

Redemption of Rights. At any time prior to the time a person or group becomes an acquiring person, our board of directors may redeem the rights in whole, but not in part, at a price of \$.01 per right, subject to adjustment, payable, at our option, in cash, shares of common stock or other consideration deemed appropriate by our board of directors. The redemption of the rights may be made effective at the time, on the basis and with the conditions as our board of directors in its sole discretion may establish. Immediately upon any redemption of the rights, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price.

Amendment of Rights. For so long as the rights are redeemable, we may, except with respect to the redemption price, amend the rights agreement in any manner without approval of the holders of our common stock. After the rights are no longer redeemable, we may, except with respect to the redemption price, amend the rights agreement in any manner that does not adversely affect the interests of holders of the rights.

No Rights as Stockholder. Until a right is exercised or exchanged, the holder of the rights, as such, will not have any rights as a stockholder of Discovery Holding, including, without limitation, any right to vote or to receive dividends.

Certain Tax Considerations. For U.S. federal income tax purposes, the distribution by us of the rights will not be taxable to us, and the receipt in the spin off of the rights which will be attached to our common stock will not be taxable to holders of LMC common stock. See "The Spin Off—Material U.S. Federal Income Tax Consequences of the Spin Off." Depending upon the circumstances, holders of the rights could recognize taxable income or gain on or after the date that the rights become exercisable or in the event that the rights are redeemed by us as provided above.

Dividend Policy

We presently intend to retain future earnings, if any, to finance the expansion of our business. Therefore, we do not expect to pay any cash dividends in the foreseeable future. All decisions regarding the payment of dividends by our company will be made by our board of directors, from time to time, in accordance with applicable law after taking into account various factors, including our financial condition, operating results, current and anticipated cash needs, plans for expansion and possible loan covenants which may restrict or prohibit our payment of dividends.

Anti-Takeover Effects of Provisions of our Restated Certificate of Incorporation and Bylaws

Board of Directors

Our restated certificate of incorporation and bylaws provide that, subject to any rights of the holders of any series of our preferred stock to elect additional directors, the number of our directors shall not be less than three or more than nine, with the exact number to be fixed from time to time by a resolution adopted by the affirmative vote of 75% of the members of our board then in office. Initially, the board will consist of five members. The members of our board are divided into three classes. Each class consists, as nearly as possible, of a number of directors equal to one-third of the then authorized number of board members. The term of office of our Class I directors expires at the annual meeting of our shareholders in 2006. The term of office of our Class II directors expires at the annual meeting of our shareholders in 2007. The term of office of our Class III directors expires at the annual meeting of our shareholders in 2008. At each annual meeting of our shareholders, the successors of that class of directors whose term expires 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 successors are elected and qualified.

Our restated certificate of incorporation provides that, subject to the rights of the holders of any series of our preferred stock, as to directors elected by such holders, directors may be removed from office only for cause upon the affirmative vote of the holders of at least a majority of the total voting power of our outstanding capital stock entitled to vote at an election of directors (including the holders of any preferred stock entitled to elect any directors), voting together as a single class.

Our restated certificate of incorporation provides that, subject to the rights of the holders of any series of our preferred stock, vacancies on our board resulting from death, resignation, removal, disqualification or other cause, and newly created directorships resulting from any increase in the number of directors on our board, shall be filled only by the affirmative vote of a majority of the remaining directors then in office (even though less than a quorum) or by the sole remaining director. Any director so elected shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred or to which the new directorship is assigned, and until that director's successor shall have been elected and qualified or until such director's earlier death, resignation or removal. No decrease in the number of directors constituting our board shall shorten the term of any incumbent director, except as may be provided in any certificate of designation with respect to a series of our preferred stock with respect to any additional director elected by the holders of that series of our preferred stock.

These provisions would preclude a third party from removing incumbent directors and simultaneously gaining control of our board by filling the vacancies created by removal with its own nominees. Under the classified board provisions described above, it would take at least two elections of directors for any individual or group to gain control of our board. Accordingly, these provisions could discourage a third party from initiating a proxy contest, making a tender offer or otherwise attempting to gain control of us.

No Shareholder Action by Written Consent; Special Meetings

Our restated certificate of incorporation provides that, except as provided in the terms of any series of preferred stock and in other limited circumstances in which the separate consent of the holders of the Series B common stock is required, stockholder action may only be taken at an annual meeting or special meeting of shareholders and may not be effected by any consent in writing by such holders. Except as otherwise required by law and subject to the rights of the holders of any series of our preferred stock, special meetings of our shareholders for any purpose or purposes may be called only by our Secretary at the request of at least 75% of the members of our board then in office. No business other than that stated in the notice of special meeting shall be transacted at any special meeting.

Advance Notice Procedures

Our bylaws establish an advance notice procedure for shareholders to make nominations of candidates for election as directors or to bring other business before an annual meeting of our shareholders.

