LMC Discovery Group
Notes to Combined Financial Statements
December 31, 2004, 2003 and 2002

(1) Basis of Presentation

The accompanying 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.

(2) Spin off 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 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 in the third quarter of 2005, on a date to be determined by the Board, and will be made as a dividend to holders of record of Liberty common stock as of the close of business on the date of record for the Spin Off. The Spin Off is expected to be accounted for at historical cost due to the 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.

(3) Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Trade Receivables

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

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

	Balance beginning of year	Charged (credited) to expense	Acquired or charged to other accounts	Deductions and other	Balance end of year
			amounts in thousands		
2004	$11,580	555	(403)	372	12,104
2003	$ 9,013	(5)	2,004	568	11,580
2002	$11,951	(963)	(1,858)	(117)	9,013

Concentration of Credit Risk and Significant Customers

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

Investment in Discovery

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

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

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

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

Property and Equipment

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

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

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

Goodwill and Nonamortizable Other Intangible Assets

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

Other Intangible Assets

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

Long-Lived Assets

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

Foreign Currency Translation

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

Fair Value of Financial Instruments

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

Interest Rate Swap Agreements

From time to time, the Company may utilize interest rate swap agreements to manage interest rate exposure. The Company accounts for these swaps in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, and* SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities—an Amendment of SFAS No. 133.* The Company records all derivatives on the balance sheet at fair value. At December 31, 2004 the Company had no interest rate swap agreements.

Revenue Recognition

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

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

Income Taxes

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

Advertising Costs

Advertising costs generally are expensed as incurred. Advertising expense aggregated $3,303,000, $3,089,000 and $3,025,000 for the years ended December 31, 2004, 2003 and 2002, respectively.

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.

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

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

Unaudited Pro Forma Earnings (Loss) Per Common Share

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

Use of Estimates

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.

Recent Accounting Pronouncements

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 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 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) Supplemental Disclosure of Cash Flow Information

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

(5) 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.

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

In 2001, the Company acquired 25,200 shares of DCI Class B non-voting common stock for an additional $49,788,000 cash investment. In 2002, DCI redeemed these shares for $54,269,000. The Company recorded the $4,481,000 difference between its 2001 investment and the redemption proceeds as interest income.

Summarized financial information for DCI is as follows:

Consolidated Balance Sheets

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

Consolidated Statements of Operations

	Years ended December 31, 2004	2003	2002
	amounts in thousands		
Revenue	$2,365,346	1,995,047	1,716,775
Cost of revenue	(846,316)	(751,578)	(699,737)
Selling, general and administrative	(856,340)	(735,017)	(638,405)
Equity-based compensation	(71,515)	(74,119)	(96,865)
Depreciation and amortization	(129,011)	(120,172)	(112,841)
Gain on sale of patents	22,007	—	—
Operating income	484,171	314,161	168,927
Interest expense	(167,420)	(159,409)	(163,315)
Other expense	(6,930)	(16,730)	(63,725)
Income tax benefit (expense)	(141,799)	(74,785)	10,057
Net earnings (loss)	$ 168,022	63,237	(48,056)

(6) Property and Equipment

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

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

(7) Goodwill and Other Intangible Assets

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

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

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

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

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

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

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

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

(8) Restructuring Charges

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

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

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

(9) Acquisitions

London Playout 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 Playout Centre Limited ("LPC") from an independent third party for a cash purchase price of $36,573,000 paid at closing. In addition, in the event certain existing LPC contracts, which currently 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 ($9,600,000 at December 31, 2004). As the amount of the contingent consideration is not determinable at December 31, 2004, no liability has been recorded in the accompanying combined balance sheet. At the point in time that the 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.

Sony Electronics' System Integration Center.

