any ownership interest in us.

ASCENT MEDIA

Through our subsidiary, Ascent Media, we provide a wide variety of creative, media management and network services to the media and entertainment industries. Ascent Media's clients include the major motion picture studios, independent producers, broadcast networks, programming networks, advertising agencies and other companies that produce, own and/or distribute entertainment, news, sports, corporate, educational, industrial and advertising content.

The assets and operations of Ascent Media are composed primarily of the assets and operations of 13 companies acquired from 2000 through 2004, including The Todd-AO Corporation, Four Media Company, certain assets of SounDelux Entertainment Group, Video Services Corporation, Group W Network Services, London Playout Centre and Sony Electronics' systems integration business. The combination and integration of these and other acquired entities allow Ascent Media to offer integrated outsourcing solutions for the technical and creative requirements of its clients, from content creation and other post-production services to media management and transmission of the final product to broadcast television stations, cable system head-ends and other destinations and distribution points.

LMC acquired a controlling equity interest in Ascent Media, then known as The Todd-AO Corporation, on June 9, 2000. From 2000 through 2003, LMC obtained additional voting stock and convertible promissory notes of Ascent Media through the contributions of certain assets and operations acquired by LMC, as well as cash investments. The assets acquired by LMC and contributed to Ascent Media included:

- 100% of the common stock of Four Media Company (June 2000);
- the post-production and related assets and operations of SounDelux Entertainment Group (July 2000); and
- 100% of the common stock of Video Services Corporation (December 2000).

On July 1, 2003, LMC acquired all the outstanding capital stock of Ascent Media that it did not already own, in exchange for shares of LMC Series A common stock, through the merger of Amethyst Merger Sub, Inc., an indirect subsidiary of LMC, with and into Ascent Media. Because, prior to the closing of such merger, that entity held more than 90% of the common stock of Ascent Media, the transaction was able to be consummated as a "short-form" merger under Delaware law, which meant that no vote of Ascent Media's minority stockholders was held or required.

Ascent Media's operations are organized into three main categories: creative services, media management services and network services.

Creative Services

Ascent Media's creative services group provides various technical and creative services necessary to complete principal photography into final products, such as feature films, movie trailers, documentaries and independent films, episodic television, TV movies and mini-series, television commercials, music videos, interactive games and new digital media, promotional and identity campaigns and corporate communications. These services are referred to generally in the entertainment industry as "post-production" services.

Ascent Media markets its creative services under various well-known brand names, including *Company 3*, *Digital Symphony*, *Encore Hollywood*, *FilmCore*, *Level 3 Post*, *Method*, *One Post*, *POP Sound*, *R!OT*, *Rushes*, *Soho Images*, *Soundelux*, *Sound One*, *St. Anne's Post*, *Modern Music* and *Todd-AO*. The creative services client base comprises the major domestic film studios, independent television production companies, broadcast networks, advertising agencies, creative editorial companies and corporate media producers. The principal facilities of the creative services group are in Los Angeles, New York, Atlanta, San Francisco, Mexico City and London.

Key services provided by Ascent Media's creative services group include the following:

Dailies. Clients require daily screening of their previous day's recorded work in order to evaluate technical and aesthetic qualities of the production and begin the creative editorial process. Ascent Media provides the film development, digital transfer from film to video, and video processing necessary for clients to view principal photography on a daily basis, also known as "dailies." For clients that record their productions on film, Ascent Media processes and prints film negatives for film projection in a linear manner. The company also delivers dailies that are transferred from film to digital media using telecine equipment. The transfer process is technically challenging and is used to integrate various forms of audio and encode the footage with feet and frame numbers from the original film. Dailies delivered as a digital file can be processed in high definition or standard definition video and can be screened in a nonlinear manner on a variety of playback equipment.

Telecine. Telecine is the process of transferring film into video (in either analog or digital medium). During this process, a variety of parameters can be manipulated, such as color and contrast. Because the color spectrum of film and digital media are different, Ascent Media has creative talent who utilize creative colorizing techniques, equipment and processes to enable its clients to achieve a desired visual look and feel for television commercials and music videos, as well as feature films and television shows. Ascent Media also provides live telecine services via satellite, using a secure closed network able to accurately transmit subtle color changes to connect its telecine artists with client offices or other affiliated post-production facilities.

Digital intermediates. Ascent Media's digital intermediates service provides customers with the ability to convert film to a high resolution digital master file for color correction, creative editorial and electronic assembly of masters in other formats. If needed, the digital file can then be converted back to film.

Creative Editorial. After principal photography has been completed, Ascent Media's editors assemble the various elements into a cohesive story consistent with the messaging, branding and creative direction by Ascent Media's clients, which are mainly advertising agencies. Ascent Media provides the tools and talent required to support its clients through all stages of the editing process, beginning with the low-resolution digital images and off-line editing workstations used to create an edit decision list, through the high-resolution editorial process used to complete a final product suitable for broadcast. In addition, Ascent Media is able to offer expanded communications infrastructure to provide digital images directly from the film-to-tape transfer process to a workstation through dedicated data lines.

Visual effects. Visual effects are used to enhance the viewing audience's experience by supplementing images obtained in principal photography with computer-generated imagery and graphical elements. Visual effects are typically used to create images that cannot be created by any other cost-effective means. Ascent Media also provides services on an array of graphics and animation workstations using a variety of software to accomplish unique effects, including three-dimensional animation.

Assembly, formatting and duplication. Ascent Media implements clients' creative decisions, including decisions regarding the integration of sound and visual effects, to assemble source material into its final form. In addition, Ascent Media uses sophisticated computer graphics equipment to generate titles and character imagery and to format a given program to meet specific network requirements, including time compression and commercial breaks. Finally, Ascent Media creates multiple master videotapes for delivery to the network for broadcast, archival and other purposes designated by the customer.

Distribution. Once a television commercial has been completed, Ascent Media provides broadcast and support services, including complete video and audio duplication, distribution, and storage and asset management, for advertising agencies, corporate advertisers and entertainment companies. Ascent Media uses domestic and international satellite, fiber and Integrated Services Digital Network, or ISDN, Internet access, and conventional air freight for the delivery of television and radio spots. Ascent Media currently houses over 85,000 commercial production elements in its vaults for future use by its clients. Ascent Media's commercial television distribution facilities in Los Angeles and San Francisco, California and its satellite hub facilities in New York, enable Ascent Media to service any regional or national client.

Sound Supervision, Sound Design and Sound Editorial. Ascent Media provides creative talent, state of the art facilities and support services to create sound for feature films, television content, commercials and trailers, interactive multimedia games and special live venues. Sound supervisors ensure that all aspects of sound, dialogue, sound effects and music are properly coordinated. Ascent Media's sound services include, but are not limited to, sound editing, sound design, sound effect libraries, ADR (automated dialogue replacement, a process for editing the spoken portion of a film) and Foley (non-digital sound effects).

Music Services. Music services are an essential component of post-production sound. Ascent Media has the technology and talent to handle all types of music-related services, including original music composition, music supervision, music editing, scoring/recording, temporary sound tracks, composer support and preparing music for soundtrack album release.

Re-recording / Mixing. Once the sound editors, sound designers, composers, music editors, ADR and Foley crews, and many others, have prepared all the elements that will make up the finished product, the final component of the creative sound post production process is the mix (or re-recording). Mixing a film involves the process of combining multiple elements, such as tracks of sound effects, dialogue and music, to complete the final product. Ascent Media maintains a significant number of mixing stages, purpose-built and provisioned with advanced recording equipment, capable of handling any type of project, from major motion pictures to smaller independent films.

Sound Effects and Music Libraries. Through its Soundelux brand, Ascent Media maintains an extensive sound effects library with over 300,000 unique sounds, which editors and clients access through the company's intranet and remotely via the Internet. The company also owns several production music libraries through its Hollywood Edge brand. Ascent Media's clients use the sound effects and music libraries in feature films, television shows, commercials, interactive and multimedia games. The company actively continues to add new, original recordings to its library.

