Ascent Media CORP
Form 10-Q
August 13, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**Form 10-Q**

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended June 30, 2009**

**OR**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**

**Commission File Number 001-34176**

**ASCENT MEDIA CORPORATION**
*(Exact name of Registrant as specified in its charter)*

| **State of Delaware** | **26-2735737** |
|---|---|
| *(State or other jurisdiction of incorporation or organization)* | *(I.R.S. Employer Identification No.)* |
| **12300 Liberty Boulevard**<br>**Englewood, Colorado**<br>*(Address of principal executive offices)* | **80112**<br>*(Zip Code)* |

**Registrant s telephone number, including area code:**
**(720) 875-5622**

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, any Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T

(Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

The number of outstanding shares of Ascent Media Corporation s common stock as of July 31, 2009 was:

Series A common stock 13,421,669 shares; and

Series B common stock 659,156 shares.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Condensed Consolidated Balance Sheets**

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | Amounts in thousands (Unaudited) | |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 308,913 | 341,517 |
| Trade receivables, net | 103,184 | 114,154 |
| Prepaid expenses | 11,064 | 12,223 |
| Deferred income tax assets, net | 9,979 | 10,826 |
| Income taxes receivable | 19,707 | 9,122 |
| Other current assets | 2,134 | 2,776 |
| Total current assets | 454,981 | 490,618 |
| Investments in marketable securities | 32,173 | |
| Property and equipment, net | 215,731 | 223,928 |
| Deferred income tax assets, net | 20,001 | 22,545 |
| Other assets, net | 13,157 | 8,213 |
| Total assets | $ 736,043 | 745,304 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 21,285 | 22,633 |
| Accrued payroll and related liabilities | 22,940 | 22,258 |
| Other accrued liabilities | 27,471 | 31,172 |
| Deferred revenue | 13,793 | 15,139 |
| Total current liabilities | 85,489 | 91,202 |
| Other liabilities | 31,237 | 28,792 |
| Total liabilities | 116,726 | 119,994 |
| Commitments and contingencies (note 9) | | |
| Stockholders Equity: | | |
| Preferred stock, $.01 par value. Authorized 5,000,000 shares; no shares issued | | |
| Series A common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding 13,421,146 shares at June 30, 2009 | 134 | 134 |
| Series B common stock, $.01 par value. Authorized 5,000,000 shares; issued and outstanding 659,679 shares at June 30, 2009 | 7 | 7 |

| | | |
|---|---|---|
| Series C common stock, $.01 par value. Authorized 45,000,000 shares; no shares issued | | |
| Additional paid-in capital | 1,459,928 | 1,459,078 |
| Accumulated deficit | (839,608) | (825,956) |
| Accumulated other comprehensive loss | (1,144) | (7,953) |
| Total stockholders equity | 619,317 | 625,310 |
| Total liabilities and stockholders equity | $ 736,043 | 745,304 |

See accompanying notes to condensed consolidated financial statements.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Condensed Consolidated Statements of Operations and Comprehensive Earnings (Loss)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Amounts in thousands, except per share amounts (Unaudited) | | | |
| Net revenue | $ 118,677 | 163,421 | 237,944 | 326,456 |
| Operating expenses: | | | | |
| Cost of services | 85,312 | 121,243 | 169,898 | 244,045 |
| Selling, general, and administrative, including stock-based and long-term incentive compensation (note 6) | 28,017 | 28,999 | 57,392 | 57,634 |
| Restructuring and other charges | 1,088 | 156 | 1,486 | 1,263 |
| Depreciation and amortization | 14,984 | 15,415 | 29,466 | 30,682 |
| | 129,401 | 165,813 | 258,242 | 333,624 |
| Operating loss | (10,724) | (2,392) | (20,298) | (7,168) |
| Other income, net | 155 | 643 | 439 | 2,192 |
| Loss from continuing operations before income taxes | (10,569) | (1,749) | (19,859) | (4,976) |
| Income tax benefit (expense) from continuing operations | 3,365 | (1,467) | 6,207 | (4,539) |
| Net loss from continuing operations | (7,204) | (3,216) | (13,652) | (9,515) |
| Discontinued operations (note 3): | | | | |
| Earnings from discontinued operations | | 3,416 | | 6,379 |
| Income tax expense | | (1,743) | | (2,922) |
| Earnings from discontinued operations, net of income tax | | 1,673 | | 3,457 |
| Net loss | (7,204) | (1,543) | (13,652) | (6,058) |
| Other comprehensive earnings (loss): | | | | |
| Foreign currency translation adjustments | 6,722 | 80 | 5,426 | 567 |
| Unrealized holding gains arising during the period, net of income tax | 1,317 | | 1,317 | |
| Minimum pension liability adjustment | 33 | | 66 | |
| Other comprehensive earnings | 8,072 | 80 | 6,809 | 567 |
| Comprehensive earnings (loss) | $ 868 | (1,463) | (6,843) | (5,491) |
| Basic earnings (loss) per share (note 7) | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Continuing operations | $ | (0.51) | (0.23) | (0.97) | (0.68) |
| Discontinued operations | | | 0.12 | | 0.25 |
| Net loss | $ | (0.51) | (0.11) | (0.97) | (0.43) |
| Diluted earnings (loss) per share (note 7) | | | | | |
| Continuing operations | $ | (0.51) | (0.23) | (0.97) | (0.68) |
| Discontinued operations | | | 0.12 | | 0.25 |
| Net loss | $ | (0.51) | (0.11) | (0.97) | (0.43) |

See accompanying notes to condensed consolidated financial statements.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Condensed Consolidated Statements of Cash Flows**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| | Amounts in thousands (Unaudited) | |
| Cash flows from operating activities: | | |
| Net loss | $ (13,652) | (6,058) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Earnings from discontinued operations, net of income tax | | (3,457) |
| Depreciation and amortization | 29,466 | 30,682 |
| Stock based compensation | 1,262 | |
| Deferred income tax expense | 2,500 | 98 |
| Other non-cash activity, net | 1,332 | (221) |
| Changes in assets and liabilities: | | |
| Trade receivables | 11,346 | (32,195) |
| Prepaid expenses and other current assets | (8,484) | (357) |
| Payables and other liabilities | (6,061) | 19,283 |
| Operating activities from discontinued operations, net | | 8,018 |
| Net cash provided by operating activities | 17,709 | 15,793 |
| Cash flows from investing activities: | | |
| Capital expenditures | (16,405) | (14,048) |
| Net (purchases) sales of marketable securities | (29,965) | 23,545 |
| Cash paid for acquisitions (note 4) | (2,702) | |
| Cash proceeds from sale of operating assets | 618 | 1,783 |
| Equity investments | (971) | |
| Investing activities from discontinued operations, net | | (3,648) |
| Net cash provided by (used in) investing activities | (49,425) | 7,632 |
| Cash flows from financing activities: | | |
| Net cash transfers from Discovery Holding Company ( DHC ) | | 148 |
| Payment of capital lease obligations | (888) | (340) |
| Net cash used in financing activities | (888) | (192) |
| Net increase (decrease) in cash and cash equivalents | (32,604) | 23,233 |
| Cash and cash equivalents at beginning of period | 341,517 | 201,633 |
| Cash and cash equivalents at end of period | $ 308,913 | 224,866 |