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

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

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

(10) Long-Term Debt

Senior Credit Agreement

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

Liberty Subordinated Credit Agreement

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

Property Mortgages and Other Debt

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

(11) Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities. Components of the income tax provision are as follows:

	Years ended December 31,		
	2004	2003	2002
	amounts in thousands		
Current			
Federal	$ —	—	2,918
State	502	(1,100)	(1,302)
Foreign	(3,780)	(1,403)	202
Current	(3,278)	(2,503)	1,818
Deferred			
Federal	(25,221)	(15,628)	24,536
State	(7,774)	(3,494)	4,522
Foreign	1,303	1,469	(397)
Deferred	(31,692)	(17,653)	28,661
Total tax benefit (expense)	$(34,970)	(20,156)	30,479

Income tax benefit (expense) differs from the amounts computed by applying the U.S. federal income tax rate of 35% as a result of the following:

	Years ended December 31,		
	2004	2003	2002
	amounts in thousands		
Computed expected tax benefit (expense)	$(35,377)	11,283	48,834
Impairment charges and amortization of goodwill not deductible for income tax purposes	—	—	(29,301)
State and local income taxes, net of federal income taxes	(5,311)	(2,986)	2,225
Change in valuation allowance affecting tax expense	3,575	(14,719)	(8,747)
Disallowed interest expense	—	(13,963)	(8,655)
Dividend received deduction	—	—	15,195
Disposition of nondeductible goodwill in sales transactions	—	—	8,590
Other, net	2,143	229	2,338
Income tax benefit (expense)	$(34,970)	(20,156)	30,479

Components of pretax income (loss), excluding change in accounting principle, are as follows:

	Years ended December 31,		
	2004	2003	2002
	amounts in thousands		
Domestic	$ 96,470	(28,772)	(149,476)
Foreign	4,608	(3,466)	9,949
	$101,078	(32,238)	(139,527)

Components of deferred tax assets and liabilities as of December 31 are as follows:

	2004	2003
	amounts in thousands	
Current assets:		
Accounts receivable reserves	$ 2,423	3,424
Accrued liabilities	11,987	8,552
	14,410	11,976
Noncurrent assets:		
Net operating loss carryforwards	56,689	79,587
Impairment reserves	2,370	4,747
Intangible assets	5,775	9,559
Other	6,960	5,843
	71,794	99,736
Total deferred tax assets, gross	86,204	111,712
Valuation allowance	(76,452)	(101,470)
Total deferred tax assets, net	9,752	10,242
Current liabilities:		
Prepaid expenses	(1,204)	(1,362)
Other	(2,802)	(2,040)
	(4,006)	(3,402)
Noncurrent liabilities:		
Property and equipment	(2,760)	(5,287)
Investments	(1,086,950)	(1,054,666)
	(1,089,710)	(1,059,953)
Total deferred tax liabilities	(1,093,716)	(1,063,355)
Net deferred tax liability	$(1,083,964)	(1,053,113)

At December 31, 2004, the Company has $119,474,000 and $371,840,000 in net operating loss carryforwards for federal and state tax purposes, respectively. These net operating losses expire, for federal purposes, in 2022 and 2023.

The state NOL's begin expiring in 2005 and continue through 2021. In addition, the Company has approximately $600,000 of federal income tax credits, which may be carried forward indefinitely. The Company has $2,510,000 of state income tax credits, of which $2,342,000 will expire in the year 2012.

During the current year, management has determined that it is more likely than not that the Company will not realize the tax benefits associated with certain cumulative net operating loss carryforwards and other deferred tax assets. As such, the Company continues to maintain a valuation allowance of $76,452,000. The total valuation allowance decreased during the year ended December 31, 2004 as a result of other members in the Liberty consolidated tax group utilizing fully reserved NOLs of Ascent Media of $21,442,000 and utilization by Ascent Media of fully reserved deferred tax assets of $3,576,000. Ascent Media has not recorded a receivable from Parent for the utilization of its NOL's since it is unlikely they will ever be reimbursed by Liberty for these benefits.

During 2004, the Company provided $1,636,000 of U.S. tax expense for future repatriation of cash from its Asia operations pursuant to APB 23. This charge represents all undistributed earnings from Asia not previously taxed in the United States.

Undistributed earnings of foreign subsidiaries, other than the Asia operations, aggregated $3,372,000 on December 31, 2004, which, under existing law, will not be subject to U.S. tax until distributed as dividends. Since the earnings have been, or are intended to be, indefinitely reinvested in foreign operations, no provision has been made for any U.S. taxes that may be applicable thereto. Furthermore, any taxes paid to foreign governments on those earnings may be used in whole or in part as credits against the U.S. tax on any dividends distributed from such earnings. It is not practicable to estimate the amount of unrecognized deferred U.S. taxes on these undistributed earnings.