Media Management Services

Ascent Media's media management services group provides owners of content libraries with a full complement of facilities and services necessary to optimize, archive, manage and repurpose media assets for global distribution via freight, satellite, fiber and the Internet. Ascent Media's media facilities are located in Burbank, Hollywood and Santa Monica, California; Northvale, New Jersey; and London, England. The media management services client base includes the major motion picture studios and their international divisions as well as independent owners of television and film libraries and emerging new media distribution channels.

Key services provided by Ascent Media's media management services group include the following:

Negative developing and cutting. Ascent Media's film laboratories provide negative developing for television shows such as one-hour dramas and movie-length programming, including negative developing of "dailies" (the original negative shot during each production day), as well as the often complex and technically demanding commercial work and motion picture trailers. Ascent Media also provides negative cutting services for the distribution of commercials on film.

Restoration, preservation and asset protection of existing and damaged content. Through its recently-acquired facility, Cinetech, and its other laboratory facilities, Ascent Media is now a leader in film restoration, preservation and asset protection. Ascent Media's technicians use photochemical and digital processes to clean, repair and rebuild a film's elements in order to return the content to its original and sometimes improved image quality. Ascent Media also protects film element content from future degradation by transferring the film's image to newer archival film stocks. Ascent Media also provides asset protection services for its client's color library titles, which is a preservation process whereby B/W, silver image, polyester, positive and color separation masters are created, sufficiently protecting the images of new and older films.

Transferring film to analog video or digital media. A considerable amount of film content is ultimately distributed to the home video, broadcast, cable or pay-per-view television markets. This requires film images to be transferred to an analog video or digital file format. Each frame must be color corrected and adapted to the size and aspect ratio of a television screen in order to ensure the highest level of conformity to the original film version. Because certain film formats require transfers with special characteristics, it is not unusual for a motion picture to be mastered in many different versions. Technological developments, such as the domestic introduction of television sets with a 16×9 aspect ratio and the implementation of advanced and high definition digital television systems for terrestrial and satellite broadcasting, are expected to contribute to the growth of Ascent Media's film transfer business. Ascent Media also digitally removes dirt and scratches from a damaged film master that is transferred to a digital file format.

Professional duplication and standards conversion. Ascent Media provides professional duplication, which is the process of creating broadcast quality and resolution independent sub-masters for distribution to professional end users. Ascent Media uses master elements to make sub-masters in numerous domestic and international broadcast standards as well as up to 22 different tape formats. Ascent Media also provides standards conversion, which is the process of changing the frame rate of a video signal from one video standard, such as the United States standard (NTSC), to another, such as a European standard (PAL or SECAM). Content is regularly copied, converted and checked by quality control for use in intermediate processes, such as editing, on-air backup and screening and for final delivery to cable and pay-per-view programmers, broadcast networks, television stations, airlines, home video duplicators and foreign distributors. Ascent Media's duplication and standards conversion facilities are technically advanced with unique characteristics that significantly increase equipment capacity while reducing error rates and labor cost.

Syndicated Television Distribution. Ascent Media's syndication services provide AMOL-encoding and closed-captioned sub-mastering, commercial integration, library distribution, station list management and v-chip encoding. Ascent Media distributes syndicated television content by freight, satellite, fiber or the Internet, in formats ranging from low-resolution proxy streams to full-bandwidth high-definition television and streaming media.

DVD Compression and Authoring and Menu Design. Ascent Media also provides all stages of DVD production, including creative menu design, special feature production, project management, encoding, 5.1 surround editing and quality control. Ascent Media also prepares and optimizes content for evolving formats of digital distribution, such as video-on-demand and interactive television.

Storage of original elements and working masters. Ascent Media's archives are designed to store working master videotapes and film elements in a highly controlled environment protected from temperature and humidity variation, seismic disturbance, fire, theft and other external events. In addition to the physical security of the archive, content owners require frequent and regular access to their libraries. Physical elements stored in Ascent Media's archive are uniquely bar-coded and maintained in a library management database offering rapid access to elements, concise reporting of element status and element tracking throughout its travel through Ascent Media's operations.

Network Services

Ascent Media's network services group provides services to broadcast, cable and satellite programming networks, local television channels, broadcast syndicators, satellite broadcasters, other broadband telecommunications companies and corporations that operate private networks. Ascent Media's network services group operates from facilities located in California, Connecticut, Florida, Minnesota, New York, New Jersey, the United Kingdom and Singapore.

Key services provided by Ascent Media's network services group include the following:

Network origination and master control. Ascent Media provides videotape and file-based playback and origination to cable, satellite and pay-per-view programming networks. Ascent Media accepts daily program schedules, programs, promotional materials and advertising and transmits 24 hours of seamless daily programming to cable operators, direct broadcast satellite systems and other destinations, over fiber and satellite, using automated systems for broadcast playback. Ascent Media also operates industry-standard encryption and/or compression systems as needed for customer satellite transmission and offers quality control, tape storage and trafficking services. Ascent Media operates television production studios with live-to-satellite interview services, cameras, production and audio control rooms, videotape playback and record, multi-language prompters, computerized lighting, dressing and makeup rooms and field and teleconferencing services. Ascent Media offers complete post-production services for on-air promotions, including graphics, editing, voice-over record, sound effects editing, sound mixing and music composition. For programming designed for export to other markets, Ascent Media provides language translation, subtitling and voice dubbing. Currently, over two hundred 24/7 programming feeds are supported by Ascent Media's facilities in the United States, London and Singapore.

Satellite transport. Ascent Media operates satellite earth station facilities in Singapore, California, New York, New Jersey, Minnesota, Connecticut and Florida. Ascent Media's facilities are staffed 24 hours a day and may be used for uplink, downlink and turnaround services. Ascent Media accesses various "satellite neighborhoods," including basic and premium cable, broadcast syndication, direct-to-home and DBS markets. Ascent Media resells transponder capacity for occasional and full-time use and bundles its transponder capacity with other broadcast and syndication services to provide a complete broadcast package at a fixed price. Ascent Media's "teleports" are high-bandwidth communications gateways with video switches and facilities for satellite, optical fiber and microwave transmission. Ascent Media's facilities offer satellite antennae capable of transmitting and receiving feeds in both C-Band and Ku-Band frequencies. Ascent Media also provides transportable services, including point-to-point microwave transmission, transportable up-link and downlink transmission and broadcast quality teleconference services.

Engineering and systems integration. Ascent Media designs, builds, installs and services advanced video systems for the broadcast, cable television and other broadband telecommunications industries and other professional and corporate markets. Ascent Media's engineering and systems integration clients include major broadcast networks, numerous cable channels, corporate television networks, a major telecommunications company and numerous production and post-production facilities.

Strategy

The entertainment services industry has been historically fragmented with numerous providers offering discrete, geographically-limited, non-integrated services. Ascent Media's services, however, span the entirety of the value chain from the creation and management of content to the delivery of content via multiple transmission paths including satellite, fiber and Internet Protocol-based networks. Ascent Media believes the breadth and range of its services uniquely provide Ascent Media the scale and flexibility necessary to realize significant operating and marketing efficiencies: a global, scaleable media services platform integrating preparation, management and transmission services; common "best practices" operations management across the Ascent Media enterprise; and integration of financial and administrative functions. In Ascent Media's media management and network services businesses, and with large institutional clients that utilize a broad range of its services, Ascent Media intends to build awareness of the Ascent Media enterprise and promote Ascent Media as a global brand name for integrated suites of services, while continuing to support the identity and customer loyalty associated with Ascent Media's established "boutique" brands in the creative services industry.

Ascent Media's objective is to be a leading provider of services to the media and entertainment industry and to provide customers quality solutions for the creation, management and transmission of content, individually and as part of a package solution on a global basis. Ascent Media intends to achieve this objective by pursuing the following strategies:

Establish centralized, scalable financial and operating infrastructure. Ascent Media is building technical, operational, financial and internal control systems to improve financial administration. Ascent Media is reducing overhead through centralization and has begun to restructure its operations to improve margins and financial performance.