See accompanying notes to condensed consolidated financial statements.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(1) Basis of Presentation**

On September 17, 2008, Discovery Holding Company ( DHC ) completed the spin off of 100% of the capital stock of Ascent Media Corporation ( Ascent Media or the Company ) on a pro rata basis to the holders of DHC Series A and Series B common stock (the Ascent Media Spin Off ). For periods prior to the Ascent Media Spin Off, the accompanying condensed consolidated financial statements of Ascent Media represent a combination of the historical financial information of (1) Ascent Media Group, LLC ( AMG ), then a wholly-owned subsidiary of DHC, (2) Ascent Media CANS, LLC ( AccentHealth ), a wholly-owned subsidiary of DHC until its sale on September 4, 2008 and (3) cash and investment assets of DHC. For periods following the Ascent Media Spin Off, the accompanying condensed consolidated financial statements of Ascent Media represent Ascent Media and its consolidated subsidiaries. The Ascent Media Spin Off has been accounted for at historical cost due to the pro rata nature of the distribution.

The Company has two reportable segments: the Content Services group and the Creative Services group. 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 accompanying interim condensed consolidated 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 consolidated financial statements should be read in conjunction with the Ascent Media Annual Report on Form 10-K for the year ended December 31, 2008.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( GAAP ) requires management to make estimates and assumptions that affect the reported amounts of revenue and expenses for each reporting period. The significant estimates made in preparation of the Company s condensed consolidated financial statements primarily relate to 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. Ascent Media has performed an evaluation of subsequent events through August 13, 2009, which is the date the financial statements were issued.

**(2) Investments in Marketable Securities**

In the second quarter of 2009, Ascent Media purchased marketable securities consisting of diversified corporate bond funds for cash in the amount of $29,965,000. These investments have all been classified as available-for-sale securities in accordance with Statement of Financial Accounting Standard No. 115 Accounting for Certain Investments in Debt and Equity Securities . For the three and six months ended June 30, 2009, these investments had unrealized gains of $1,317,000 (net of income taxes of $891,000) which were recorded into accumulated other comprehensive income on the consolidated balance sheet and in other comprehensive income on the consolidated statements of operations and comprehensive earnings (loss).

**(3) Discontinued Operations**

In 2008, Ascent Media completed the sales of its interests in AccentHealth, Ascent Media Systems & Technology Services, LLC in Palm Bay, Florida ( Palm Bay ) and Visiontext Limited ( Visiontext ) which were treated as discontinued operations in accordance with Statement of Financial Accounting Standard No. 144 *Accounting for the Impairment and Disposal of Long-lived Assets* .

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

The following table presents the results of operations of the discontinued operations that are included in earnings from discontinued operations, net of income tax:

| | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2008 |
|---|---|---|
| | Amounts in thousands | |
| Revenue | $ 10,887 | $ 21,695 |
| Earnings before income taxes | $ 3,416 | $ 6,379 |

**(4) Supplemental Cash Flow Information (amounts in thousands)**

| | Six Months Ended June 30, 2009 |
|---|---|
| Cash paid for acquisitions: | |
| Fair value of assets acquired | $ 6,683 |
| Net liabilities assumed | (819) |
| Net assets acquired | 5,864 |
| Estimated fair value of contingent consideration for acquisitions | (3,162) |
| Cash paid for acquisitions | $ 2,702 |

**(5) Restructuring Charges**

During the three and six months ended June 30, 2009, Ascent Media recorded restructuring charges of $1,088,000 and $1,486,000, respectively, related to severance and facility costs in conjunction with ongoing restructuring and cost mitigation measures undertaken across both of the reportable segments. During the three and six months ended June 30, 2008, the Company recorded restructuring charges of $156,000 and $1,263,000, respectively, related to severance and facility costs in conjunction with the closing of its Creative Services operations in Mexico.

The following table provides the activity and balances of the restructuring reserve (all amounts are in thousands).

| | December 31, 2007 | Additions | Deductions(a) | June 30, 2008 |
|---|---|---|---|---|
| Severance | $ 1,357 | 639 | (1,710) | 286 |
| Excess facility costs | 1,622 | 624 | (999) | 1,247 |

| | | | | | |
|---|---|---|---|---|---|
| Total | $ | 2,979 | 1,263 | (2,709) | 1,533 |

| | | December 31, 2008 | Additions | Deductions(a) | June 30, 2009 |
|---|---|---|---|---|---|
| Severance | $ | 2,526 | 1,472 | (3,265) | 733(b) |
| Excess facility costs | | 3,294 | 14 | (939) | 2,369(c) |
| Total | $ | 5,820 | 1,486 | (4,204) | 3,102 |

(a) Primarily represents cash payments.

(b) Substantially all of this amount is expected to be paid in 2009.

(c) Substantially all of this amount is expected to be paid by 2012.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

**(6) Stock-Based and Long-Term Incentive Compensation**

During the first quarter of 2009, certain key employees were granted a total of 116,740 options to purchase Ascent Media Series A common stock for a weighted average exercise price of $25.30 per share. Such options vest quarterly over four years from the date of grant, terminate 10 years from the date of grant and had a weighted- average fair value at the date of grant of $12.30, as determined using the Black-Scholes Model. For the 2009 stock grants, the assumptions used in the Black-Scholes Model to determine grant date fair value were a volatility factor of 50%, a risk-free interest rate of 1.51%, an expected life of 6.1 years and a dividend yield of zero.

**(7) Basic and Diluted Earnings (Loss) Per Common Share Series A and Series B**

Basic and diluted earnings (loss) per common share ( EPS ) is computed by dividing net earnings (loss) by the number of Series A and Series B common shares outstanding for the period. The total weighted average shares outstanding for the Series A and Series B shares for the three and six months ended June 30, 2009 was 14,076,073 and 14,073,341 shares, respectively. Since the Company recorded a loss from continuing operations for the three and six months ended June 30, 2009, diluted EPS is computed the same as basic EPS. The number of shares outstanding used to compute EPS for the three and six months ended June 30, 2008 is 14,061,618 shares, which is the number of shares that were issued for the Ascent Media Spin Off.