(12) Employee Benefit Plans

Ascent Media offers a 401(k) defined contribution plan covering most of its full-time domestic employees not covered by employees eligible to participate in the Motion Picture Industry Pension and Health Plan (MPIPHP), a multi-employer defined benefit pension plan. Contributions to the MPIPHP are determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Ascent Media also sponsors a pension plan for eligible employees of its foreign subsidiaries. Employer contributions are determined by Ascent Media's board of directors. The plans are funded by employee and employer contributions. Total pension plan expenses for the years ended December 31, 2004, 2003 and 2002 were $6,485,000, $6,380,000 and $5,794,000, respectively.

(13) Commitments and Contingencies

Future minimum lease payments under scheduled operating leases that have initial or remaining noncancelable terms in excess of one year are as follows (in thousands):

Year ended December 31:	
2005	$25,682
2006	$23,462
2007	$22,362
2008	$19,665
2009	$17,608
Thereafter	$52,523

Rent expense for noncancelable operating leases for real property and equipment was $26,487,000, $21,909,000 and $29,632,000 for the years ended December 31, 2004, 2003 and 2002, respectively. Various lease arrangements contain options to extend terms and are subject to escalation clauses.

At December 31, 2004, the Company is committed to compensation under long-term employment agreements with its certain executive officers of Ascent Media as follows: 2005, $3,172,000; 2006, $1,778,000; and 2007, $296,000.

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.

(14) Related Party Transactions

Services Agreement Between Ascent Media and On Command Corporation

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. Under the terms of short-term services agreement and a content preparation and distribution services agreement, from October 1, 2002 through March 31, 2008, Ascent Media has provided, and will continue to provide, uplink and satellite transport services. 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 $449,000, $691,000 and $75,000 in services to On Command for the years ended December 31, 2004, 2003 and 2002, respectively.

Other Related Party Balances and Transactions

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 years ended December 31, 2004, 2003 and 2002 aggregated $41,785,000, $13,355,000 and $14,043,000, respectively.

(15) 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 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 expenses (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.

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

Ascent Media	Creative Services Group	Media Management Services Group	Network Services Group(1)	DCI	Corporate and Other and eliminations	Total
			amounts in thousands			
Year Ended December 31, 2004						
Revenue from external customers	$295,841	109,982	225,392	2,365,346	(2,365,346)	631,215
Operating cash flow	$ 55,847	17,430	62,163	662,690	(700,764)	97,366
Capital expenditures	$ 18,677	4,142	23,114	88,100	(84,741)	49,292
Depreciation and amortization	$ 31,026	7,750	27,074	129,011	(117,256)	77,605
Total assets	$298,613	171,588	294,328	3,235,686	1,564,613	5,564,828
Year Ended December 31, 2003						
Revenue from external customers	$270,830	107,070	128,203	1,995,047	(1,995,047)	506,103
Operating cash flow	$ 43,786	22,074	43,221	508,452	(542,771)	74,762
Capital expenditures	$ 13,132	4,751	5,207	109,956	(107,183)	25,863
Depreciation and amortization	$ 28,975	11,481	22,171	120,172	(112,274)	70,526
Total assets	$305,576	174,916	239,939	3,194,211	1,481,985	5,396,627
Year Ended December 31, 2002						
Revenue from external customers	$275,119	105,091	159,123	1,716,775	(1,716,775)	539,333
Operating cash flow	$ 50,150	27,682	45,673	378,633	(413,083)	89,055
Capital expenditures	$ 22,825	15,406	9,958	138,777	(130,608)	56,358
Depreciation and amortization	$ 38,778	7,483	18,863	112,841	(110,693)	67,272

(1) Included in Network Services Group revenue is broadcast services revenue of $135,883,000, $89,065,000 and $114,400,000 and systems integration revenue of $89,509,000, $39,138,000 and $44,723,000 in 2004, 2003 and 2002, 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 (loss) before income taxes, minority interest and change in accounting principle.