Develop and grow its core businesses. Ascent Media intends to leverage its opportunities of scale, its technical capacities, its breadth of services and its global reach in order to broaden its relationships within the organizational structure of its client base. Ascent Media intends to further integrate its facilities and operations to establish "best practices" and increase scale and capacity to drive growth. Ascent Media's goal is to deploy proven, leading technologies in a consistent manner across all of its operations. Ascent Media also expects to spend approximately $9 million in 2005 to build a digital media distribution center, in order to consolidate the digital services provided by Ascent Media's media management group, which Ascent Media believes will expand its capacity by streamlining the manufacturing processes used in Ascent Media's traditional media management businesses.

Leverage its core businesses in the developing digital media service platform. Ascent Media intends to leverage its existing client relationships, technological expertise and digital infrastructure to build new revenue streams in emerging new media markets. Ascent Media intends to develop new business opportunities in areas such as digital imaging, digital media management and interactive media, and, in connection with that objective, Ascent Media has created a digital asset management system to store and allow clients to manipulate, repurpose and direct Ascent Media to perform services on their digital assets. Ascent Media believes this technology can be exploited both for commercial clients (for management of advertising and marketing content) and for Ascent Media's major studio clients (for management of film and television libraries).

Drive the convergence of traditional and new media. Ascent Media intends to create joint ventures, partnerships and alliances with technology providers, content creators and multichannel video programming distributors to create cost effective scalable infrastructure to drive new media revenue streams. Ascent Media intends to assist in the development of industry standards and business models to help develop new media opportunities. No assurance can be given that any such new products and services will achieve market acceptance.

Seasonality

The demand for Ascent Media's core motion picture services, primarily in its creative services group, has historically been seasonal, with higher demand in the spring (second fiscal quarter) and fall (fourth fiscal quarter), and lower in the winter and summer. Similarly, demand for Ascent Media's television program services, primarily in its creative services group, is higher in the first and fourth quarters and lower in the summer, or third quarter. Demand for Ascent Media's commercial services, primarily in its creative services group, are fairly consistent with slightly higher activity in the third quarter. However, recent trends in the demand for television program services may result in increased business for Ascent Media in the summer. In addition, the timing of projects in Ascent Media's media management services group and network services group are beginning to offset the quarters in which there has been historically lower demand for Ascent Media's motion picture and television services. Accordingly, Ascent Media expects to experience less dramatic quarterly fluctuations in its operating performance in the future.

DISCOVERY

Discovery Communications, Inc. is a leading global media and entertainment company. Discovery has grown from the 1985 launch in the United States of its core property, Discovery Channel, to current global operations in over 160 countries across six continents, with over 1 billion total cumulative subscription units. The company operates its businesses in three groups: Discovery networks U.S., Discovery networks international, and Discovery commerce, education and other.

Discovery's relationships and agreements with the distributors of its channels are critical to its business as they provide Discovery's subscription revenue stream and access to an audience for advertising sales purposes. There has been a great deal of consolidation among cable and satellite television operators in the United States in recent years, with over 90% of the pay television households in the country now controlled by the top eight distributors. Discovery also operates in certain overseas markets which have experienced similar industry consolidation. Industry consolidation has generally provided more leverage to the distributors in their relationships with programmers. Accordingly, as its carriage agreements expire, Discovery may not be able to obtain terms in new carriage agreements that are comparable to terms in its existing agreements.

Discovery earns revenue from the sale of advertising on its networks, from delivery of its programming pursuant to affiliation agreements with cable television and direct-to-home satellite operators (which is described as subscriber fees throughout this document), from licensing its programs for international distribution and from product sales in its retail outlets. Subscriber fees, as described, includes all components of revenue earned through affiliation agreements. Discovery's affiliation agreements typically have terms of 3 to 10 years and provide for payments based on the number of subscribers that receive Discovery's services. No single distributor represented more than 10% of

Discovery's consolidated revenue for the year ended December 31, 2004. Discovery has grown its global network business by securing as broad a subscriber base as possible for each of its channels by entering into affiliate agreements. After obtaining scalable distribution of its networks, Discovery invests in programming and marketing in order to build a viewing audience to support advertising sales. In certain cases, Discovery has made cash payments to distributors in exchange for carriage or has entered into contractual arrangements that allow the distributors to show certain of Discovery's channels for extended free periods. In the United States, Discovery has developed the necessary audience and ratings for its programming such that advertising sales now provide more revenue than channel subscriptions. In 2004, approximately 59% of the revenue for Discovery's U.S. networks came from advertising sales and approximately 38% was subscription revenue. Subscription revenue still accounts for the majority of the international networks' revenue base (in 2004, approximately 63% of the division's revenue came from subscriptions), and this is anticipated to be the case for the foreseeable future. As a result, growing the distribution base for existing and newly launched international networks will continue to be the primary focus of the international division.

Discovery's principal operating costs consist of programming expense, sales and marketing expense, personnel expense and general and administrative expenses. Programming is Discovery's largest expense, representing 29% of Discovery's total operating costs in 2004. Costs incurred and capitalized for the direct production of programming content are amortized over varying periods based on the expected realization of revenue from the underlying programs. This methodology generally results in an accelerated amortization for developed U.S. networks over a four-year period and straight-line amortization for all international networks (over three years) and developing U.S. networks (over three to five years). Licensed programming is amortized over the contract period based on the expected realization of revenue. Discovery incurs sales and marketing expense to promote brand recognition and to secure quality distribution channels worldwide.

Discovery produces original programming and acquires content from numerous producers worldwide that is tailored to the specific needs of viewers around the globe. Discovery believes it is generally well positioned for continued access to a broad range of high-quality programming for both its U.S. and international networks. It has assembled one of the largest libraries of non-fiction programming and footage in the world, due both to the aggregate purchasing power of its many networks and a policy to own as many rights as possible in the programs aired on its networks. Discovery also has long-term relationships with some of the world's most significant non-fiction program producers, including the BBC. Discovery believes the broad international appeal of its content combined with its ability to adapt its significant programming library to international markets for relatively low costs is one of its competitive advantages. Discovery is also developing programming applications designed to position the company to take advantage of emerging distribution technologies including subscription video-on-demand, IP-delivered programming, wireless and mobile.

Discovery's other properties consist of Discovery.com and over 100 retail outlets that offer lifestyle, health, science and education oriented products, as well as products related to other programming offered by Discovery. Additionally, Discovery's newest division, Discovery education, distributes educational materials to over 85,000 schools in the United States and to schools in many countries around the world.

Discovery is a leader in offering solutions to advertisers that allow them to reach a broad range of audience demographics in the face of increasing fragmentation of audience share. The overall industry is facing several issues with regard to its advertising revenue, including (1) audience fragmentation caused by the proliferation of other television networks, video-on-demand offerings from cable and satellite companies and broadband content offerings; (2) the deployment of digital video recording devices (DVRs), allowing consumers to time shift programming and skip or fast-forward through advertisements; and (3) consolidation within the advertising industry, shifting more leverage to the bigger agencies and buying groups.

Discovery Networks U.S.

Discovery networks U.S. currently operates 13 channels and provides distribution and advertising sales services for BBC America. The division's channels include Discovery Channel, TLC, Animal Planet, Travel Channel, Discovery Health, Fit TV and the following emerging digital tier networks: The Science Channel, Discovery Kids, The Military Channel, Discovery Home, Discovery Times, Discovery en Españól and Discovery HD Theater, which we refer to collectively as the emerging networks. All of these channels are wholly owned by Discovery other than Animal Planet, in which Discovery's shareholders, collectively, and the British Broadcasting Corporation (BBC) each own 20%, and Discovery Times, in which The New York Times Company owns 50%. At December 31, 2004, News Corporation, Inc. owned 10% of each of Discovery Health and Fit TV, however, Discovery acquired their remaining ownership interests and settled other obligations for $97,772,000 in the first half of 2005. The division also operates web sites related to its channel businesses and various other new media businesses, including a video-on-demand offering distributed by various cable operators.