**(8) Income Taxes**

During the first quarter of 2008, Liberty Media Corporation ( Liberty ) reached an agreement with the IRS with respect to certain tax items that related to periods prior to DHC s spin off from Liberty in July 2005. The IRS agreement resulted in a reduction of $5,370,000 and $30,808,000 to the amount of federal and California net operating losses ( NOLs ), respectively, that Liberty allocated to the Company at the time of the 2005 spin off. The reduction in the Company s federal NOLs resulted in tax expense of $1,880,000 (35% of $5,370,000). The Company did not expect to utilize the California NOLs, and had thus recorded a valuation allowance with respect to such NOLs. Therefore, the reduction in California NOLs was offset by a reduction in the corresponding valuation allowance and resulted in no net tax expense.

**(9) Commitments, Contingencies and Other Liabilities**

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.

**(10) Fair Value Measurements**

Statement of Financial Accounting Standard No. 157, Fair Value Measurements defines fair value as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants and requires that assets and liabilities carried at fair value are classified and disclosed in the following three categories:

Level 1 Quoted prices for identical instruments in active markets.

Level 2 Quoted prices for similar instruments in active or inactive markets and valuations derived from models where all significant inputs are observable in active markets.

Level 3 Valuations derived from valuation techniques in which one or more significant inputs are unobservable in any market.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

The following summarizes the fair value level of assets and liabilities that are measured on a recurring basis at June 30, 2009 (amounts in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Investments in marketable securities | $ 32,173 | | | 32,173 |
| Other liabilities | | | (7,388) | (7,388) |
| Total | $ 32,173 | | (7,388) | 24,785 |

The Level 3 liabilities relate to contingent consideration and other participating residual interests related to business acquisitions which were computed using discounted cash flow models which use estimated discount rates. There was no material adjustments to these Level 3 liabilities during the three months ended June 30, 2009.

Ascent Media s financial instruments, including cash and cash equivalents, accounts receivable and accounts payable are carried at cost, which approximates their fair value because of their short-term maturity.

**(11) Related Party Transactions**

Ascent Media provides services, such as satellite uplink, systems integration, origination, and post-production, to Discovery Communications, Inc. ( DCI ). Ascent Media, previously a wholly-owned subsidiary of DHC, and DCI s predecessor, previously an equity investment of DHC, were related parties through the date of the Ascent Media Spin Off. DHC and that predecessor are now both wholly-owned subsidiaries of DCI. Revenue recorded by Ascent Media for these services for the three and six months ended June 30, 2008 was $10,044,000 and $19,355,000, respectively. Ascent Media continues to provide services to DCI subsequent to the Ascent Media Spin Off that are believed to be at arms-length rates.

**(12) Information About Reportable Segments**

Ascent Media evaluates the performance of its reportable segments based on financial measures such as revenue and adjusted operating income before depreciation and amortization ( adjusted OIBDA ). Ascent Media defines adjusted OIBDA as revenue less cost of services and selling, general and administrative expenses (excluding stock and other equity-based compensation and accretion expense on asset retirement obligations) determined in each case for the relevant operating segment only. Ascent Media believes this is an important indicator of the operational strength and performance of its businesses, including the businesses ability to fund ongoing capital expenditures and service any debt. In addition, this measure is used by management to evaluate 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, accretion expense on asset retirement obligations, restructuring and impairment charges, gains/losses on sale of operating assets and other income and expense that are included in the measurement of earnings (loss) before income taxes pursuant to GAAP. Accordingly, adjusted OIBDA should be considered in addition to, but not as a substitute for, earnings (loss) before income taxes, cash flow provided

by operating activities and other measures of financial performance prepared in accordance with GAAP. Because segment adjusted OIBDA excludes corporate and other SG&A (as defined below), and does not include an allocation for corporate overhead, segment adjusted OIBDA should not be used as a measure of Ascent Media s liquidity or as an indication of the operating results that could be expected if either operating segment were operated on a stand-alone basis.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

| | Reportable Segments | | | | |
|---|---|---|---|---|---|
| | Content Services Group | Creative Services Group | Total | Other(1) | Consolidated Total |
| | Amounts in thousands | | | | |
| Three months ended June 30, 2009 | | | | | |
| Revenue from external customers | $ 78,245 | 40,432 | 118,677 | | 118,677 |
| Adjusted OIBDA | $ 10,159 | 2,473 | 12,632 | (6,590) | 6,042 |
| Capital expenditures | $ 4,265 | 3,269 | 7,534 | 1,764 | 9,298 |
| Six months ended June 30, 2009 | | | | | |
| Revenue from external customers | $ 156,849 | 81,095 | 237,944 | | 237,944 |
| Adjusted OIBDA | $ 17,833 | 7,103 | 24,936 | (12,711) | 12,225 |
| Capital expenditures | $ 9,138 | 4,993 | 14,131 | 2,274 | 16,405 |
| Three months ended June 30, 2008 | | | | | |
| Revenue from external customers | $ 120,251 | 43,170 | 163,421 | | 163,421 |
| Adjusted OIBDA | $ 13,711 | 6,281 | 19,992 | (6,500) | 13,492 |
| Capital expenditures | $ 4,603 | 1,694 | 6,297 | 1,220 | 7,517 |
| Six months ended June 30, 2008 | | | | | |
| Revenue from external customers | $ 243,598 | 82,858 | 326,456 | | 326,456 |
| Adjusted OIBDA | $ 27,061 | 10,507 | 37,568 | (12,767) | 24,801 |
| Capital expenditures | $ 8,639 | 3,118 | 11,757 | 2,291 | 14,048 |

(1) Amounts shown in Other provide a reconciliation of total reportable segments to the Company s consolidated total. Included in Other is corporate SG&A expenses and capital expenditures incurred at a corporate level.

The following table provides a reconciliation of consolidated segment adjusted OIBDA to loss from continuing operations before income taxes.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Amounts in thousands | | | |
| Total segment adjusted OIBDA | $ 12,632 | 19,992 | 24,936 | 37,568 |
| Corporate selling, general and administrative expenses | (6,590) | (6,500) | (12,711) | (12,767) |
| Stock-based and long-term incentive compensation | (585) | 8 | (1,262) | 284 |
| Accretion expense on asset retirement obligations | (53) | (64) | (99) | (129) |
| Restructuring and other charges | (1,088) | (156) | (1,486) | (1,263) |

| | | | | |
|---|---|---|---|---|
| Depreciation and amortization | (14,984) | (15,415) | (29,466) | (30,682) |
| Loss on sale of operating assets, net | (56) | (257) | (210) | (179) |
| Other income, net | 155 | 643 | 439 | 2,192 |
| Loss from continuing operations before income taxes | $ (10,569) | (1,749) | (19,859) | (4,976) |