	Years ended December 31,		
	2004	2003	2002
	amounts in thousands		
Segment operating cash flow	$ 97,366	74,762	89,055
Stock compensation	(2,775)	(2,602)	48
Depreciation and amortization	(77,605)	(70,526)	(67,272)
Impairment of goodwill	(51)	(562)	(83,718)
Share of earnings (losses) of DCI	84,011	37,271	(32,046)
Interest expense	—	(72,178)	(64,820)
Other, net	132	(655)	17,674
Earnings (loss) before income taxes, minority interest and change in accounting principle	$101,078	(34,490)	(141,079)

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

	Years ended December 31,		
	2004	2003	2002
	amounts in thousands		
Revenue			
United States	$460,070	390,220	420,827
United Kingdom	148,002	92,523	93,797
Other countries	23,143	23,360	24,709
	$631,215	506,103	539,333

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Discovery Communications, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of changes in stockholders' deficit, and of cash flows present fairly, in all material respects, the financial position of Discovery Communications, Inc. and its subsidiaries at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP
McLean, Virginia
February 22, 2005

Discovery Communications, Inc.

Consolidated Balance Sheets

	December 31, 2004	December 31, 2003
	In thousands, except share data	
ASSETS		
Current assets		
Cash and cash equivalents	$ 24,282	$ 34,075
Accounts receivable, less allowances of $24,375 and $40,213	527,659	466,747
Inventories	32,567	37,004
Deferred income taxes	144,606	232,693
Programming rights, net	50,578	46,364
Other current assets	55,758	41,500
Total current assets	835,450	858,383
Property and equipment, net	380,290	360,411
Programming rights, net, less current portion	1,027,379	881,735
Deferred launch incentives	314,601	373,579
Goodwill	257,460	253,308
Intangibles, net	187,761	213,660
Investments in and advances to unconsolidated affiliates	74,450	60,765
Deferred income taxes	114,673	146,768
Other assets	43,622	45,602
TOTAL ASSETS	$3,235,686	$3,194,211
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities		
Accounts payable and accrued liabilities	$ 338,182	$ 356,320
Launch incentives payable	33,509	62,841
Programming rights payable	94,969	73,340
Current portion of long-term incentive plan liabilities	261,627	427,755
Current portion of long-term debt	9,736	517,750
Income taxes payable	21,123	10,564
Other current liabilities	126,207	90,228
Total current liabilities	885,353	1,538,798
Long-term debt, less current portion	2,498,287	1,833,942
Derivative financial instruments, less current portion	46,541	88,781
Launch incentives payable, less current portion	34,328	45,422
Long-term incentive plan liabilities, less current portion	60,735	63,844
Programming rights payable, less current portion	8,027	3,668
Other liabilities	10,774	11,269
Total liabilities	3,544,045	3,585,724
Mandatorily redeemable interests in subsidiaries	319,567	410,252
Commitments and contingencies		
Stockholders' deficit		
Class A common stock; $.01 par value; 100,000 shares authorized; 51,119 shares issued, less 719 and 504 shares of treasury stock	1	1
Class B common stock; $.01 par value; 60,000 shares authorized; 50,615 shares issued and held in treasury stock at December 31, 2004 and 2003	—	—
Additional paid-in capital	21,093	21,093
Accumulated deficit	(672,931)	(840,953)
Accumulated other comprehensive income	23,911	18,094
Total stockholders' deficit	(627,926)	(801,765)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	$3,235,686	$3,194,211

The accompanying notes are an integral part of these consolidated financial statements.

Discovery Communications, Inc.