Following is a summary of subscription units for the U.S. network's primary channels as well as the aggregate subscription units associated with its emerging networks:

	Subscription units at December 31,		
	2004	2003	2002
	(amounts in thousands)		
Discovery Channel	89,500	88,500	87,000
TLC(1)	87,900	87,000	85,000
Animal Planet	86,400	84,500	81,100
Travel Channel	77,000	74,100	68,400
Discovery Health	54,900	48,300	41,000
Fit TV	35,900	31,900	29,000
Emerging networks	187,300	172,600	97,000
Cumulative subscription units	618,900	586,900	488,500

(1) Excludes 6.9 million, 6.7 million and 6.6 million subscription units associated with the U.S. feed of TLC into certain markets in Canada.

Note Regarding BBC America Representation: The above subscription units information excludes 40.9 million, 37.6 million and 33.2 million subscription units for BBC America, a service in which Discovery does not have an ownership interest but is responsible for distribution and advertising sales services in the United States.

Discovery Networks International

Discovery networks international, or the international networks, manages a portfolio of channels, led by Discovery Channel and Animal Planet, that are distributed in virtually every pay-television market in the world via an infrastructure that includes major operational centers in London, Singapore, New Delhi and Miami. Discovery networks international currently operates over 85 separate feeds in 33 languages with channel feeds customized according to language needs and advertising sales opportunities. Most of the division's channels are wholly owned by Discovery with the exception of (1) the international Animal Planet channels, which are generally joint ventures in which the BBC owns 50%, (2) People + Arts, which operates in Latin America and Iberia as a 50-50 joint venture with the BBC and (3) several channels in Japan and Canada, which operate as joint ventures with strategically important local partners. As with the U.S. networks division, the international networks operate web sites and other new media businesses. In 2004, the group undertook a major new initiative to re-launch certain existing networks and launch several new networks to create a package of three lifestyle-focused networks for distribution on a global basis.

Following is a summary of subscription units for the international networks by geographic region as estimated by Discovery's management:

	Subscription Units at December 31,		
	2004	2003	2002
	(amounts in thousands)		
Europe*	153,700	133,200	116,000
Latin America	80,100	71,000	64,800
Asia	331,200	229,400	168,400
Cumulative subscription units	565,000	433,600	349,200

* Europe includes Middle East and Africa

Note: A significant number of the subscription units included above, particularly in Asia, represent subscribers that are reached through branded programming blocks on other networks, which are provided without charge.

Discovery Commerce, Education & Other

This group includes Discovery commerce, which operates a chain of retail stores in the United States that offer lifestyle, health, science and education-oriented products, as well as products specifically related to programming on Discovery's networks. This division also operates a catalog and electronic commerce business selling products similar to that sold in the Discovery Channel Stores, as well as a licensing business that licenses Discovery trademarks and intellectual property to third parties for the purpose of creating and selling retail merchandise.

This group also includes Discovery education. Since 2003, Discovery has acquired three companies which were involved in the streaming business. In 2004, the company expanded beyond its traditional education businesses of airing educational programming on its networks and selling hard copies of such programs to schools and began streaming educational video material into schools via the internet. Discovery education now operates United Streaming, a leading educational broadband streaming service in the United States. This service earns revenue through annual subscription fees paid by schools and school districts which use the service.

Discovery Stockholders' Agreement

A subsidiary of ours, together with Cox Communications and Advance/Newhouse, and John Hendricks, the founder and Chairman of Discovery, are parties to a Stockholders' Agreement. We own 50%, and Cox Communications and Advance/Newhouse each own 25%, of Discovery. Mr. Hendricks is the record holder of one share of capital stock of Discovery; however, Mr. Hendricks cannot transfer this share, the share is subject to an irrevocable proxy in favor of Advance/Newhouse and the share is subject to a call arrangement pursuant to which Advance/Newhouse can purchase the share. Accordingly, we treat such share as being owned by Advance/Newhouse for purposes of Advance/Newhouse's percentage ownership of Discovery as described in this information statement. As a "close corporation" under Delaware law, the stockholders manage the business of Discovery, rather than a board of directors. The Stockholders' Agreement provides that a number of decisions affecting Discovery, such as, among other things, a decision to effect a fundamental change in its business, a merger or other business combination, issuance of Discovery's equity securities, approval of transactions between Discovery, on the one hand, and any of its stockholders, on the other hand, and adoption of

Discovery's annual business plan, must be approved by the holders of 80% of its outstanding capital stock. In addition, other matters, such as the declaration and payment of dividends on its capital stock, require the approval of the holders of a majority of Discovery's outstanding capital stock.

Because we own 50%, Cox Communications owns 25% and Advance/Newhouse owns 25% of the stock of Discovery, any one of us may block Discovery from taking any action that requires 80% approval. In addition, because Cox Communications and Advance/Newhouse, on the one hand, and our company, on the other, each owns 50% of the outstanding stock of Discovery, there is the possibility that the stockholders could deadlock over various other matters, which require the approval of the holders of a majority of its capital stock. To reduce the possibility that this could occur, the stockholders have given John Hendricks, the founder and Chairman of Discovery, the right (but not the obligation), subject to certain limitations, to cast a vote to break a deadlock on certain matters requiring a majority vote for approval.

The Stockholders' Agreement also restricts, subject to certain exceptions, the ability of a stockholder to transfer its shares in Discovery to a third party. Any such proposed transfer is subject to a pro rata right of first refusal in favor of the other stockholders. If all of the offered shares are not purchased by the other stockholders, then the selling stockholder may sell all of the offered shares to the third party that originally offered to purchase such shares at the same price and on the same terms, provided that such third party agrees to be bound by the restrictions contained in the Stockholders' Agreement. In addition, in the event that either Cox Communications or Advance/Newhouse proposes to transfer shares, Cox Communications or Advance/Newhouse, whichever is not proposing to transfer, would have a preemptive right to buy the other's shares, and if it does not elect to purchase all such shares, then the remaining shares would be subject to the pro rata right of first refusal described above.

The Stockholders' Agreement also prohibits Cox Communications, Advance/Newhouse and our company from starting, or acquiring a majority of the voting power of, a basic programming service carried in the United States that consists primarily of documentary, science and nature programming, subject to certain exceptions.

In connection with the spin off, LMC contributed to us 100% of an entity that owns a 10% interest in the Animal Planet limited partnership. The other partners of the Animal Planet include Discovery, Cox Communications, Advance/Newhouse and the BBC. The Stockholders' Agreement prohibits us from selling, transferring or otherwise disposing of either of the subsidiaries that hold the Discovery interest or Animal Planet interest, respectively, unless, after such transaction, such subsidiaries are controlled by the same person or entity.

The foregoing summary of the Discovery Stockholders' Agreement is qualified by reference to the full text of the agreement and amendments, which are filed as exhibits to the Form 10 registration statement of which this information statement is a part.

GEOGRAPHIC AREAS

Please see Note 15—Information about Operating Segments of our Combined Financial Statements included in this information statement for certain financial information in each geographic area in which we conduct business.

CUSTOMERS

For the year ended December 31, 2004, no single customer accounted for more than 10% of Ascent Media's consolidated revenue. Although Ascent Media serviced over 4,000 customers during the year ended December 31, 2004, its ten largest customers accounted for approximately 45% of its consolidated revenue and its single largest customer accounted for approximately 7% of its consolidated revenue during the period. The loss of, and failure to replace, any significant portion of the services provided to any significant customer could have a material adverse effect on Ascent Media.

For the year ended December 31, 2004, no single customer accounted for more than 10% of Discovery's consolidated revenue.