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements (Continued)**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Amounts in thousands | | Amounts in thousands | |
| Revenue | | | | |
| United States | $ 92,483 | 117,613 | 186,874 | 241,515 |
| United Kingdom | 20,542 | 39,625 | 39,758 | 72,667 |
| Singapore | 5,652 | 6,183 | 11,312 | 12,274 |
| | $ 118,677 | 163,421 | 237,944 | 326,456 |

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | Amounts in thousands | |
| Property and equipment, net | | |
| United States | $ 160,091 | 165,008 |
| United Kingdom | 40,796 | 41,227 |
| Singapore | 14,844 | 17,693 |
| | $ 215,731 | 223,928 |

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**Item 2.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, marketing and operating strategies, integration of acquired businesses, new service offerings, financial prospects, and anticipated sources and uses of capital. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

lack of operating history as a stand-alone company;

general economic and business conditions and industry trends including the timing of, and spending on, motion picture, television and television advertising;

integration of acquired businesses;

the regulatory and competitive environment of the industries in which we and our customers operate;

retention of our largest customer accounts;

availability of third-party satellite and terrestrial connectivity services relied on by us to provide our services;

the possibility of an industry-wide strike or other job action affecting a major entertainment industry union, or the duration of any existing strike or job action;

rapid technological changes;

present and future financial conditions, including availability and terms of capital;

the outcome of any pending or threatened litigation;

availability of qualified personnel;

changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;

competitor and overall market response to our products and services, including acceptance of the pricing of such products and services; and

risk of loss from earthquakes and other catastrophic events.

For additional risk factors, please see our Annual Report on Form 10-K for the year ended December 31, 2008. These risks, uncertainties and other factors and the forward-looking statements contained herein speak only as of the date of this Quarterly Report, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

In addition to the risk factors in our Annual Report on Form 10-K for the year ended December 31, 2008, the following factors relating to our businesses, and the industries in which we operate, may have a material adverse effect on our businesses, prospects, financial condition, results of operations and/or cash flows, if adversely determined.

*The recent worldwide credit crisis and resulting economic downturn may reduce the level of investment by independent motion picture producers, as well as spending by other producers of filmed entertainment and television commercials, which would have a material adverse effect on our revenue and profitability.* The recent worldwide financial crisis significantly reduced the availability of liquidity and credit to fund business and investment activity and resulted in a broad recession. Such economic conditions make it more difficult for motion picture producers and television programmers to maintain prior levels of production activity. The advertising

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industry is also highly dependent on economic conditions, and the continued recession may result in a significant decline in both the number of new television commercials created and amounts budgeted for production of new commercials. Independent producers, who generally require access to external capital to fund production of motion pictures and television pilots, have been particularly hard hit by the reduced availability of capital. Demand for AMG s services is driven in large part by the volume of motion picture and television content being created and distributed. A substantial decrease in such production activities would have a material adverse effect on AMG s business and financial results.

*Runaway production and higher state taxes in California could adversely affect AMG s business.* Over the past two decades, the U.S. entertainment industry, including the business of producing major motion pictures and primetime television programming, has experienced an increasing trend of runaway production , or the migration of production activities for economic reasons from the United States and in particular from the traditional industry centers of Southern California and New York to facilities and locations in foreign countries and other states. This trend is the result of both high operating and tax costs in the traditional entertainment industry hubs and the availability of economic subsidies and other film production incentives provided by such other jurisdictions. Although AMG has facilities in various locations in the United States, the United Kingdom and Singapore and serves customers throughout the world via a global fiber-based network that is integrated with AMG s work flows, as well as services delivered over the Internet, a significant acceleration of the runaway production trend could adversely affect AMG s business if film studios and production companies send post-production and other work to competitors in other geographic markets, whether to take advantage of subsidies and incentives offered in those jurisdictions or to use facilities geographically closer to the place of production. The runaway production trend may also result in an increase in competition for post-production and other entertainment and media services, as the growth of the entertainment industry in areas outside Southern California and New York may encourage the development of new service providers in such location. In addition, the adverse effects of the runaway production trend may be significantly exacerbated by recent changes to the California State tax regime, including a one percentage point increase in state sales and use tax rates and, effective January 1, 2011, changes to the manner of calculating California income for state corporate income tax purposes. Although the sales tax increase is scheduled to expire July 1, 2011, the combined effect of these changes may discourage content producers, owners and distributors from using California-based facilities for post-production and other media services, which could have a material adverse effect on AMG s business and financial results.

*We may not be able to earn a rate of return on cash investments that exceeds the rate of inflation.* We currently have a significant balance of cash and cash equivalents in excess of that required for working capital purposes. While we may use a portion of our excess capital to fund potential strategic acquisitions or investment opportunities, there can be no assurance that we will consummate any such transaction in the near-term. Currently, our cash balances are invested in highly liquid, highly-rated short-term investments. However, such short-term investments generally bear a low effective interest rate, and investments producing higher rates of return are likely to be more risky and may bear a substantial risk of loss of principal. Accordingly, there can be no assurance that the rate of return on our cash investments will exceed the rate of inflation. Additionally, although inflation has been relatively stable in the United States over the recent past, there is a risk that inflation will increase in the future, whether as a result of increased economic stimulus spending by the United States and other nations or other factors. Any sustained period of significantly higher inflation rates would have the affect of reducing the relative purchasing power of our cash and cash equivalents, which could have an adverse effect on our financial position or results of operations, and on our ability to execute our business strategy.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto included elsewhere herein and in our Annual Report on Form 10-K for the year ended December 31, 2008.

**Overview**

We are a holding company and own 100% of our principal operating subsidiary, Ascent Media Group, LLC ( AMG ), as well as cash and cash equivalents. In September 2008, we sold our other wholly-owned operating subsidiary, Ascent Media CANS, LLC ( AccentHealth ).

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*Ascent Media Group*

AMG provides creative services and content management and delivery services to the media and entertainment industries in the United States, the United Kingdom and Singapore. AMG s clients include major motion picture studios, independent producers, broadcast networks, programming networks, advertising agencies and other companies that produce, own and/or distribute entertainment, news, sports, corporate, educational, industrial and advertising content. AMG s operations are organized into the following two groups: the Content Services group and the Creative Services group.

In June 2009, the members of the Screen Actors Guild ( SAG ) voted in favor of ratifying a new contract for theatrical motion picture and television performances that was reached between SAG and the Alliance of Motion Picture and Television Producers ( AMPTP ). The new agreement expires on June 30, 2011. The previous contract had expired on June 30, 2008 and SAG had continued to work under the terms of the expired contract until the new contract was ratified. In May 2009, the members of SAG and the American Federation of Television and Radio Artists ( AFTRA ) voted in favor of ratifying new contracts between SAG, AFTRA and the advertising industry for television, radio and internet/new media commercials. The new contracts expire on March 31, 2012. The previous contract had expired on March 31, 2009. Any future labor dispute could have an adverse effect on the television and/or motion picture production industries, including AMG s business, and in the case of a severe or prolonged work stoppage, the adverse effect on AMG s business, operations, results of operations and/or financial condition could be material.