Shareholders must notify our corporate secretary in writing prior to the meeting at which the matters are to be acted upon or directors are to be elected. The notice must contain the information specified in our bylaws. To be timely, the notice must be received at our corporate headquarters not less than 90 days nor more than 120 days prior to the first anniversary of the date of the prior year's annual meeting of shareholders. If the annual meeting is advanced by more than 30 days, or delayed by more than 70 days, from the anniversary of the preceding year's annual meeting, or if no annual meeting was held in the preceding year or for the first annual meeting following the spin off, notice by the shareholder to be timely must be received not earlier than the 120th day prior to the annual meeting and not later than the later of the 90th day prior to the annual meeting or the 10th day

following the day on which we notify shareholders of the date of the annual meeting, either by mail or other public disclosure. In the case of a special meeting of shareholders called to elect directors, the shareholder notice must be received not earlier than 120 days prior to the special meeting and not later than the later of the 90th day prior to the special meeting or the 10th day following the day on which we notify shareholders of the date of the special meeting, either by mail or other public disclosure.

The public announcement of an adjournment or postponement of a meeting of our shareholders does not commence a new time period (or extend any time period) for the giving of any such shareholder notice. However, if the number of directors to be elected to our board at an annual meeting is increased, and we do not make a public announcement naming all of the nominees for director or specifying the size of the increased board at least 100 days prior to the anniversary date of the immediately preceding annual meeting, a shareholder's notice shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to our Secretary at our offices not later than the close of business on the 10th day following the day on which we first make the relevant public announcement.

Amendments

Our restated certificate of incorporation provides that, subject to the rights of the holders of any series of our preferred stock and subject to obtaining the consent of the holders of 75% or more of the outstanding shares of Series B common stock (who may act by written consent in such circumstances) in the case of certain amendments described above under "Our Common Stock—Distributions," the affirmative vote of the holders of at least 80% of the voting power of our outstanding capital stock, voting together as a single class, is required to adopt, amend or repeal any provision of our restated certificate of incorporation or the addition or insertion of other provisions in the certificate, provided that the foregoing 80% voting power requirement shall not apply to any adoption, amendment, repeal, addition or insertion (1) as to which Delaware law does not require the consent of our shareholders or (2) which has been approved by at least 75% of the members of our board then in office. Our restated certificate of incorporation further provides that the affirmative vote of the holders of at least 80% of the voting power of our outstanding capital stock, voting together as a single class, is required to adopt, amend or repeal any provision of our bylaws, provided that the foregoing voting requirement shall not apply to any adoption, amendment or repeal approved by the affirmative vote of not less than 75% of the members of our board then in office.

Supermajority Voting Provisions

In addition to the supermajority voting provisions discussed under "—Amendments" above, our restated certificate of incorporation provides that, subject to the rights of the holders of any series of our preferred stock, the affirmative vote of the holders of at least 80% of the voting power of our outstanding capital stock generally entitled to vote upon all matters submitted to our shareholders, voting together as a single class, is required for:

- our merger or consolidation with or into any other corporation or a business combination involving our company, provided, that the foregoing voting provision shall not apply to any such merger or consolidation (1) as to which the laws of the State of Delaware, as then in effect, do not require the consent of our shareholders, or (2) that at least 75% of the members of our board of directors then in office have approved;
- the sale, lease or exchange of all, or substantially all, of our assets, provided, that the foregoing voting provisions shall not apply to any such sale, lease or exchange that at least 75% of the members of our board of directors then in office have approved; or

- our dissolution, provided, that the foregoing voting provision shall not apply to such dissolution if at least 75% of the members of our board of directors then in office have approved such dissolution.

Corporate Opportunities

Our restated certificate of incorporation provides that if one of our directors or officers acquires knowledge of a potential transaction or matter that may be a business opportunity for our company, such director or officer will to the fullest extent permitted by law have no liability to us related to such person's failure to refer or communicate such opportunity to us, unless:

- such opportunity was expressly offered to such person solely in his or her capacity as a director or officer of our company or as a director or officer of any of our subsidiaries, and
- such opportunity relates to a line of business in which our company or any of our subsidiaries is then directly engaged.

Any person becoming a stockholder in our company will be deemed to have notice of and have consented to the provisions of our certificate of incorporation related to corporate opportunities that are described above.

Section 203 of the Delaware General Corporation Law

Section 203 of the Delaware General Corporation Law prohibits certain transactions between a Delaware corporation and an "interested stockholder." An "interested stockholder" for this purpose is a stockholder who is directly or indirectly a beneficial owner of 15% or more of the outstanding voting power of a Delaware corporation. This provision prohibits certain business combinations between an interested stockholder and a corporation for a period of three years after the date on which the stockholder became an interested stockholder, unless: (1) the transaction which resulted in the stockholder becoming an interested stockholder is approved by the corporation's board of directors before the stockholder became an interested stockholder, (2) the interested stockholder acquired at least 85% of the voting power of the corporation in the transaction in which the stockholder became an interested stockholder, or (3) the business combination is approved by a majority of the board of directors and the affirmative vote of the holders of two-thirds of the outstanding voting power not owned by the interested stockholder at or subsequent to the time that the stockholder became an interested stockholder. These restrictions do not apply if, among other things, the corporation's certificate of incorporation contains a provision expressly electing not to be governed by Section 203. In our restated certificate of incorporation, we have elected not to be governed by Section 203.

Transfer Agent and Registrar

EquiServe Trust Company, N.A. will be the transfer agent and registrar for our common stock.