REGULATORY MATTERS

Ascent Media

Some of Ascent Media's subsidiary companies hold licenses and authorizations from the Federal Communications Commission, or FCC, required for the conduct of their businesses, including earth station and various classes of wireless licenses and an authorization to provide certain services pursuant to Section 214 of the Communications Act. Most of the FCC licenses held by such subsidiaries are for transmit/receive earth stations, which cannot be operated without individual licenses. The licenses for these stations are granted for a period of fifteen years and, while the FCC generally renews licenses for satellite earth stations, there can be no assurance that these licenses will be renewed at their expiration dates. Registration with the FCC, rather than licensing, is required for receiving transmissions from domestic satellites from points within the United States. Ascent Media relies on third party licenses or authorizations when it and its subsidiaries transmit domestic satellite traffic through earth stations operated by third parties. The FCC establishes technical standards for satellite transmission equipment that change from time to time and requires coordination of earth stations with land-based microwave systems at certain frequencies to assure non-interference. Transmission equipment must also be installed and operated in a manner that avoids exposing humans to harmful levels of radio-frequency radiation. The placement of earth stations or other antennae also is typically subject to regulation under local zoning ordinances.

Discovery

In the United States, the FCC regulates the providers of satellite communications services and facilities for the transmission of programming services the cable television systems that carry such services and, to some extent, the availability of the programming services themselves through its regulation of program licensing. Cable television systems in the United States are also regulated by municipalities or other state and local government authorities and are currently subject to federal rate regulation on the provision of basic service. Continued rate regulation or other franchise conditions could place downward pressure on the fees cable television companies are willing or able to pay for the Discovery networks. Regulatory carriage requirements also could adversely affect the number of channels available to carry the Discovery networks.

The Cable Television Consumer Protection and Competition Act of 1992 (the 1992 Cable Act) directed the FCC to promulgate regulations regarding the sale and acquisition of cable programming between multi-channel video programming distributors (including cable operators) and satellite-delivered programming services in which a cable operator has an attributable interest. Because cable operators have an attributable interest in Discovery, the Discovery networks are subject to these rules. The legislation and the implementing regulations adopted by the FCC preclude virtually all exclusive programming contracts between cable operators and satellite programmers affiliated with any cable operator and the 1992 Cable Act requires that such affiliated programmers make their programming services available to cable operators and competing multi-channel video programming distributors on terms and conditions that do not unfairly discriminate among distributors. As a result, Discovery has not been, and will not be, able to enter into exclusive distribution agreements, which could provide more favorable terms than non-exclusive agreements.

The 1992 Cable Act required the FCC, among other things, to prescribe rules and regulations establishing reasonable limits on the number of channels on a cable system that will be allowed to carry programming in which the owner of such cable system has an attributable interest. In 1993, the FCC adopted such channel carriage limits. However, in 2001, the United States Court of Appeals for the District of Columbia Circuit found that the FCC had failed to justify adequately the channel carriage limit, vacated the FCC's decision and remanded the rule to the FCC for further consideration. In response to the Court's decision, the FCC issued a further notice of proposed rulemaking in 2001 to consider channel carriage limitations. The FCC issued a Second Further Notice of Proposed Rulemaking on May 17, 2005, requesting comment on these issues. If such channel carriage limitations are implemented, the ability of Cox Communications and Advance/Newhouse to carry the full range of Discovery's networks could be limited.

The 1992 Cable Act granted broadcasters a choice of must carry rights or retransmission consent rights. The rules adopted by the FCC generally provided for mandatory carriage by cable systems of all local full-power commercial television broadcast signals selecting must carry rights and, depending on a cable system's channel capacity, non-commercial television broadcast signals. Such statutorily mandated carriage of broadcast stations coupled with the provisions of the Cable Communications Policy Act of 1984, which require cable television systems with 36 or more "activated" channels to reserve a percentage of such channels for commercial use by unaffiliated third parties and permit franchise authorities to require the cable operator to provide channel capacity, equipment and facilities for public, educational and government access channels, could adversely affect the Discovery networks by limiting their carriage of such services in cable systems with limited channel capacity. In 2001, the FCC adopted rules relating to the cable carriage of digital television signals. Among other things, the rules clarify that a digital-only television station can assert a right to analog or digital carriage on a cable system. The FCC initiated a further proceeding to determine whether television stations may assert rights to carriage of both analog and digital signals during the transition to digital television and to carriage of all digital signals. On February 10, 2005, the FCC denied mandatory dual carriage of a television station's analog and digital signals during the digital television transition and mandatory carriage of all digital signals, other than its "primary" signal. Television station owners have petitioned the FCC to reconsider its decision and are seeking legislative change.

In 2004, the FCC's Media Bureau conducted a notice of inquiry proceeding regarding the feasibility of selling video programming services "a la carte", i.e. on an individual or small tier basis. The Media Bureau released a report on November 19, 2004, which concluded that a la carte sales of video programming services would not result in lower video programming costs for most consumers and that they would adversely affect video programming networks. Although the FCC concluded this proceeding, it is possible that Congress may consider a la carte proposals in the future.

In general, authorization from the FCC must be obtained for the construction and operation of a communications satellite. Satellite orbital slots are finite in number, thus limiting the number of carriers that can provide satellite transponders and the number of transponders available for transmission of programming services. At present, however, there are numerous competing satellite service providers that make transponders available for video services to the cable industry. The FCC also regulates the earth stations uplinking to and/or downlinking from such satellites.

The regulation of programming services is subject to the political process and has been in constant flux over the past decade. Further material changes in the law and regulatory requirements must be anticipated and there can be no assurance that our business will not be adversely affected by future legislation, new regulation or deregulation.

International Regulatory Matters

Video distribution and content businesses are regulated in each of the countries in which we operate. The scope of regulation varies from country to country, although in some significant respects regulation in Western European markets is harmonized under the regulatory structure of the European

Union, which we refer to as the EU. Adverse regulatory developments could subject our businesses to a number of risks. See "Risk Factors—Factors Relating to our Business—Our businesses are subject to risks of adverse government regulation." Regulations could limit growth, revenues and the number and types of services offered. In addition, regulation may restrict our operations and subject them to further competitive pressure, including restrictions imposed on foreign programming distributors that could limit the content they may carry in ways that affect us adversely. Failure to comply with current or future regulation of our businesses could expose our businesses to various penalties.

COMPETITION

The creative media services industry is highly competitive, with much of the competition centered in Los Angeles, California, the largest and most competitive market, particularly for domestic television and feature film production as well as for the management of content libraries. We expect that competition will increase as a result of industry consolidation and alliances, as well as from the emergence of new competitors. In particular, major motion picture studios such as Paramount Pictures, Sony Pictures Corporation, Twentieth Century Fox, Universal Pictures, The Walt Disney Company, Metro-Goldwyn-Mayer and Warner Brothers, while Ascent Media's customers, can perform similar services in-house with substantially greater financial resources than Ascent Media's, and in some cases significant marketing advantages. These studios may also outsource their requirements to other independent providers like us or to other studios. Thomson, a French corporation, is also a major competitor of Ascent Media, particularly under its Technicolor brand. Ascent Media also actively competes with certain industry participants that have a unique operating niche or specialty business. There is no assurance that Ascent Media will be able to compete effectively against these competitors, but we believe that Ascent Media's breadth of services is unique among most of its competitors in the entertainment services industry, particularly in terms of the range of service offerings Ascent Media provides within each business segment. We believe that Ascent Media's reputation and brand names are acknowledged and recognized for their contribution to creating quality content, and that Ascent Media's ability to offer integrated solutions within and across its business segments sets it apart from its competitors. We believe that Ascent Media's competitive advantages lie in the breadth and scalability of its services and the ability to package those services in a cost effective manner, the reputation and accessibility of its creative talent, its relationships with its client base and Ascent Media's ability to distribute content worldwide.