In recent years, AMG has been challenged by increasing competition and resulting downward rate pressure for certain of its services. Such factors have caused margin compression and lower operating income. AMG is continuing to focus on leveraging its broad array of traditional media and file-based services to be a full service provider to new and existing customers within the feature film, television production and advertising industries. Its strategy focuses on providing a unified portfolio of business-to-business services intended to enable media companies to realize increasing benefits from digital distribution. With facilities in the United States, the United Kingdom and Singapore, AMG hopes to increase its services to multinational companies on a worldwide basis. The challenges that it faces include the continued successful development of end-to-end file-based solutions, increased competition in both its Creative Services and Content Services groups, the need to differentiate its products and services to help maintain or increase operating margins and financing capital expenditures for equipment and other items to meet customers requirements for integrated and file-based workflows.

**Adjusted OIBDA**

We evaluate the performance of our operating segments based on financial measures such as revenue and adjusted operating income before depreciation and amortization ( adjusted OIBDA ). We define segment adjusted OIBDA as revenue less cost of services and selling, general and administrative expense (excluding stock-based and long-term incentive compensation and accretion expense on asset retirement obligations) determined in each case for the relevant operating segment only. We believe this non-GAAP financial measure is an important indicator of the operational strength and performance of our businesses, including each business s ability to fund its ongoing capital expenditures and service any debt. In addition, this measure is used by management to evaluate operating results and perform analytical comparisons and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock-based and long-term incentive compensation, accretion expense on asset retirement obligations, restructuring and impairment charges, gains/losses on sale of operating assets and other income and expense that are included in the measurement of earnings (loss) before income taxes pursuant to GAAP. Accordingly, adjusted OIBDA should be considered in addition to, but not as a substitute for, earnings (loss) before income taxes, cash flow provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Because segment adjusted OIBDA excludes corporate and other SG&A (as defined below), and does not include an allocation for corporate overhead, segment adjusted OIBDA should not be used as a measure

of our liquidity or as an indication of the operating results that could be expected if either operating segment were operated on a stand-alone basis.

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**Results of Operations**

Our operations are organized into the following reportable segments: the Content Services group and the Creative Services group.

The Content Services group s revenue consists of fees relating to facilities and services necessary to optimize, archive, manage, reformat and repurpose completed media assets for global distribution via freight, satellite, fiber and the Internet. In addition, the Content Services group includes the facilities, technical infrastructure, and operating staff necessary to assemble programming content for cable and broadcast networks and to distribute media signals via satellite and terrestrial networks. The Content Services group includes AMG s digital media distribution center, which provides file-based services in areas such as digital imaging, digital vault, distribution services and interactive media to new and existing distribution platforms. Additionally, the Content Services group provides owners of film libraries a broad range of restoration, preservation, archiving, professional mastering and duplication services. The scope of these services vary in duration from one day to several months depending on the nature of the service, and fees typically range from less than $1,000 to $100,000 per project. For the six months ended June 30, 2009, approximately 40% of the Content Services group s revenue relates to broadcast services, satellite operations and fiber services that are earned monthly under long-term contracts ranging generally from one to seven years. Additionally, approximately 20% of revenue relates to systems integration and engineering services that are provided on a project basis over terms generally ranging from three to twelve months.

AMG s Creative Services group generates revenue primarily from fees for various technical and creative services necessary to complete principal photography into final products. Generally, these services pertain to the completion of feature films, television programs, television commercials and new digital media. These services are referred to generally in the entertainment industry as post-production services. These projects normally span from a few days to three months or more in length, and fees for these projects typically range from $10,000 to $1,000,000 per project.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Dollar amounts in thousands | | Dollar amounts in thousands | |
| ***Consolidated Results of Operations*** | | | | |
| Net revenue | $ 118,677 | 163,421 | 237,944 | 326,456 |
| Loss from continuing operations before income taxes | $ (10,569) | (1,749) | (19,859) | (4,976) |
| Net loss | $ (7,204) | (1,543) | (13,652) | (6,058) |
| ***Segment Result of Operations*** | | | | |
| *Revenue* | | | | |
| Content Services group | $ 78,245 | 120,251 | 156,849 | 243,598 |
| Creative Services group | $ 40,432 | 43,170 | 81,095 | 82,858 |
| *Adjusted OIBDA* | | | | |
| Content Services group | $ 10,159 | 13,711 | 17,833 | 27,061 |
| Creative Services group | 2,473 | 6,281 | 7,103 | 10,507 |
| Total segment adjusted OIBDA(a) | $ 12,632 | 19,992 | 24,936 | 37,568 |
| *Adjusted OIBDA as a percentage of Revenue* | | | | |

| | | | | |
|---|---|---|---|---|
| Content Services group | 13.0% | 11.4% | 11.4% | 11.1% |
| Creative Services group | 6.1% | 14.6% | 8.8% | 12.7% |

(a) See reconciliation to loss from continuing operations before income taxes below.

*Revenue.* Our consolidated revenue decreased $44,744,000 or 27.4% and $88,512,000 or 27.1% for the three months and six months ended June 30, 2009, respectively, as compared to the corresponding prior year periods. The Content Services group revenue decreased $42,006,000 or 34.9% and $86,749,000 or 35.6% for the three months

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and six months ended June 30, 2009, respectively, compared to the prior year periods. The Creative Services group revenue decreased by $2,738,000 or 6.3% and $1,763,000 or 2.1% for such periods.

The decrease in the Content Services group revenue for the three month period was mainly due to (i) a decrease of $34,026,000 in system integration services revenue due to a significant number of large projects in the United States and the United Kingdom in the prior year and a decline in system integration projects in 2009 as customers reduced their spending in response to a weaker economic climate, (ii) a decrease of $3,438,000 due to a decline in traditional media services in the United States and United Kingdom including duplication, audio and lab services and (iii) unfavorable changes in foreign currency exchange rates of $5,390,000. These decreases were partially offset by an increase of $2,860,000 due to higher digital services revenues due to an increase in volumes from existing customers. The decrease in the Content Services group revenue for the six month period was mainly due to (i) a decrease of $68,037,000 in system integration services revenue due to a significant number of large projects in the United States and the United Kingdom in the prior year and a decline in system integration projects in 2009 as customers reduced their spending in response to a weaker economic climate, (ii) a decrease of $5,614,000 due to a decline in traditional media services in the United States and United Kingdom including lab, tape and audio services, (iii) a decrease of $1,122,000 for content distribution and transport services due to expired contracts and a decline of occasional projects in the United States and (iv) unfavorable changes in foreign currency exchange rates of $12,042,000. These decreases were partially offset by an increase of $3,897,000 due to higher digital services revenues due to an increase in volumes from existing customers.