Consolidated Statements of Operations

	Year ended December 31,		
	2004	2003	2002
		In thousands	
OPERATING REVENUE			
Advertising	$1,133,807	$1,010,585	$ 829,936
Subscriber fees	976,362	747,927	646,500
Other	255,177	236,535	240,339
Total operating revenue	2,365,346	1,995,047	1,716,775
Cost of revenue	846,316	751,578	699,737
Selling, general & administrative	856,340	735,017	638,405
Expenses arising from long-term incentive plans	71,515	74,119	96,865
Depreciation & amortization	129,011	120,172	112,841
Gain on sale of patents	(22,007)	—	—
Total operating expenses	1,881,175	1,680,886	1,547,848
INCOME FROM OPERATIONS	484,171	314,161	168,927
OTHER INCOME (EXPENSE)			
Interest, net	(167,420)	(159,409)	(163,315)
Unrealized gains (losses) from derivative instruments, net	45,540	21,405	(11,607)
Minority interests in consolidated subsidiaries	(54,940)	(35,965)	(45,977)
Equity in earnings (losses) of unconsolidated affiliates	171	(4,477)	(2,716)
Other	2,299	2,307	(3,425)
Total other expense, net	(174,350)	(176,139)	(227,040)
INCOME (LOSS) BEFORE INCOME TAXES	309,821	138,022	(58,113)
Income tax expense (benefit)	141,799	74,785	(10,057)
NET INCOME (LOSS)	$ 168,022	$ 63,237	$ (48,056)

The accompanying notes are an integral part of these consolidated financial statements.

Discovery Communications, Inc.

Consolidated Statements of Cash Flows

	Year ended December 31, 2004	2003	2002
	In thousands		
OPERATING ACTIVITIES			
Net income (loss)	$ 168,022	$ 63,237	$(48,056)
Adjustments to reconcile net income (loss) to cash provided by operations			
Depreciation and amortization	129,011	120,172	112,841
Amortization of deferred launch incentives and representation rights	107,757	131,980	132,495
Provision for losses on accounts receivable, net	959	11,413	20,787
Expenses arising from long-term incentive plans	71,515	74,119	96,865
Equity in (earnings) losses of unconsolidated affiliates	(171)	4,477	2,716
Deferred income taxes	105,522	42,280	(37,801)
Unrealized (gains) losses on derivative financial instruments, net	(45,540)	(21,405)	11,607
Non cash minority interest charges	54,940	35,965	45,977
Gain on sale of patents	(22,007)	—	—
Other non-cash charges	8,300	5,584	14,325
Changes in assets and liabilities, net of business combinations			
Accounts receivable	(60,841)	(52,753)	(46,553)
Inventories	4,555	22,978	(30,504)
Other assets	(14,706)	(10,212)	(8,435)
Programming rights, net of payables	(122,433)	(139,387)	(86,103)
Accounts payable and accrued liabilities	55,734	27,646	79,565
Representation rights	(479)	(11,250)	(10,750)
Deferred launch incentives	(74,696)	(99,630)	(72,963)
Long-term incentive plan liabilities	(240,752)	(51,023)	(37,003)
Cash provided by operations	124,690	154,191	139,010
INVESTING ACTIVITIES			
Acquisition of property and equipment	(88,100)	(109,956)	(138,777)
Business combinations, net of cash acquired	(17,218)	(46,541)	—
Investments in and advances to unconsolidated affiliates	(14,884)	(11,754)	(27,389)
Contributions from minority shareholders	3,146	21,652	12,478
Issuance (redemption) of interests in subsidiaries	(148,880)	—	92,874
Proceeds from sale of patents, net	22,007	—	—
Cash used by investing activities	(243,929)	(146,599)	(60,814)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	1,848,000	—	391,924
Principal payments of long-term debt	(1,699,215)	(12,638)	(330,165)
Deferred financing fees	(8,499)	(56)	(1,358)
Increase in note receivable from stockholder	—	(5,238)	(10,246)
Collection of note receivable from stockholder	—	23,600	—
Repurchase of Class A common stock	—	(55,334)	—
Repurchase of Class B common stock	—	—	(109,000)
Other financing	(30,840)	42,325	(23,415)
Cash provided (used) by financing activities	109,446	(7,341)	(82,260)
CHANGE IN CASH AND CASH EQUIVALENTS	(9,793)	251	(4,064)
Cash and cash equivalents, beginning of year	34,075	33,824	37,888
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 24,282	$ 34,075	$ 33,824

The accompanying notes are an integral part of these consolidated financial statements.

Discovery Communications, Inc.
Consolidated Statements of Changes in Stockholders' Deficit

	Class A At Par	Class A Redeemable	Class B At Par	Additional Paid-In Capital	Accumulated Deficit	Other Comprehensive Income (Loss): Foreign Currency Translation	Other Comprehensive Income (Loss): Unrealized Gain (Loss) on Investments	TOTAL
					In thousands			
Balance, December 31, 2001	$1	$52,791	$ 1	$121,092	$(852,707)	$(2,272)	$ (334)	$(681,428)
Comprehensive loss								
Net loss					(48,056)			
Foreign currency translation, net of tax of $2.7 million						6,568		
Realized loss on investments, net of tax of $0.2 million							334	
Total comprehensive loss								(41,154)
Increase in loan to stockholder		(10,246)						(10,246)
Compensation from redeemable Class A common stock		2,324						2,324
Accretion of redeemable Class A common stock		5,827			(5,827)			—
Repurchase of Class B common stock treasury shares			(1)	(99,999)	(9,000)			(109,000)
Balance, December 31, 2002	$1	$50,696	$ —	$ 21,093	$(915,590)	$ 4,296	$ —	$(839,504)
Comprehensive income								
Net income					63,237			
Foreign currency translation, net of tax of $5.7 million						10,027		
Unrealized gain on investments, net of tax of $2.4 million							3,771	
Total comprehensive income								77,035
Decrease in loan to stockholder		18,362						18,362
Reduction of compensation from redeemable Class A common stock		(2,324)						(2,324)
Decretion of redeemable Class A common stock		(11,400)			11,400			—
Repurchase of Class A common stock treasury shares		(55,334)						(55,334)
Balance, December 31, 2003	$1	$ —	$ —	$ 21,093	$(840,953)	$14,323	$3,771	$(801,765)
Comprehensive income								
Net income					168,022			
Foreign currency translation, net of tax of $5.2 million						8,409		
Unrealized loss on investments, net of tax of $1.7 million							(2,592)	
Total comprehensive income								173,839
Balance, December 31, 2004	$1	$ —	$ —	$ 21,093	$(672,931)	$22,732	$1,179	$(627,926)

The accompanying notes are an integral part of these consolidated financial statements.

Discovery Communications, Inc.

Notes to Consolidated Financial Statements

1. Description of Business

Discovery Communications, Inc. (the "Company") is a privately held, diversified worldwide entertainment company whose operations are organized into four business units: U.S. Networks, International Networks, Commerce and Education. U.S. Networks operates cable and satellite television networks in the United States, including Discovery Channel, TLC, Animal Planet, The Travel Channel and Discovery Health Channel. International Networks operates cable and satellite television networks worldwide, including regional variants of Discovery Channel, Animal Planet, People & Arts, Travel & Adventure, and Discovery Health Channel. Commerce operates 115 Discovery Channel retail stores as well as direct-to-consumer sales in the United States, and manages licensing for the Company. Education provides products and services to educational institutions.

2. Summary of Significant Accounting Policies

Principles of *Consolidation*

The consolidated financial statements include the accounts of the Company and its wholly owned and controlled subsidiaries. The equity method of accounting is used for unconsolidated affiliates in which the Company's ownership interests range from 20% to 50% and the Company exercises significant influence over operating and financial policies. All significant intercompany transactions and balances among the consolidated entities have been eliminated.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from those estimates and could have a material impact on the consolidated financial statements.

The Company has issued redeemable interests in a number of its consolidated subsidiaries for which the redemption events are outside of the Company's control. Estimating the redemption values of these interests requires making assumptions regarding fair value, future performance, comparing to similar transactions, and complex contract interpretation.

Other significant estimates include the recoverability of programming rights, the amortization period and method of programming rights, valuation and recoverability of intangible assets and other long-lived assets, the fair value of derivative financial instruments, and the adequacy of reserves associated with accounts receivable and retail inventory.

Recent Accounting Pronouncements

In December 2003 the Financial Accounting Standards Board (FASB) issued *Consolidation of Variable Interest Entities: an Interpretation of FASB No. 51 (FIN 46R)*, which was effective as of March 31, 2004. Variable interest entities (VIEs) are primarily entities that lack sufficient equity to finance their activities without additional financial support from other parties or whose equity holders possess governance rights that are not proportionate with their equity holdings. All VIEs with which the Company is involved must be evaluated to determine the primary beneficiary of the risks and rewards of the VIE. The primary beneficiary is required to consolidate the VIE for financial reporting purposes.