The business of distributing programming for cable and satellite television is highly competitive, both in the United States and in foreign countries. Discovery competes with other programmers for distribution on a limited number of channels. Increasing concentration in the multichannel video distribution industry could adversely affect Discovery by reducing the number of distributors available to carry Discovery's networks, subjecting more of Discovery's subscriber fees to volume discounts and increasing the distributors' bargaining power in negotiating new affiliation agreements. Once distribution is obtained, Discovery's programming services compete, in varying degrees, for viewers and advertisers with other cable and off-air broadcast television programming services as well as with other entertainment media, including home video, pay-per-view services, online activities, movies and other forms of news, information and entertainment. Discovery also competes, to varying degrees, for creative talent and programming content. Our management believes that important competitive factors include the prices charged for programming, the quantity, quality and variety of the programming offered and the effectiveness of marketing efforts.

PROPERTIES

We share our executive offices in Englewood, Colorado under a services agreement with LMC. All of our other real or personal property is owned or leased by our subsidiaries or affiliates.

Ascent Media's operations are conducted at over 100 properties. In the United States, Ascent Media occupies owned and leased properties in California, Connecticut, Florida, Georgia, New Jersey and New York; the network services group also operates a satellite earth station and related facilities in Minnesota. Internationally, Ascent Media has owned and leased properties in London, England. In addition, the creative services group operates a leased facility in Mexico City, Mexico, the media management services group has a 50% owned equity affiliate with facilities in Barcelona and Madrid, Spain, and the network services group operates two leased facilities in the Republic of Singapore. Worldwide, Ascent Media leases approximately 1.3 million square feet and owns another 370,000 square feet. In the United States, Ascent Media's leased properties total approximately 1 million square feet and have terms expiring between September 2005 and December 2012. Several of these agreements have extension options. The leased properties are used for our technical operations, office space and media storage. Ascent Media's international leases have terms that expire between September 2005 and August 2019, and are also used for technical operations, office space and media storage. Over half of the international leases have extension clauses. Approximately 240,000 square feet of Ascent Media's owned properties are located in Southern California, with another 80,000 square feet located in Northvale, New Jersey, Atlanta, Georgia, Minneapolis, Minnesota and Stamford, Connecticut. In addition, Ascent Media owns approximately 50,000 square feet in London, England. Nearly all of Ascent Media's owned properties are purpose-built for its technical and creative service operations. Ascent Media's facilities are adequate to support its current near term growth needs.

Discovery's operations are conducted from over 35 facilities in 18 countries. Discovery owns its global corporate headquarters in Silver Spring, Maryland and owns an origination facility and data center in Sterling, Virginia. In addition, Discovery leases regional office space elsewhere in the North America, Europe, Latin America, Asia, Australia and India. Discovery leases retail space for its Discovery Channel Stores.

EMPLOYEES

We currently have no corporate employees. We anticipate that subsequent to the spin off, LMC will provide us with certain management and administrative services pursuant to the services agreement, which will include the services of our executive officers who will remain executive officers of LMC after the spin off. See "Inter-Company Agreements—Services Agreement."

As of December 31, 2004, Ascent Media had approximately 3,800 employees, most of which worked on a full-time basis. Approximately 2,400 of Ascent Media's employees were employed in the United States, with the remaining 1,400 employed outside the United States, principally in the United Kingdom and the Republic of Singapore. Approximately 350 of Ascent Media's employees belong to either the International Alliance of Theatrical Stage Employees in the United States or the Broadcasting Entertainment Cinematograph and Theatre Union in the United Kingdom.

As of December 31, 2004, Discovery had approximately 3,800 employees.

LEGAL PROCEEDINGS

Ascent Media

On November 30, 2001, Paul Dujardin filed a complaint against LMC and Ascent Media in the U.S. District Court for the Southern District of New York, alleging violations of Section 10(b), Rule 10b-5 and Section 20(a) of the Securities Exchange Act of 1934, common law fraud, negligent misrepresentation, breach of the earnout provisions of an acquisition agreement involving the sale of Mr. Dujardin's company, Triumph Communications, Inc., to Ascent Media in July 2000, and breach of contract for failure to make Mr. Dujardin head of what was then known as Ascent Media's "networks group." Mr. Dujardin claims in excess of $15 million in compensatory damages, plus unspecified punitive damages. On February 13, 2002, Ascent Media and LMC filed a motion to dismiss

Mr. Dujardin's complaint in its entirety. On March 15, 2005, the court issued an order granting in substantial part the motion to dismiss. Specifically, the court dismissed with prejudice the securities fraud claims based on allegations that Ascent Media and LMC engaged in transactions designed to conceal the value of Ascent Media's stock. The court also dismissed with prejudice the breach of contract claim for failure to make Mr. Dujardin head of the networks group. The court then dismissed, but without prejudice, the securities fraud and common law fraud claims based on allegations that Ascent Media falsely promised to appoint Mr. Dujardin president of the networks group and granted Mr. Dujardin permission to reassert these fraud claims in an amended complaint. On April 4, 2005, Mr. Dujardin filed an amended complaint against Ascent Media and LMC alleging a violation of Section 10(b), Rule 10b-5 and Section 20 of the Securities Exchange Act of 1934, and a common law fraud claim, each based solely on allegations that Ascent Media falsely promised to appoint Mr. Dujardin president of the networks group. Mr. Dujardin claims in excess of $10 million in compensatory damages, plus unspecified punitive damages, on his fraud claims. Mr. Dujardin also seeks damages of approximately $1,050,000 against Ascent Media arising out of a breach of contract claim involving the earnout provisions of the Triumph acquisition agreement. On May 4, 2005, Ascent Media filed its answer to the amended complaint. Ascent Media contends that it has satisfied its obligations to Mr. Dujardin by delivering to him the earnout shares at issue and that, in any event, any alleged monetary damages are substantially less than the amounts sought by Mr. Dujardin in the amended complaint. Ascent Media believes that Mr. Dujardin's remaining claims are without merit and intends to vigorously defend its rights. However, no assurance can be given that Ascent Media will prevail in such litigation. Pursuant to the reorganization agreement to be entered into prior to the spin off, we will agree to indemnify LMC from any liability and expenses relating to this matter. See "Certain Inter-Company Agreements—Agreements with LMC—Reorganization Agreement."

In addition, Ascent Media, or its operating entities, is a defendant and may be a potential defendant (or may be obligated to indemnify or reimburse a named defendant), in lawsuits and claims arising in the ordinary course of business. While the outcomes of such claims, lawsuits, or other proceedings cannot be predicted with certainty, management expects that such liability, to the extent not provided for by insurance or otherwise, will not have a material adverse effect on the financial condition of Ascent Media.

Discovery

Discovery is involved in litigation incidental to the conduct of its business. While the outcome of such litigation cannot be predicted with certainty, Discovery does not expect that the outcome of such litigation will have a material adverse effect on the financial condition of Discovery.

MANAGEMENT

Directors and Executive Officers

The following table sets forth certain information concerning our directors and executive officers, including a five year employment history and any directorships held in public companies:

Name	Positions
John C. Malone Born March 7, 1941	Chief Executive Officer and Chairman of the Board of our company since March 9, 2005, and a director of our company since May 3, 2005. Dr. Malone has served as Chairman of the Board and a director of LMC since 1990. Dr. Malone served as Chairman of the Board and a director of Liberty Satellite & Technology, Inc. from December 1996 to August 2000. Dr. Malone also served as Chairman of the Board of Tele-Communications, Inc. ("TCI") from November 1996 to March 1999; and Chief Executive Officer of TCI from January 1994 to March 1999. Dr. Malone is Chairman of the Board of LGI and a director of The Bank of New York.
Robert R. Bennett Born April 19, 1958	President of our company since March 9, 2005, and director of our company since May 3, 2005. Mr. Bennett has served as President and Chief Executive Officer of LMC since April 1997 and has held various executive positions since LMC's inception in 1990. Mr. Bennett is a director of LMC and OpenTV Corp.
David J.A. Flowers Born May 17, 1954	Senior Vice President and Treasurer of our company since March 9, 2005. Mr. Flowers has served as Senior Vice President of LMC since October 2000 and Treasurer of LMC since April 1997. Mr. Flowers served as a Vice President of LMC from June 1995 to October 2000.
Paul A. Gould Born September 27, 1945	A Director of our company since May 3, 2005. Mr. Gould has also served as a Managing Director and Executive Vice President of Allen & Company Incorporated, an investment banking services company, for more than the last five years. Mr. Gould is a director of LMC, Ampco-Pittsburgh Corporation and LGI.
M. LaVoy Robison Born September 6, 1935	A Director of our company since May 3, 2005. Mr. Robison has been executive director and a board member of The Anschutz Foundation (a private foundation) since January 1998. Mr. Robison is a director of LMC.
Albert E. Rosenthaler Born August 29, 1959	Senior Vice President of our company since March 9, 2005. Mr. Rosenthaler has served as a Senior Vice President of LMC since April 2002. Prior to joining LMC, Mr. Rosenthaler was a tax partner in the accounting firm of Arthur Andersen LLP for more than five years.
Christopher W. Shean Born July 16, 1965	Senior Vice President and Controller of our company since March 9, 2005. Mr. Shean has served as Senior Vice President of LMC since January 2002 and Controller of LMC since October 2000. Mr. Shean served as a Vice President of LMC from October 2000 until January 2002. Prior to joining LMC, Mr. Shean served in the assurance practice of the accounting firm of KPMG LLP for more than five years, most recently as a partner.

Name	Positions
Charles Y. Tanabe Born November 27, 1951	Senior Vice President, General Counsel and Secretary of our company since March 9, 2005. Mr. Tanabe has served as Secretary of LMC since April 2001 and a Senior Vice President and General Counsel of LMC since January 1999.
J. David Wargo Born October 1, 1953	A Director of our company since May 3, 2005. Mr. Wargo has served as President of Wargo & Company, Inc., a private investment company specializing in the communications industry, since January 1993. Mr. Wargo is a director of Strayer Education, Inc., OpenTV Corp. and LGI.

The executive officers named above will serve in such capacities until the next annual meeting of our board of directors, or until their respective successors have been duly elected and have been qualified, or until their earlier death, resignation, disqualification or removal from office. There is no family relationship between any of the directors, by blood, marriage or adoption.

During the past five years, none of the above persons has had any involvement in such legal proceedings as would be material to an evaluation of his or her ability or integrity.

Board Composition

Our board of directors currently consists of five directors, divided among three classes. Our Class I director, whose term will expire at the annual meeting of our shareholders in 2006, is J. David Wargo. Our Class II directors, whose term will expire at the annual meeting of our shareholders in 2007, are Paul A. Gould and M. LaVoy Robison. Our Class III directors, whose term will expire at the annual meeting of our shareholders in 2008, are Robert R. Bennett and John C. Malone. At each annual meeting of our shareholders, the successors of that class of directors whose term(s) expire at that meeting shall be elected to hold office for a term expiring at the annual meeting of our shareholders held in the third year following the year of their election. The directors of each class will hold office until their respective death, resignation or removal and until their respective successors are elected and qualified.

Committees of the Board

Our board of directors has established an executive committee, whose members are Robert R. Bennett, Paul A. Gould and John C. Malone. Except as specifically prohibited by the General Corporation Law of the State of Delaware, the executive committee may exercise all the powers and authority of our board in the management of our business and affairs, including the power and authority to authorize the issuance of shares of our capital stock.

Our board of directors has also established an audit committee, whose members are Mr. Gould, Mr. Robison and Mr. Wargo. The audit committee will review and monitor the corporate financial reporting and the internal and external audits of our company. The committee's functions will include, among other things:

- appointing or replacing our independent auditors;
- reviewing and approving in advance the scope and the fees of our annual audit and reviewing the results of our audits with our independent auditors;
- reviewing and approving in advance the scope and the fees of non-audit services of our independent auditors;
- reviewing compliance with and the adequacy of our existing major accounting and financial reporting policies;

- reviewing our management's procedures and policies relating to the adequacy of our internal accounting controls and compliance with applicable laws relating to accounting practices;
- reviewing compliance with applicable Securities and Exchange Commission, stock exchange and national association of securities dealers rules regarding audit committees; and
- preparing a report for our annual proxy statement.

Our board of directors has established a compensation committee, whose members are Mr. Gould, Mr. Robison and Mr. Wargo. The compensation committee will review and make recommendations to our board regarding all forms of compensation provided to our executive officers and directors. In addition, the compensation committee will review and make recommendations on bonus and stock compensation arrangements for all of our employees and will have sole responsibility for the administration of our incentive plan.

The board, by resolution, may from time to time establish certain other committees of the board, consisting of one or more of our directors. Any committee so established will have the powers delegated to it by resolution of the board, subject to applicable law.

Executive Compensation

We have not yet paid any compensation to any of our executive officers and, for the immediate future, our executive officers will not receive any compensation directly from us. After the spin off, each of our executive officers will continue to be employed and compensated by LMC. Pursuant to the services agreement between us and LMC, we will make payments to LMC based upon a portion of LMC's cost for our executive officers (taking into account wages and benefits) based upon the anticipated percentages of time to be spent by our executive officers performing services for us. See "Certain Inter-Company Agreements—Agreements with LMC—Services Agreement." The following tables set forth information relating to compensation from LMC to our Chief Executive Officer and each of the other persons who we anticipate will serve as our four other most highly compensated executive officers following the spin off, who we refer to as our "named executive officers." The compensation set forth below does not necessarily reflect the compensation to be paid by our company to our named executive officers in the future.

Summary Compensation Table

Name and Principal Position with Liberty	Year	Annual Compensation: Salary(1)	Annual Compensation: Bonus	Other Annual Compensation	Long-Term Compensation: Securities Underlying Options/SARs	All Other Compensation
John C. Malone . . .	2004	$ 2,700	$ —	$642,071(3)	—	$ 270(6)
Chief Executive	2003	$ 2,600	$ —	$435,857(3)	—	$ 260(6)
Officer	2002	$ 4,200	$ —	$207,050(3)	—	$ 410(6)
Robert R. Bennett .	2004	$1,038,462	$1,000,000	$235,026(4)	1,000,000	$ 20,500(6)
President	2003	$1,000,000	$ —	$200,022(4)	1,000,000	$817,521(6)(7)
	2002	$1,000,000	$ —	$251,432(4)	—	$ 20,000(6)
David J.A. Flowers .	2004	$ 516,846	$ —	$ —	250,000	$ 20,500(6)
Senior Vice	2003	$ 438,000	$ —	$ —	200,000	$ 20,000(6)
President and Treasurer	2002	$ 425,000	$ —	$ —	—	20,000(6)
Albert E.	2004	$ 550,308	$ —	$ —	250,000	$ 20,500(6)
Rosenthaler	2003	$ 514,423	$ —	$ —	250,000	$ 20,000(6)
Senior Vice President	2002	$ 307,692(2)	$ —	$ —	513,000(5)	$ 17,307(6)
Charles Y. Tanabe .	2004	$ 676,866	$ —	$ —	225,000	$ 20,500(6)
Senior Vice	2003	$ 632,788	$ —	$ —	250,000	$ 20,000(6)
President and General Counsel	2002	$ 615,000	$ —	$ —	—	$ 20,000(6)

(1) In 2002 and 2003, LMC's executive officers' annual salaries were based on 26 bi-weekly pay periods per year. In 2004, due to the timing of LMC's pay days, the executive officers' annual salaries were based on 27 bi-weekly pay periods.

(2) Mr. Rosenthaler's employment with LMC commenced on April 1, 2002. Accordingly, the 2002 compensation included in the table represents nine months of employment.