The decrease in Creative Services group revenue for the three month period was due to (i) a decrease of $4,545,000 in commercial revenues driven by a weaker worldwide production market in 2009 compared to the prior year, (ii) a decrease of $2,896,000 from television and ancillary post production services as production slowed in the quarter compared to the prior year which had seen increased production due to the ending of the Writers Guild strike in March 2008, (iii) a decrease of $883,000 resulting from the shutdown of certain operations in Mexico and the United States and (iv) unfavorable changes in foreign currency exchange rates of $642,000. These decreases were partially offset by (i) an increase of $3,598,000 in editorial services in the United States, which included the Beast operations which were acquired in May 2009 and (ii) an increase of $3,228,000 in feature film revenue driven by increased titles for digital intermediate services. The decrease in Creative Services group revenue for the six month period was due to (i) a decrease of $9,331,000 in commercial revenues driven by a weaker worldwide production market for the first six months of 2009 compared to the prior year period, (ii) a decrease of $1,680,000 resulting from the shutdown of certain operations in Mexico and the United States and (iii) unfavorable changes in foreign currency exchange rates of $1,620,000. These decreases were partially offset by (i) an increase of $6,693,000 in feature film revenue driven by increased titles for digital intermediate services, (ii) an increase of $3,074,000 in editorial services in the United States, which included the Beast operations acquired in May 2009 and (iii) an increase of approximately $2,162,000 from television post production services, due primarily to the effect of the 2008 Writers Guild strike on the prior year s results.

For the three months and six months ended June 30, 2009, $7,551,000 and $19,695,000, respectively, of the Content Services group revenue was generated by one customer, Motorola, Inc., under system integration services contracts. For the three months and six months ended June 30, 2008, these Motorola contracts generated $21,808,000 and $52,602,000, respectively, of Content Services revenues. Our system integration contracts have a limited duration. Following any termination or expiration of our contracts with Motorola we could only continue to sustain our current level of system integration revenue if we enter into other contracts of this same magnitude, for which there can be no assurance.

*Cost of Services.* Cost of services decreased $35,931,000 or 29.6% and $74,147,000 or 30.4% for the three and six months ended June 30, 2009, respectively, as compared to the corresponding prior year periods. The decrease for the three and six month periods was primarily due to Content Services resulting from lower S&TS volumes of system

integration services, driving significant decreases in production material costs and, to a lesser extent, labor costs. Further, we restructured the company at the end of 2008 which resulted in an additional reduction in labor and facility costs for the three and six months ended June 30, 2009, compared to the corresponding prior periods. In addition, cost of services decreased as a result of favorable changes in foreign currency exchange rates of $4,098,000 and $9,338,000 for the three and six months ended June 30, 2009, respectively.

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As a percent of revenue, cost of services was 71.9% and 74.2% for the three month periods ended June 30, 2009 and 2008, respectively. As a percent of revenue, cost of services was 71.4% and 74.8% for the six month periods ended June 30, 2009 and 2008, respectively. The decrease in cost of services as a percent of revenue is mainly a result of revenue mix as system integration projects, which incur higher production material costs, were significantly lower in 2009. The percentage decrease was also the result of the restructuring and cost mitigation measures that were enacted across both segments.

*Selling, General and Administrative.* Our selling, general and administrative expenses ( SG&A ) are comprised of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Amounts in thousands | | Amounts in thousands | |
| SG&A(a) | $ 27,323 | 28,686 | 55,821 | 57,610 |
| Stock-based and long-term incentive compensation | 585 | (8) | 1,262 | (284) |
| Accretion expense on asset retirement obligations (AROs) | 53 | 64 | 99 | 129 |
| Loss on sale of operating assets, net | 56 | 257 | 210 | 179 |
| Total SG&A | $ 28,017 | 28,999 | 57,392 | 57,634 |

(a) SG&A includes corporate SG&A of $6,590,000 and $6,500,000 for the three months ended June 30, 2009 and 2008, respectively, and $12,711,000 and $12,767,000 for the six months ended June 30, 2009 and 2008, respectively, which are not included in total segment adjusted OIBDA.

Our SG&A, excluding stock-based and long-term incentive compensation, accretion expense on AROs and loss on sale of operating assets, net, decreased $1,363,000 or 4.8% and $1,789,000 or 3.1% for the three and six months ended June 30, 2009, respectively, compared to the corresponding prior year periods. The decrease for the three and six months periods was mainly driven by lower labor, travel, entertainment and supplies costs which declined due to the implementation of restructuring and cost mitigation measures. These decreases were partially offset by higher professional fees and other public company costs, higher bad debt expense and higher facility costs related to duplicative rent as a result of a Creative Services business unit relocating to a new facility. In addition, SG&A was impacted by favorable changes in foreign currency exchange rates of $1,451,000 and $3,281,000 for the three and six months ended June 30, 2009, respectively. As a percent of revenue, our SG&A, excluding stock-based and long-term incentive compensation, accretion expense on AROs and loss on sale of operating assets, net, was 23.0% and 17.6% for the three months ended June 30, 2009 and 2008, respectively, and 23.5% and 17.6% for the six months ended June 30, 2009 and 2008, respectively.

*Stock-based and Long-term Incentive Compensation.* Stock-based and long-term incentive compensation is included in SG&A in our consolidated statements of operations. The 2009 expense for the three and six months ended June 30, 2009, was related to restricted stock and stock option awards granted to certain executives subsequent to the Ascent Media Spin Off. The 2008 gain for the three and six months ended June 30, 2008, relates to adjustments to the amount recorded for the 2006 Long-Term Incentive Plan awards granted to certain executives in 2006.

*Loss on Sale of Operating Assets, net.* Loss on sale of operating assets, net, is included in SG&A in our consolidated statements of operations. The 2009 amounts relates to the write-off of certain property and equipment. The 2008 amounts relate to the loss on the sale of an equity investment partially offset by a gain on sale of United Kingdom assets.

*Restructuring Charges.* During the three and six months ended June 30, 2009, we recorded restructuring charges of $1,088,000 and $1,486,000, respectively, related to severance costs in conjunction with ongoing restructuring and cost mitigation measures undertaken across all of our businesses. During the three and six months ended June 30, 2008, we recorded restructuring charges of $156,000 and $1,263,000 related to severance and facility costs in conjunction with the closing of our Creative Services operations in Mexico.

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The following table provides the activity and balances of the restructuring reserve (all amounts are in thousands).

| | December 31, 2007 | Additions | Deductions(a) | June 30, 2008 |
|---|---|---|---|---|
| Severance | $ 1,357 | 639 | (1,710) | 286 |
| Excess facility costs | 1,622 | 624 | (999) | 1,247 |
| Total | $ 2,979 | 1,263 | (2,709) | 1,533 |

| | December 31, 2008 | Additions | Deductions(a) | June 30, 2009 |
|---|---|---|---|---|
| Severance | $ 2,526 | 1,472 | (3,265) | 733(b) |
| Excess facility costs | 3,294 | 14 | (939) | 2,369(c) |
| Total | $ 5,820 | 1,486 | (4,204) | 3,102 |

(a) Primarily represents cash payments.

(b) Substantially all of this amount is expected to be paid in 2009.

(c) Substantially all of this amount is expected to be paid by 2012.

*Depreciation and Amortization.* Depreciation and amortization expense decreased $431,000 or 2.8% and $1,216,000 or 4.0% for the three and six months ended June 30, 2009, respectively, compared to the corresponding prior year periods, due to the favorable impact of changes in foreign currency exchange rates of $1,093,000 and $2,364,000 for the three and six months ended June 30, 2009, respectively. Excluding such exchange rate effects, depreciation and amortization expense increased for both three and six month periods. This is due to the depreciation expense on property and plant from acquisitions that occurred at the end of 2008 and in 2009.

*Income Taxes from Continuing Operations.* For the three months ended June 30, 2009, we had a pre-tax loss from continuing operations of $10,569,000 and an income tax benefit from continuing operations of $3,365,000, for an effective tax benefit rate of 31.8%. For the six months ended June 30, 2009, we had a pre-tax loss from continuing operations of $19,859,000 and an income tax benefit from continuing operations of $6,207,000, for an effective tax benefit rate of 31.3%. For the three months ended June 30, 2008, we had a pre-tax loss from continuing operations of $1,749,000, but incurred $1,467,000 of income tax expense from continuing operations. For the six months ended June 30, 2008, we had a pre-tax loss from continuing operations of $4,976,000, but incurred $4,539,000 of income tax expense from continuing operations. The income tax expense for the three and six month periods of 2008 was mainly due to federal income tax expense and an agreement reached with the IRS which resulted in a reduction of certain net operating losses which had been previously utilized. During the first quarter of 2008, Liberty Media reached an agreement with the IRS with respect to certain tax items that related to periods prior to DHC s spin off from Liberty Media in July 2005. The IRS agreement resulted in a reduction of $5,370,000 and $30,808,000 to the amount of federal and California net operating losses ( NOLs ), respectively, that Liberty Media allocated to us at the time of the

2005 spin off. The reduction in our federal NOLs resulted in tax expense of $1,880,000 (35% of $5,370,000). We had no expectation that we would be able to utilize the California NOLs, and had thus recorded a valuation allowance with respect to such NOLs. Therefore, the reduction in California NOLs was offset by a reduction in the corresponding valuation allowance and resulted in no net tax expense.

*Earnings from Discontinued Operations, Net of Income Taxes* We recorded earnings from discontinued operations, net of income taxes of $1,673,000 and $3,457,000 for the three and six months ended June 30, 2008, respectively. These amounts included the earnings of AccentHealth, Palm Bay and Visiontext, which were all sold in the third quarter of 2008.

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*Adjusted OIBDA.* The following table provides a reconciliation of consolidated segment adjusted OIBDA to loss from continuing operations before income taxes.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | Amounts in thousands | | | |
| Total segment adjusted OIBDA | $ 12,632 | 19,992 | 24,936 | 37,568 |
| Corporate selling, general and administrative expenses | (6,590) | (6,500) | (12,711) | (12,767) |
| Stock-based and long-term incentive compensation | (585) | 8 | (1,262) | 284 |
| Accretion expense on asset retirement obligations | (53) | (64) | (99) | (129) |
| Restructuring and other charges | (1,088) | (156) | (1,486) | (1,263) |
| Depreciation and amortization | (14,984) | (15,415) | (29,466) | (30,682) |
| Loss on sale of operating assets, net | (56) | (257) | (210) | (179) |
| Other income, net | 155 | 643 | 439 | 2,192 |
| Loss from continuing operations before income taxes | $ (10,569) | (1,749) | (19,859) | (4,976) |

Content Services group adjusted OIBDA as a percentage of revenue was 13.0% and 11.4% for the three months ended June 30, 2009 and 2008, respectively, and 11.4% and 11.1% for the six months ended June 30, 2009 and 2008, respectively. Creative Services group adjusted OIBDA as a percentage of revenue was 6.1% and 14.6% for the three months ended June 30, 2009 and 2008, respectively, and 8.8% and 12.7% for the six months ended June 30, 2009 and 2008, respectively. The decrease in the adjusted OIBDA margin for the Creative Services group for the three and six months ended June 30, 2009, was due to higher labor as a percentage of revenue in television and ancillary post production as a result of revenue compression and a change in the mix of key services, higher equipment rental costs as shows moved from film to tape, duplicative rent as a result of a business unit relocating to a new facility and an increase in bad debt expense compared to the prior year.

The primary cost components for the Content Services group are labor and materials, with these costs comprising over 65% of the segment revenue. The other cost components for the Content Services group are facility costs, production equipment and general and administrative expense. Content Services group adjusted OIBDA decreased $3,552,000 or 25.9% for the three months ended June 30, 2009, compared to the prior year period. This decrease was due to (i) a decrease of $4,387,000 from lower system integration revenues, (ii) $603,000 from lower revenues from media services in the United Kingdom and United States including duplication, edit and lab, (iii) $367,000 of costs for development of new business initiatives and research and development and (iv) unfavorable changes in foreign currency exchange rates of $871,000. This decrease was partially offset by an increase of (i) $1,631,000 from higher worldwide content distribution revenues and (ii) $1,289,000 due to higher digital services revenue. Content Services group adjusted OIBDA decreased $9,228,000 or 34.1% for the six months ended June 30, 2009, compared to the prior year period. This decrease was due to (i) a decrease of $9,249,000 from lower system integration revenues, (ii) $711,000 from lower revenues from media services in the United States and United Kingdom including duplication, lab and syndication, (iii) $810,000 of costs for development of new business initiatives and research and development and (iv) unfavorable changes in foreign currency exchanges rates of $1,808,000. This decrease was partially offset by (i) an increase of $2,159,000 due to higher digital services revenue and (ii) $2,197,000 from higher content origination and transport service revenues in the United Kingdom.

The services provided by the Creative Services group are labor intensive and they require high labor and facility costs, with these costs representing over 76% of the segment revenue. The Creative Services group s other primary cost components are production equipment, materials cost and general and administrative expenses. Creative Services group adjusted OIBDA decreased $3,808,000 or 60.6% for the three months ended June 30, 2009, compared to the prior period. This decrease was due to (i) a decrease of $3,085,000 due to lower worldwide commercial revenues as a result of a weaker commercial production market in 2009 and (ii) $3,055,000 from lower television and ancillary post production revenues. This decrease was partially offset by an increase of $2,145,000 as a result of higher feature film revenue driven by increased titles for digital intermediate services. Creative Services group adjusted OIBDA decreased $3,404,000 or 32.4% for the six months ended June 30, 2009, compared to the prior period. This decrease was due to (i) $6,795,000 due to lower worldwide commercial revenues as a result of a weaker commercial production market in 2009 and (ii) $742,000 in television and ancillary post production services as weak production in 2009 more than offset the impact of the Writers Guild strike in 2008 This decrease was

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partially offset by an increase of $4,468,000 as a result of higher feature film revenue driven by increased titles for digital intermediate services. As a result of the above, the Creative Services group adjusted OIBDA margin was lower in both the three and six month periods ended June 30, 2009, compared to the prior periods.

**Liquidity and Capital Resources**

At June 30, 2009, we have $308,913,000 of cash and cash equivalents on a consolidated basis. In addition, we have investments in marketable securities of $32,173,000, which are readily convertible to cash. We may use a portion of these assets to fund potential strategic acquisitions or investment opportunities. The cash is invested in highly liquid, highly-rated short-term investments and a substantial portion of the balance is held in financial institutions that are participating in the United States government guarantee program.

Additionally, our other source of funds is AMG s cash flows from operating activities. During the six months ended June 30, 2009 and 2008, our cash from operating activities was $17,709,000 and $15,793,000, respectively. The primary driver of our cash flow from operating activities is adjusted OIBDA. Fluctuations in our adjusted OIBDA are discussed in Results of Operations above. In addition, our cash flow from operating activities is impacted by changes in working capital which are generally due to the timing of purchases and payments for equipment and the timing of billings and collections for revenue.

During the six months ended June 30, 2009 and 2008, we used cash of $16,405,000 and $14,048,000, respectively, to fund our capital expenditures. These expenditures relate to the purchase of new equipment, the upgrade of facilities and the buildout of our existing facilities to meet specific customer contracts, which are capitalized as additions and remain our property, not that of the customer. During the second quarter of 2009, we purchased marketable securities consisting of diversified corporate bond funds for cash of $29,965,000 in order to improve our investment rate of return. During the six months ended June 30, 2008, we sold marketable securities for cash of $23,545,000.

For the next twelve months, we expect to have sufficient available cash and cash equivalents and net cash from AMG s operating activities to meet our working capital needs and capital expenditure requirements. We may seek external equity or debt financing in the event of any new investment opportunities, additional capital expenditures or our operations requiring additional funds, but there can be no assurance that we will be able to obtain equity or debt financing on terms that would be acceptable to us.

Our ability to seek additional sources of funding depends on our future financial position and results of operations, which are subject to general conditions in or affecting our industry and our customers and to general economic, political, financial, competitive, legislative and regulatory factors beyond our control.

**Item 3.** ***Quantitative and Qualitative Disclosure about Market Risk***

**Foreign Currency Risk**

We continually monitor our economic exposure to changes in foreign exchange rates and may enter into foreign exchange agreements where and when appropriate. Substantially all of our foreign transactions are denominated in foreign currencies, including the liabilities of our foreign subsidiaries. Although our foreign transactions are not generally subject to significant foreign exchange transaction gains or losses, the financial statements of our foreign subsidiaries are translated into United States dollars as part of our consolidated financial reporting. As a result, fluctuations in exchange rates affect our financial position, results of operations and cash flows.

**Item 4T.** ***Controls and Procedures***

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chairman, president and principal accounting officer (the Executives ), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company s disclosure controls and procedures were effective as of June 30, 2009 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms.

There has been no change in the Company s internal controls over financial reporting that occurred during the three months ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, its internal controls over financial reporting.

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**ASCENT MEDIA CORPORATION AND SUBSIDIARIES**

## PART II OTHER INFORMATION

### Item 4. *Submission of Matters to a Vote of Security Holders*

On June 12, 2009, we held our annual meeting of stockholders. At the annual meeting, three matters were considered and acted upon: (i) the election of Michael J. Pohl to serve as the Class I member of our board of directors until our 2012 annual meeting of stockholders or until his successor is elected, (ii) the approval of the material terms of the performance objectives under the Ascent Media Corporation 2008 Incentive Plan and (iii) the ratification of the selection of KPMG LLP as our independent auditors for the year ending December 31, 2009. All three proposals were voted on and approved by our stockholders. Broker non-votes had no effect on any of the proposals. The following is a summary of the votes for each proposal:

Proposal 1: Election of Michael J. Pohl as Director

| | For | Withheld |
|---|---|---|
| Series A | 6,516,509 | 5,626,059 |
| Series B | 6,512,580 | 28,920 |
| Total | 13,029,089 | 5,654,979 |

The foregoing nominee also served on the Company s board of directors prior to the annual meeting. The term of the following directors continued following the annual meeting: Philip J. Holthouse, Brian C. Mulligan, William R. Fitzgerald and Jose A. Royo. Broker non-votes had no effect on voting for the election of directors, and abstentions and unreturned proxies have been treated as votes withheld.

Proposal 2: Approval of the Material Terms of the 2008 Incentive Plan

| | For | Against | Abstentions | Broker Non-Votes |
|---|---|---|---|---|
| Series A | 8,903,659 | 1,321,506 | 8,536 | 1,908,868 |
| Series B | 6,266,910 | 29,410 | 11,930 | 233,250 |
| Total | 15,170,569 | 1,350,916 | 20,466 | 2,142,118 |

Proposal 3: Ratification of KPMG LLP as Independent Auditors

| | For | Against | Abstentions | Broker Non-Votes |
|---|---|---|---|---|

| | | | | |
|---|---|---|---|---|
| Series A | 12,056,620 | 76,105 | 9,843 | 0 |
| Series B | 6,537,020 | 0 | 4,480 | 0 |
| Total | 18,593,640 | 76,105 | 14,323 | 0 |

**Item 6.** ***Exhibits***

Listed below are the exhibits which are included as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

| | |
|---|---|
| 10.1 | Employment Agreement, dated as of April 13, 2009, between Ascent Media Corporation and Mr. John A. Orr* |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification* |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification* |
| 31.3 | Rule 13a-14(a)/15d-14(a) Certification* |
| 32 | Section 1350 Certification** |

* Filed herewith.

** Furnished herewith.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ASCENT MEDIA CORPORATION

By: /s/ William R. Fitzgerald

William R. Fitzgerald
Chairman and Chief Executive Officer

Date: August 13, 2009

By: /s/ Jose A. Royo

Jose A. Royo
President and Chief Operating Officer

Date: August 13, 2009

By: /s/ George C. Platisa

George C. Platisa
Executive Vice President and
Chief Financial Officer

Date: August 13, 2009

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* Filed herewith.

** Furnished herewith.