INDEMNIFICATION OF DIRECTORS AND OFFICERS

Section 145 of the Delaware General Corporation Law provides that a corporation may indemnify directors and officers as well as other employees and individuals against expenses including attorneys' fees, judgments, fines and amounts paid in settlement in connection with various actions, suits or proceedings, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation, such as a derivative action), if they acted in good faith and in a manner they reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, if they had no reasonable cause to believe their conduct was unlawful. A similar standard is applicable in the case of any actions by or in the right of the corporation, except that indemnification only extends to expenses, including attorneys' fees, incurred in connection with the defense or settlement of such actions, and the statute requires court approval before there can be any indemnification where the person seeking indemnification has been found liable to the corporation. The statute provides that it is not exclusive of other indemnification that may be granted by a corporation's certificate of incorporation, bylaws, agreement, a vote of shareholders or disinterested directors or otherwise.

Our restated certificate of incorporation provides that we will indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or may hereafter be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person, or a person for whom such person is the legal representative, is or was a director or officer of us or, while a director or officer of us, is or was serving at our request as a director, officer, employee or agent of another corporation or of a partnership, joint venture, limited liability company, trust, enterprise or nonprofit entity, including service with respect to employee benefit plans, against all liability and losses suffered and expenses (including attorneys' fees) incurred by such person in connection therewith. Our restated certificate of incorporation also provides that we will pay the expenses incurred by a director or officer in defending any such proceeding in advance of its final disposition, subject to such person providing us with certain undertakings. Notwithstanding the foregoing, our restated certificate of incorporation provides that we shall be required to indemnify or make advances to a person in connection with a proceeding (or part thereof) initiated by such person only if the proceeding (or part thereof) was authorized by our board of directors. Such rights are not exclusive of any other right that any person may have or thereafter acquire under any statute, provision of our restated certificate of incorporation, bylaws, agreement, vote of shareholders or disinterested directors or otherwise. No amendment, modification or repeal of such provision will in any way adversely affect any right or protection thereunder of any person in respect of any act or omission occurring prior to the time of such amendment, modification or repeal. We intend to enter into indemnification agreements with each of our directors and officers. A form of indemnification agreement approved by our board of directors is included as an exhibit to the Form 10 registration statement of which this information statement is a part.

The Delaware General Corporation Law permits a corporation to provide in its certificate of incorporation that a director of the corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability for:

- any breach of the director's duty of loyalty to the corporation or its shareholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- payments of unlawful dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

Our restated certificate of incorporation provides that, to the fullest extent permitted by applicable law, none of our directors will be personally liable to us or our shareholders for monetary damages for breach of fiduciary duty as a director. Any repeal or modification of this provision will be prospective only and will not adversely affect any limitation, right or protection of a director of our company existing at the time of such repeal or modification.

INDEPENDENT AUDITORS

The audit committee of LMC's board of directors has selected KPMG LLP as our independent auditors for the year ended December 31, 2005.

WHERE YOU CAN FIND MORE INFORMATION

We have filed a registration statement on Form 10 with the SEC with respect to the shares of our common stock being distributed as contemplated by this information statement. This information statement is a part of, and does not contain all of the information set forth in, the registration statement and the exhibits and schedules to the registration statement. For further information with respect to our company and our common stock, please refer to the registration statement, including its exhibits and schedules. Statements made in this information statement relating to any contract or other document are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. You may review a copy of the registration statement, including its exhibits and schedules, at the SEC's public reference room, located at 450 Fifth Street, N.W., Washington, D.C. 20549, as well as on the Internet website maintained by the SEC at www.sec.gov. Information contained on any website referenced in this information statement is not incorporated by reference in this information statement.

As a result of the distribution, we will become subject to the information and reporting requirements of the Securities Exchange Act of 1934 and, in accordance with the Exchange Act, we will file periodic reports, proxy statements and other information with the SEC.

You may request a copy of any of our filings with the SEC at no cost, by writing or telephoning the office of:

Investor Relations
DISCOVERY HOLDING COMPANY
12300 Liberty Boulevard
Englewood, Colorado 80112
Telephone: (866) 876-0461

We intend to furnish holders of our common stock with annual reports containing consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles and audited and reported on, with an opinion expressed, by an independent public accounting firm.

You should rely only on the information contained in this information statement or to which we have referred you. We have not authorized any person to provide you with different information or to make any representation not contained in this information statement.

INDEX TO FINANCIAL STATEMENTS

	<u>Page</u>
LMC Discovery Group	
Unaudited Condensed Combined Balance Sheets as of March 31, 2005 and December 31, 2004 .	F-2
Unaudited Condensed Combined Statements of Operations and Comprehensive Earnings for the three months ended March 31, 2005 and 2004	F-3
Unaudited Condensed Combined Statement of Parent's Investment for the three months ended March 31, 2005	F-4
Unaudited Condensed Combined Statements of Cash Flows for the three months ended March 31, 2005 and 2004	F-5
Notes to Condensed Combined Financial Statements (unaudited)	F-6
Report of Independent Registered Public Accounting Firm	F-15
Combined Balance Sheets as of December 31, 2004 and 2003	F-16
Combined Statements of Operations and Comprehensive Earnings (Loss) for the years ended December 31, 2004, 2003 and 2002	F-17
Combined Statements of Parent's Investment for the years ended December 31, 2004, 2003 and 2002	F-18
Combined Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 . . .	F-19
Notes to Combined Financial Statements	F-20
Discovery Communications, Inc.	
Report of Independent Registered Public Accounting Firm	F-39
Consolidated Balance Sheets as of December 31, 2004 and 2003	F-40
Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002 .	F-41
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 .	F-42
Consolidated Statements of Changes in Stockholders' Deficit for the years ended December 31, 2004, 2003 and 2002	F-43
Notes to Consolidated Financial Statements	F-44

LMC Discovery Group
Condensed Combined Balance Sheets
(unaudited)

	<u>March 31,</u> 2005	<u>December 31,</u> 2004
	<u>amounts in thousands</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 15,181	21,641
Trade receivables, net	153,323	151,120
Prepaid expenses and other current assets	<u>23,547</u>	<u>26,208</u>
Total current assets	192,051	198,969
Investment in Discovery Communications, Inc. ("DCI")	2,966,139	2,945,782
Property, plant, and equipment, net	261,603	258,741
Goodwill and other intangible assets, net	2,140,551	2,140,355
Other assets, net	17,366	20,981
Total assets	<u>\$ 5,577,710</u>	<u>5,564,828</u>
Liabilities and Parent's Investment		
Current liabilities:		
Accounts payable	\$ 36,165	33,327
Accrued payroll and related liabilities	22,784	23,632
Other accrued liabilities	22,546	29,606
Deferred revenue	18,299	20,858
Due to parent	<u>1,247</u>	<u>1,104</u>
Total current liabilities	101,041	108,527
Deferred income tax liabilities	1,091,985	1,083,964
Other liabilities	<u>24,074</u>	<u>25,058</u>
Total liabilities	<u>1,217,100</u>	<u>1,217,549</u>
Commitments and contingencies (see note 8)		
Parent's investment:		
Parent's investment	5,507,874	5,506,066
Accumulated deficit	(1,154,272)	(1,171,097)
Accumulated other comprehensive earnings	<u>7,008</u>	<u>12,310</u>
Total parent's investment	<u>4,360,610</u>	<u>4,347,279</u>
Total liabilities and parent's investment	<u>\$ 5,577,710</u>	<u>5,564,828</u>

See accompanying notes to condensed combined financial statements.

LMC Discovery Group
Condensed Combined Statements of Operations and Comprehensive Earnings
(unaudited)

	Three months ended March 31,	
	2005	2004
	amounts in thousands	
Net revenue	\$174,290	145,943
Cost of services (excluding depreciation shown below)	110,854	87,750
Gross profit	<u>63,436</u>	<u>58,193</u>
Operating expenses:		
Selling, general, and administrative	43,585	35,705
Stock compensation	213	522
Depreciation and amortization	16,761	16,052
	<u>60,559</u>	<u>52,279</u>
Operating income	2,877	5,914
Other income (expense):		
Share of earnings of DCI	22,814	10,449
Other, net	322	(111)
	<u>23,136</u>	<u>10,338</u>
Earnings before income taxes	26,013	16,252
Income tax expense	(9,188)	(4,332)
Net earnings	<u>\$ 16,825</u>	<u>11,920</u>
Other comprehensive earnings (loss), net of taxes:		
Unrealized holding gains arising during the period	39	—
Foreign currency translation adjustments	(5,341)	1,001
Other comprehensive earnings (loss)	(5,302)	1,001
Comprehensive earnings	<u>\$ 11,523</u>	<u>12,921</u>
Pro forma basic and diluted earnings per common share (note 4)	<u>\$.06</u>	<u>.04</u>

See accompanying notes to condensed combined financial statements.

LMC Discovery Group
Condensed Combined Statement of Parent's Investment
Three months ended March 31, 2005
(unaudited)

	<u>Parent's investment</u>	<u>Accumulated deficit</u>	<u>Accumulated other comprehensive income</u>	<u>Total</u>
	amounts in thousands			
Balance at January 1, 2005	\$5,506,066	(1,171,097)	12,310	4,347,279
Stock compensation	566	—	—	566
Net cash transfers from parent	1,242	—	—	1,242
Other comprehensive loss	—	—	(5,302)	(5,302)
Net earnings	—	16,825	—	16,825
Balance at March 31, 2005	<u>\$5,507,874</u>	<u>(1,154,272)</u>	<u>7,008</u>	<u>4,360,610</u>

See accompanying notes to condensed combined financial statements.

LMC Discovery Group
Condensed Combined Statements of Cash Flows
(unaudited)

	Three months ended March 31,	
	2005	2004
	amounts in thousands	
Cash flows from operating activities:		
Net earnings	\$16,825	11,920
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	16,761	16,052
Stock compensation	213	522
Share of earnings of DCI	(22,814)	(10,449)
Deferred income tax expense	8,898	3,566
Other non-cash credits, net	(75)	(154)
Changes in assets and liabilities (net of acquisitions):		
Trade receivables	(2,807)	(10,262)
Prepaid expenses and other current assets	2,710	(4,847)
Payables and other liabilities	(8,706)	7,812
Net cash provided by operating activities	<u>11,005</u>	<u>14,160</u>
Cash flows from investing activities:		
Capital expenditures	(20,921)	(5,925)
Cash paid for acquisitions, net of cash acquired	—	(33,717)
Cash proceeds from dispositions	38	1,356
Other investing activities, net	2,179	24
Net cash used in investing activities	<u>(18,704)</u>	<u>(38,262)</u>
Cash flows from financing activities:		
Net cash transfers from parent	1,242	30,998
Other financing activities, net	(3)	(43)
Net cash provided by financing activities	<u>1,239</u>	<u>30,955</u>
Net increase (decrease) in cash and cash equivalents	(6,460)	6,853
Cash and cash equivalents at beginning of period	21,641	8,599
Cash and cash equivalents at end of period	<u>\$15,181</u>	<u>15,452</u>

See accompanying notes to condensed combined financial statements.

LMC Discovery Group
Notes to Combined Financial Statements
March 31, 2005
(unaudited)

(1) Basis of Presentation

The accompanying condensed combined financial statements of LMC Discovery Group or the "Company" represent a combination of the historical financial information of (1) Ascent Media Group, 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 spinoff transaction described in note 2, Discovery Holding Company will own the assets that comprise LMC Discovery Group.

Ascent Media is comprised of three operating divisions or groups. Ascent Media's Creative Services group provides services necessary to complete the creation of original content, including feature films, mini-series, television shows, television commercials, music videos, promotional and identity campaigns, and corporate communications programming. The group manipulates or enhances original visual images or audio captured in principal photography or creates new three dimensional images, animation sequences, or sound effects. The Media Management Services group provides owners of content libraries with an entire complement of facilities and services necessary to optimize, archive, manage, and repurpose media assets for global distribution via freight, satellite, fiber, and the Internet. The Networks Services group provides the facilities and services necessary to assemble and distribute programming content 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 systems integration, design, consulting, engineering and project management services.

DCI 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 countries.

The accompanying interim condensed combined financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the results for such periods. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed combined financial statements should be read in conjunction with the Company's December 31, 2004 combined financial statements and notes thereto found elsewhere herein.

The preparation of the combined financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make 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 consolidated 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 accounts. Actual results could differ from the estimates upon which the carrying values were based.

(2) Spinoff Transaction

~~During 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 of Liberty 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 of Series A and Series B common stock of Discovery Holding Company. The Spin Off will not involve the payment of any~~

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

consideration by the holders of Liberty common stock and is intended to qualify as a tax-free transaction. The Spin Off is expected to occur on July 21, 2005, and will be made as a dividend to holders of record of Liberty common stock as of the close of business on July 15, 2005. The Spin Off is expected to be accounted for at historical cost due to the pro rata nature of the distribution.

Following 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 the Spin Off, 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 to provide for an orderly transition. These agreements include a Reorganization Agreement, a Services Agreement and a Tax Sharing Agreement.

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

Under 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 return that includes 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 one of its subsidiaries, 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, or failure 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 such action or failure to act, if such action or failure to act precludes the Spin Off from qualifying as a tax-free transaction.

Liberty has also agreed to transfer \$200 million in cash to a subsidiary of Discovery Holding Company prior to the Spin Off.

(3) Stock-Based Compensation

Employees 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 prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations including FASB Interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation*, an interpretation of APB Opinion No. 25, to account for its fixed-plan stock options. Under this method, compensation expense 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 period. SFAS No. 123, *Accounting for Stock-Based Compensation*, established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation 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 only the disclosure requirements of SFAS No. 123.

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

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

	<u>Three months</u> <u>ended March 31,</u>	
	<u>2005</u>	<u>2004</u>
	<u>amounts in</u> <u>thousands</u>	
Net earnings, as reported	\$16,825	11,920
Add:		
Stock-based employee compensation expense included in reported net loss	566	590
Deduct:		
Stock-based employee compensation expense determined under fair value based method for all awards	<u>(1,466)</u>	<u>(2,902)</u>
Pro forma net earnings	<u>\$15,925</u>	<u>9,608</u>
Pro forma basic and diluted earnings per share:		
As reported	<u>\$.06</u>	<u>.04</u>
Pro forma for fair value stock compensation	<u>\$.06</u>	<u>.03</u>

On May 24, 2005, Liberty commenced an offer to purchase certain stock options to purchase shares of Liberty Series A common stock held by eligible employees of Ascent Media. The offer to purchase related to 1,173,028 options, and the aggregate offering price for such options was approximately \$2.15 million. The offer to purchase expired at 9:00 p.m., Pacific time, on June 21, 2005. Eligible employees tendered options with respect to 1,112,421 shares of Liberty Series A common stock, and Liberty will purchase such options for aggregate cash payments of approximately \$2.12 million. In connection with these purchases, Ascent Media will record a compensation charge of approximately \$4.0 million.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), "*Share-Based Payments*" ("Statement 123R"). 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 exchanges its equity instruments for goods or services, primarily focusing on transactions in which an entity obtains employee services. Statement 123R generally requires companies to measure the cost of 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 recognize 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 measure the cost 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 remeasure the fair value of the award at each reporting date.

Public 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 Securities and Exchange Commission amended the effective date of Statement 123R to the beginning of a registrant's next fiscal year, or January 1, 2006 for calendar-year companies, such as the Company. The provisions of

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

Statement 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 to January 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 123 was effective. 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 information as though the standard had been adopted for all periods presented.

While 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 earnings in the future.

(4) Pro Forma Earnings Per Common Share

Pro forma basic earnings per common share ("EPS") is computed by dividing net earnings by the pro forma number of common shares outstanding for the period. The pro forma number of shares outstanding for all periods presented is 280,001,000 shares, which is the number of shares that would have been issued on March 31, 2005 if the Spin Off had been completed on such date. Dilutive EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. Due to the relative insignificance of the dilutive securities in 2005 and 2004, their inclusion does not impact the EPS amount as reported in the accompanying condensed combined statement of operations.

(5) Supplemental Disclosure of Cash Flow Information

	Three months ended March 31,	
	2005	2004
	amounts in thousands	
Cash paid for acquisitions:		
Fair value of assets acquired	\$—	49,757
Net liabilities assumed	—	(16,040)
Cash paid for acquisitions, net of cash acquired	\$—	33,717

(6) Investment in DCI

The 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, that provides original and purchased video programming in the United States and over 160 other countries.

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

Summarized financial information for DCI is as follows:

Consolidated Balance Sheets

	<u>March 31,</u> <u>2005</u>	<u>December 31,</u> <u>2004</u>
	<u>amounts in thousands</u>	
Current assets	\$ 844,977	835,450
Property and equipment	396,623	380,290
Goodwill and intangible assets	433,391	445,221
Programming rights, long term	1,053,354	1,027,379
Other assets	463,904	547,346
Total assets	<u>\$3,192,249</u>	<u>3,235,686</u>
Current liabilities	\$1,112,615	885,353
Long term debt	2,294,070	2,498,287
Other liabilities	147,704	160,405
Mandatorily redeemable equity in subsidiaries	225,071	319,567
Stockholders' deficit	(587,211)	(627,926)
Total liabilities and stockholders' deficit	<u>\$3,192,249</u>	<u>3,235,686</u>

Consolidated Statements of Operations

	<u>Three months ended</u> <u>March 31,</u>	
	<u>2005</u>	<u>2004</u>
	<u>amounts in thousands</u>	
Revenue	\$ 601,471	527,362
Cost of revenue	(218,259)	(181,737)
Selling, general and administrative	(234,758)	(208,208)
Equity-based compensation	(22,867)	(28,780)
Depreciation and amortization	(28,821)	(30,833)
Operating income	96,766	77,804
Interest expense	(44,908)	(40,734)
Other income (expense)	27,400	(884)
Income tax expense	(33,629)	(15,335)
Net earnings	<u>\$ 45,629</u>	<u>20,851</u>

(7) Acquisitions

London Payout Centre

On 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 Payout Centre Limited ("LPC") from an independent third party (the "Seller") for a purchase price of (i) \$36,573,000 paid at

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

closing. In addition, in the event certain existing LPC contracts, which currently expire in 2005 through 2007, are renewed on terms similar to existing terms, Ascent Media may be required to pay up to an additional £5,000,000 (\$9,453,000 at March 31, 2005). As the amount of the contingent consideration is not determinable at March 31, 2005, no liability has been recorded in the accompanying condensed combined balance sheets. At the point in time that the amount of contingent 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 was funded, in part, by proceeds from Liberty.

The following unaudited pro forma information for the three months ended March 31, 2004 was prepared assuming the acquisition of LPC occurred on January 1, 2004. However, those pro forma amounts are not necessarily indicative of operating results that would have occurred if the LPC acquisition had occurred on January 1, 2004 (amounts in thousands):

Revenue	\$154,446
Net earnings	\$ 10,970

(8) Commitments and Contingencies

The Company is involved in litigation and similar claims incidental to the conduct of its business. In management's opinion, none of the pending actions is likely to have a material adverse impact on the Company's financial position or results of operations.

(9) Related Party Transactions

Certain corporate general and administrative and spin off related costs have been paid by Liberty on behalf of the Company and reflected as expenses in the accompanying condensed consolidated statements of operations. Such expenses aggregated \$1,242,000 for the three months ended March 31, 2005.

Since October 1, 2002, Ascent Media has provided uplink and satellite transport services to On Command Corporation ("On Command"), a wholly owned subsidiary of LMC, pursuant to the terms of a short-term services agreement and a content preparation and distribution services agreement, which continues through March 31, 2008. The content preparation and distribution services agreement also provides that Ascent Media may supply content preparation services. During the period from April 2003 to October 2004, Ascent Media also installed satellite equipment at On Command's downlink sites at hotels pursuant to a separate services agreement. All agreements were entered into in the ordinary course of business on arm's-length terms. Ascent Media has provided \$156,000 and \$3,000 in services to On Command for the three months ended March 31, 2005 and 2004, respectively.

Ascent Media provides services, such as satellite uplink, systems integration, origination, and post-production, to various affiliates of Liberty including DCI and Court Television Network, LLC. Revenue recorded by Ascent Media for these services for the three months ended March 31, 2005 and 2004 aggregated \$11,141,000 and \$2,676,000, respectively.

(10) Information About Operating Segments

The Company's business units have been aggregated into four reportable segments: the Creative Services Group, the Media Management Services Group, and the Network Services Group, which are

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

all operating 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 column listed below.

The Creative Services Group provides post-production services, which are comprised of services necessary to complete the creation of original content including feature films, television shows, movies of the week/mini series, television commercials, music videos, promotional and identity campaigns and corporate communications programming. The Media Management Services Group provides content storage services, which are comprised of facilities and services necessary to optimize, archive, manage and repurpose media assets for global distribution via freight, satellite, fiber and the Internet; access to all forms of content, duplication and formatting services, language conversions and laybacks, restoration and preservation of old 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 for global home video, broadcast, pay-per-view and emerging new media distribution channels. The Network Services Group provides broadcast services, which are comprised of services necessary 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 Services Group provides systems integration, design, consulting, engineering and project management services.

The 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 the CODM 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 share of earnings represent more than 10% of the Company's earnings before taxes are considered reportable segments.

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

The Company evaluates the performance of these operating segments based on financial measures such as revenue and operating cash flow. The Company defines operating cash flow as revenue less operating expenses and selling, general and administrative expense (excluding stock and other equity-based compensation). The Company believes this is an important indicator 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 view operating results and perform analytical comparisons and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock and other equity-based compensation and restructuring and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, operating cash flow should 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 accordance with GAAP.

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

Summarized 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					
Three months ended March 31, 2005						
Revenue from external customers	\$ 74,228	28,776	71,286	601,471	(601,471)	174,290
Operating cash flow	\$ 13,051	3,691	15,006	148,454	(160,351)	19,851
Capital expenditures	\$ 4,499	5,261	10,249	35,459	(34,547)	20,921
Depreciation and amortization	\$ 7,499	2,186	4,709	28,821	(26,454)	16,761
Total assets	\$295,970	170,069	291,723	3,192,249	1,627,699	5,577,710
Three months ended March 31, 2004						
Revenue from external customers	\$ 75,166	25,450	45,327	527,362	(527,362)	145,943
Operating cash flow	\$ 14,381	4,687	13,108	137,417	(147,105)	22,488
Capital expenditures	\$ 4,368	765	792	5,703	(5,703)	5,925
Depreciation and amortization	\$ 7,182	2,093	4,510	30,833	(28,566)	16,052

(1) 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 for the three months ended March 31, 2005 and 2004, respectively.

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

The 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	<u>\$ 26,013</u>	<u>16,252</u>

LMC Discovery Group
Notes to Combined Financial Statements (Continued)
March 31, 2005
(unaudited)

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
	<u>\$174,290</u>	<u>145,943</u>

Report of Independent Registered Public Accounting Firm

The Stockholders and Board of Directors
Liberty Media Corporation:

We have audited the accompanying combined balance sheets of LMC Discovery Group (a combination of certain assets and businesses owned by Liberty Media Corporation, as defined 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 period ended 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 financial 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 investment in Discovery 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 Communications, 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. were audited 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 Communications, Inc. that support the equity in earnings (losses) of Discovery Communications, Inc. and the accumulated equity earnings (loss) included within the Company's investment in Discovery Communications, Inc., is based solely on the report of the other auditors.

We 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 the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinion.

In 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 position of LMC 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, 2004 in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Denver, Colorado

March 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

	<u>2004</u>	<u>2003</u>
	<u>amounts in thousands</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,441	8,599
Trade receivables, net	151,120	102,889
Prepaid expenses and other current assets	26,208	19,949
Total current assets	<u>211,769</u>	<u>131,437</u>
Investment in Discovery Communications, Inc. ("DCI")	2,945,782	2,863,003
Property, plant, and equipment, net	258,741	257,536
Goodwill and other intangible assets, net	2,140,355	2,136,667
Other assets, net	8,181	7,984
Total assets	<u>\$ 5,564,828</u>	<u>5,396,627</u>
Liabilities and Parent's Investment		
Current liabilities:		
Accounts payable	\$ 33,327	12,269
Accrued payroll and related liabilities	23,632	18,824
Other accrued liabilities	29,606	16,575
Deferred revenue	20,858	12,927
Due to parent	1,104	—
Total current liabilities	<u>108,527</u>	<u>60,595</u>
Deferred income tax liabilities	1,083,964	1,053,113
Other liabilities	25,058	22,650
Total liabilities	<u>1,217,549</u>	<u>1,136,358</u>
Commitments and contingencies (see note 13)		
Parent's investment:		
Parent's investment	5,506,066	5,490,799
Accumulated deficit	(1,171,097)	(1,237,205)
Accumulated other comprehensive earnings	12,310	6,675
Total parent's investment	<u>4,347,279</u>	<u>4,260,269</u>
Total liabilities and parent's investment	<u>\$ 5,564,828</u>	<u>5,396,627</u>

See accompanying notes to combined financial statements.

LMC Discovery Group
Combined Statements of Operations
Years ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	<u>amounts in thousands</u>		
Net revenue	\$631,215	506,103	539,333
Cost of services (excluding depreciation shown below)	<u>380,290</u>	<u>301,005</u>	<u>322,007</u>
Gross profit	<u>250,925</u>	<u>205,098</u>	<u>217,326</u>
Operating expenses:			
Selling, general, and administrative	153,559	130,336	128,271
Depreciation and amortization	77,605	70,526	67,272
Stock compensation	2,775	2,602	(48)
Impairment of goodwill	51	562	83,718
Restructuring and other charges	—	3,476	(435)
	<u>233,990</u>	<u>207,502</u>	<u>278,778</u>
Operating income (loss)	16,935	(2,404)	(61,452)
Other income (expense):			
Interest expense	—	(47,489)	(42,713)
Interest to parent	—	(24,689)	(22,107)
Share of earnings (losses) of DCI	84,011	37,271	(32,046)
Unrealized gains on derivative instruments, net	406	6,444	12,416
Other, net	(274)	(3,623)	4,823
	<u>84,143</u>	<u>(32,086)</u>	<u>(79,627)</u>
Earnings (loss) before income taxes, minority interest and change in accounting principle	101,078	(34,490)	(141,079)
Income tax benefit (expense)	(34,970)	(20,156)	30,479
Minority interests in losses of subsidiaries	—	2,252	1,552
Earnings (loss) before change in accounting principle	66,108	(52,394)	(109,048)
Change in accounting principle	—	—	(20,227)
Net earnings (loss)	<u>\$ 66,108</u>	<u>(52,394)</u>	<u>(129,275)</u>
Other comprehensive earnings, net of taxes:			
Unrealized holding gains (losses) arising during the period	(1,162)	1,770	(6,501)
Foreign currency translation adjustments	6,797	7,528	9,103
Other comprehensive earnings	5,635	9,298	2,602
Comprehensive earnings (loss)	<u>\$ 71,743</u>	<u>(43,096)</u>	<u>(126,673)</u>
Unaudited pro forma basic and diluted earnings (loss) per common share (note 3):			
Earnings (loss) before change in accounting principle	\$ 0.24	(0.19)	(0.39)
Change in accounting principle	—	—	(0.07)
Net Earnings (loss)	<u>\$ 0.24</u>	<u>(0.19)</u>	<u>(0.46)</u>

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			
Balance at January 1, 2002	\$4,638,486	(1,055,536)	(4,586)	3,578,364
Issuance of stock	13,293	—	—	13,293
Issuance of stock for interest on convertible subordinated notes	21,268	—	—	21,268
Reallocation of enterprise level goodwill from parent	184,000	—	—	184,000
Net cash transfers to parent	(54,267)	—	—	(54,267)
Other	1,432	—	—	1,432
Other comprehensive income	—	—	2,602	2,602
Net loss	—	(129,275)	—	(129,275)
Balance at December 31, 2002	4,804,212	(1,184,811)	(1,984)	3,617,417
Issuance of stock for interest on convertible subordinated notes	11,129	—	—	11,129
Conversion of debt to equity	654,330	—	—	654,330
Reallocation of enterprise level goodwill from parent	15,000	—	—	15,000
Acquisition of Ascent Media's minority interest	5,811	—	—	5,811
Other comprehensive income	—	—	9,298	9,298
Other	317	—	(639)	(322)
Net loss	—	(52,394)	—	(52,394)
Balance at December 31, 2003	5,490,799	(1,237,205)	6,675	4,260,269
Stock compensation	2,268	—	—	2,268
Reallocation of enterprise level goodwill from parent	(18,000)	—	—	(18,000)
Net cash transfers from parent	30,999	—	—	30,999
Other comprehensive income	—	—	5,635	5,635
Net earnings	—	66,108	—	66,108
Balance at December 31, 2004	<u>\$5,506,066</u>	<u>(1,171,097)</u>	<u>12,310</u>	<u>4,347,279</u>

See accompanying notes to combined financial statements.

LMC Discovery Group
Combined Statements of Cash Flows
Years ended December 31, 2004, 2003 and 2002

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	<u>amounts in thousands</u> <i>(see note 4)</i>		
Cash flows from operating activities:			
Net earnings (loss)	\$ 66,108	(52,394)	(129,275)
Adjustments 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
Changes 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	<u>84,322</u>	<u>29,682</u>	<u>63,032</u>
Cash flows from investing activities:			
Capital expenditures	(49,292)	(25,863)	(56,358)
Cash paid for acquisitions, net of cash acquired	(44,238)	—	—
Cash proceeds from dispositions	3,978	5,453	51,666
Other investing activities, net	73	177	(6,318)
Net cash used in investing activities	<u>(89,479)</u>	<u>(20,233)</u>	<u>(11,010)</u>
Cash flows from financing activities:			
Net cash transfers to/from parent	30,999	—	(54,267)
Borrowings of long-term debt	—	2,945	8,955
Payments of long-term debt and capital lease obligations	—	(406,820)	(45,802)
Borrowings under convertible subordinated notes with parent	—	391,027	18,151
Proceeds from issuance of common stock	—	—	13,293
Other financing activities, net	—	—	(3,787)
Net cash provided by (used in) financing activities	<u>30,999</u>	<u>(12,848)</u>	<u>(63,457)</u>
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	<u>\$ 34,441</u>	<u>8,599</u>	<u>11,998</u>

See accompanying notes to combined financial statements.