(3) Includes $216,236, $317,970 and $240,443 of compensation related to Dr. Malone's personal use of LMC's aircraft and flight crew during 2004, 2003 and 2002, respectively, which compensation has been calculated based upon the aggregate incremental cost of such usage to LMC. In accordance with applicable Treasury Regulations, LMC included in Dr. Malone's reportable income for 2004, 2003 and 2002 $74,163, $111,997 and $76,735, respectively, of compensation related to his personal use of LMC's aircraft and flight crew. Also includes $425,835, $213,219 and $188,127 in 2004, 2003 and 2002, respectively, related to reimbursement of Dr. Malone's legal and accounting fees for tax and estate planning purposes. Dr. Malone's employment agreement with LMC was amended in 2003 to provide for payment or reimbursement of professional fees and other expenses incurred by Dr. Malone for estate, tax planning and other services, and for personal use of LMC's aircraft and flight crew. The aggregate amount of such payments or reimbursements and the value of his personal use of LMC's aircraft is limited to $500,000 per year. For purposes of Dr. Malone's employment agreement, the value of his aircraft use is determined in accordance with applicable Treasury Regulations.

(4) Includes $184,359, $187,809 and $245,763 of compensation related to Mr. Bennett's personal use of LMC's aircraft and flight crew during 2004, 2003 and 2002, respectively, which compensation has been calculated based upon the aggregate incremental cost of such usage to LMC. In accordance

with applicable Treasury Regulations, LMC included in Mr. Bennett's reportable income for 2004, 2003 and 2002 $71,926, $68,525 and $66,525, respectively, of compensation related to his personal use of LMC's aircraft and flight crew. During calendar years 2003 through 2008, Mr. Bennett is entitled to compensation relating to his personal use of LMC's aircraft and flight crew averaging $250,000 per year. The value of this usage will be calculated based upon the aggregate incremental cost of this usage to LMC.

(5) The numbers of shares reflect adjustments for LMC's rights offering which concluded in December 2002.

(6) Amounts represent contributions to the Liberty Media 401(k) Savings Plan (the "Liberty Savings Plan"). The Liberty Savings Plan provides employees with an opportunity to save for retirement. The Liberty Savings Plan participants may contribute up to 10% of their compensation, and LMC contributes a matching contribution of 100% of the participants' contributions. Participant contributions to the Liberty Savings Plan are fully vested upon contribution.

Generally, participants acquire a vested right in LMC contributions as follows:

Years of service	Vesting Percentage
Less than 1	0%
1-2	33%
2-3	66%
3 or more	100%

With respect to LMC contributions made to the Liberty Savings Plan in 2004, 2003 and 2002, all of the named executive officers are fully vested. Directors who are not employees of LMC are ineligible to participate in the Liberty Savings Plan. Under the terms of the Liberty Savings Plan, employees are eligible to participate after three months of service.

(7) Pursuant to the terms of an agreement entered into in 1991, from January 1992 through December 2001, LMC paid the premiums due on two $1,250,000 split-dollar, whole life insurance policies for the benefit of Mr. Bennett, and Mr. Bennett granted an assignment of policy benefits in LMC's favor in the amounts of the premiums LMC paid. Consistent with the terms of the agreement, in 2003, the compensation committee of LMC's board of directors determined to terminate the assignment in LMC's favor of, and all LMC's obligations under, these policies. In connection with this termination, Mr. Bennett is not required to repay any premiums LMC paid on these policies. LMC has treated the termination of assignment of policy benefits in its favor as a compensatory bonus to Mr. Bennett in an amount equal to the aggregate cash surrender value of the policies ($397,835), and LMC paid Mr. Bennett an amount equal to the remaining premium payments necessary to fully fund the unfunded policy ($48,777), together with an additional $350,909 "gross-up" to account for taxes due on the total bonus. In addition, LMC reimbursed Mr. Bennett for the September 2002 premium payment he made on the unfunded policy in an amount equal to $16,259.

Option and SAR Grants in Last Fiscal Year

We did not grant any stock options or stock appreciation rights to our named executive officers during the year ended December 31, 2004. The grant of any stock options or stock appreciation rights following the spin off will be determined by the compensation committee of our board of directors. The following table sets forth certain information concerning stock options and stock appreciation rights granted under the Liberty Media Corporation 2000 Incentive Plan (as amended and restated effective April 19, 2004) during its fiscal year ended December 31, 2004, to our named executive officers:

	Number of securities underlying SARs granted	Percent of total SARs granted to employees in fiscal year	Exercise or base price ($/sh)(1)	Expiration Date	Grant date present value(2)
John C. Malone	—	—	$ —	—	—
Robert R. Bennett	1,000,000	24.9%	$8.45	August 6, 2014	$4,364,715
David J.A. Flowers	250,000	6.2%	$8.45	August 6, 2014	$1,091,179
Albert E. Rosenthaler	250,000	6.2%	$8.45	August 6, 2014	$1,091,179
Charles Y. Tanabe	225,000	5.6%	$8.45	August 6, 2014	$ 982,061

(1) Represents the closing market price per share of Liberty Series A common stock on August 6, 2004.

(2) The value shown is based upon the Black-Scholes model and is stated on a present value basis. The key assumptions used in the model for purposes of this calculation include the following: (a) a 4.2% discount rate; (b) a 32.0% volatility factor; (c) the 10-year option term; (d) the closing price of LMC Series A common stock on August 6, 2004; and (e) a per share exercise price of $8.45. The actual value realized will depend upon the extent to which the stock price exceeds the exercise price on the date the SAR is exercised. Accordingly, the realized value, if any, will not necessarily be the value determined by the model.

Each option and stock appreciation right with respect to LMC common stock outstanding as of the record date will be adjusted in connection with the spin off. See "The Spin Off—Treatment of LMC Stock Incentive Awards" for a discussion of such adjustments.

LMI Spin Off Adjustment Option Grants

In connection with the spin off of its then-wholly owned subsidiary, LMI, in June 2004 and pursuant to the antidilution provisions of the Liberty Media Corporation 2000 Incentive Plan (as amended and restated effective April 19, 2004), LMC's incentive plan committee determined to make adjustments to outstanding LMC options and stock appreciation rights (collectively, Awards). As of the record date for the LMI spin off, which was 5:00 p.m., New York City time, on June 1, 2004, each outstanding Award held by LMC employees who work in departments that were expected to provide services to LMI were divided into (A) an option to purchase shares of the corresponding series of LMI common stock equal to 0.05 times the number of Awards held by the option holder and (B) an Award to purchase shares of LMC common stock equal to the same number and series of shares of LMC common stock for which the outstanding Award was exercisable prior to the adjustment. The aggregate exercise price of each Award was allocated between the new LMI option and the adjusted LMC Award, such that the new LMI option had an exercise price equal to the fair value of the applicable series of LMI common stock on the adjustment date and the remaining portion of the exercise or base price of the Award was allocated to the adjusted LMC Award. As a result of these adjustments, our named executive officers received LMI options, which were subsequently adjusted by LMI in connection with the LMI rights offering that commenced on July 26, 2004. These LMI options, as so adjusted, are set forth in the table below:

	Number of securities underlying options granted	Series of LMI Common Stock	Exercise price	Expiration date
John C. Malone	610,927	Series B	$37.88	February 28, 2011
	147	Series A	$33.92	December 31, 2005
	74	Series A	$33.92	February 3, 2007
Robert R. Bennett	887,227	Series B	$37.88	February 28, 2011
	8	Series A	$33.92	November 17, 2004
	1,364	Series A	$33.92	July 11, 2007
	53,192	Series A	$33.92	July 31, 2013
David J.A. Flowers	78,558	Series A	$33.92	February 28, 2011
	10,639	Series A	$33.92	July 31, 2013
Albert E. Rosenthaler	27,277	Series A	$33.92	April 1, 2012
	13,298	Series A	$33.92	July 31, 2013
Charles Y. Tanabe	104,743	Series A	$33.92	February 28, 2011
	13,298	Series A	$33.92	July 31, 2013

Aggregate Option/SAR Exercises in Last Fiscal Year and Fiscal Year-End Option/SAR Values

None of our named executive officers held options to purchase our common stock during the year ended December 31, 2004. The following table sets forth certain information concerning exercises of options and/or stock appreciation rights for LMC's common stock during the year ended December 31, 2004, by our named executive officers: